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TOGO

Reviving the Traditional Sectors and Preparing for the Future: An Export-Led Growth Strategy.

Country Economic Memorandum and Diagnostic Trade Integration Study

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WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AFD	French Development Agency
AGOA	African Growth and Opportunity Act
BAA	Artisan Support Office
BCEAO	Central Bank of West African States
BESC	Electronic Cargo Tracking Slip
BIC	Business Income Tax
CAPER	Autonomous Toll Company for Road Maintenance
CCFCC	Coffee and Cocoa Sector Coordination Committee
CCIT	Togo Chamber of Commerce and Industry
CCJA	Common Court of Justice and Arbitration
CEB	Electricity Company of Benin
CEET	Electrical Energy Company of Togo
CET	Common External Tariff
CFAF	African Financial Community Franc
CFE	Center for Business Formalities
CIMAO	West Africa Cement Company
CNCT	National Council of Togolese Shippers
CRETFP	Regional Center for Technical and Vocational Education
DB	Doing Business in 2010
DGI	Directorate General of Taxes
DGTP	Directorate General of Public Works
EBA	Everything But Arms
ECOWAS	Economic Community of West Africa States
EITI	Extractive Industries Transparency Initiative
EPZ	Export-Processing Zone
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FNAFPP	Togo National Professional Training and Apprenticeship Fund
FNGPC	National Federation of Cotton Producer Groups
FODEFCA	Continuing Vocational Training and Apprenticeship Development Fund
FUPROCAT	Federation of Unions of Coffee/Cocoa Producers of Togo
FZ	Free Zone

GDP	Gross Domestic Product
GNI	Gross National Income
GPC	Cotton Producers Groups
GTZ	German Development Agency
HIPC	Heavily Indebted Poor Countries
IFC	International Finance Corporation
IFG-T	International Fertilizer Group-Togo
IMF	International Monetary Fund
ISRT	Inter-State Road Transport
LICs	Low Income Countries
MGPCC	Mutual Association of Coffee and Cocoa Producer Groups
NGOs	Non Governmental Associations
NSCT	New Cotton Company of Togo
OHADA	Organization for the Harmonization of Business Law in Africa
OPA	Professional Agriculture Organizations
OTP	Togolese Phosphates Office
PCS	Community Solidarity Levy
PNIA	National Agricultural Investment Program
PRSP	Poverty Reduction Strategy Paper
RI	Computerization Fee
RS	Statistical Levy
SCANCEM	Scandinavian Cement Group
SLE	Trade Liberalization Scheme
SMEs/SMIs	Small and Medium Enterprises/Industries
SMIG	Guarantee Interoccupational Minimum Wage
SNPT	New Phosphate Company of Togo
SSA	Sub-Saharan Africa
TPI	Industrial Protection Tax
TPU	Single Professional Tax
UN	United Nations
UNDP	United Nations Development Program
UTCC	Coffee/Cocoa Technical Unit
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union
WHO	World Health Organization

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EXECUTIVE SUMMARY

1. **Togo has had a difficult past 30 years, but in the first 20 years of independence significant progress was being made.** Per capita incomes doubled between 1960 and 1980, phosphate exports reached 3.3 million tons, the country became a regional transportation and financial hub, and growth was based on an open economy with a dynamic private sector. Politically the country was stable. ECOWAS and UMOA located their development banks in Lomé, and the EU chose Lomé in which to sign its famous trade and development convention with its former African, Caribbean and Pacific colonies. The future looked bright.

2. **As with so many African countries, the 1980s ushered in a period of reversal** as the country grappled with the end of the commodity boom, sharply higher oil prices, a financial sector crisis, and a rising debt burden. Currency overvaluation proved to be an additional constraint for countries in the franc zone such as Togo, preventing the necessary adjustment of its economy. However, the situation was seriously aggravated by political turmoil in 1992/93 when the country failed to manage the democratic transition sweeping the continent. The country descended into a nine-month general strike and per capita income plummeted. Worse still, the ensuing violence led to a withdrawal of aid by the major donors, depriving Togo of its main source of funding for the public investment required to support economic renewal. At the same time, mismanagement of the phosphates industry undercut the largest single source of domestic revenues. The devaluation of the CFA franc provided a temporary reprieve but in 1998 the economy began to decline once more.

3. **The turn of the century has been no kinder to Togo.** While many other African countries reaped the benefits of reform and rising commodity prices, Togo continued to suffer from poor economic governance and political unrest. The country fell into arrears with the World Bank in 2002 which was thus obliged to halt its financial support. Governance of the phosphates industry further deteriorated and production of the main agricultural commodity exports declined. The death of the long-standing president in 2005 led to renewed instability.

4. **The country made an important break with the past in August 2006 when the Global Political Accord was signed between the major political parties.** A new constitution was approved, and elections were held in 2007. Arrears to the World Bank were cleared in 2008, an IMF ECF program was launched, the country qualified for the HIPC debt initiative, and the EU reengaged. The authorities have pursued a significant series of reforms over the last two years remaining on track with the IMF program, in spite of the difficult global economic environment and major floods which destroyed critical infrastructure. However, structural problems have become deeply imbedded and require tough decisions and lengthy reform programs, which have been initiated but have not yet been brought to fruition.

5. **Togo is a potentially rich country which has been poorly managed.** It has generally favorable agro-climatic conditions for agriculture and does not suffer from undue land pressure for the moment. Togo is a coastal country with the only natural deep-water port in West Africa, facilitating both its own trade and its role as a hub for the sub-region. The size of its phosphate reserves places Togo in the top ten in the world, while their quality, nearness to the surface, and proximity to the ocean make them highly profitable. Its ample limestone deposits, critical for the

production of clinker and cement, provide it with another comparative advantage in the sub-region. The tradition of openness and private-sector led growth continues. This, together with the port, has stimulated the expansion of an export processing zone which has created the embryo of an export manufacturing capability. This report is about the medium-term reform agenda needed to exploit these resources in order to restart the engines of growth and ensure that benefits are shared with the population as a whole such that per capita incomes can finally begin to climb and poverty be reduced.

6. **The analysis in this report suggests the following seven priorities:**

- Rebuild the phosphates sector and exploit its huge potential through improved governance and the introduction of a strategic private investor;
- Renew confidence in the cotton sector through improved governance, capacity-building of producer organizations, and attraction of a strategic investor in order to regain former levels of production;
- Promote food production for export to the sub-region and for efficient import substitution;
- Expand the Togo Free Zone, reorient its activities to more labor-intensive activities, target markets beyond the sub-region, and conduct a cost-benefit analysis of the zone;
- Develop a stable and transparent regulatory framework to attract serious private investors while ensuring a fair return to the state;
- Invest in port infrastructure and improve port services to maintain and expand its role as a regional hub;
- Promote legitimate transit and re-export trade by streamlining regulations, increasing competition in trucking, and rehabilitating roads.

Growth Diagnostic

7. **There are multiple constraints on economic activity in Togo; the challenge is to identify the most critical ones** on which to devote the country's limited human and financial resources in the short term. Some are cross-cutting, others are sector specific. Among the cross-cutting constraints, human capital, geography, macroeconomic stability, and the discovery of new products, while important, do not appear to be binding at the present time.

8. **The role of access to credit for the private sector is ambiguous.** Credit is rated as one of the most severe constraints to business in surveys, but it appears that the low volume of lending results partly from lack of demand due to poor investment opportunities and only partly from limited supply. Real interest rates are relatively low. However, the financial sector has serious weaknesses notably in the volume of non-performing loans and the small share of private banks. Some progress is occurring in the restructuring of state-owned bank but much remains to be done to create a more functional banking system.

9. **The severity of the constraints posed by infrastructure is also mixed.** Firms tend not to rate infrastructure as among the most serious problems, but the available data ignores the constraints to agricultural development. The port of Lomé functions relatively well and Togo's

road system is on a par with other countries in the region, in terms of the length of paved roads, though probably lower in quality. Electricity and telecommunications, on the other hand, are below regional averages in terms of both cost and quality of services. In addition, infrastructure is relatively more important in Togo given its role as a regional trade hub, and rural roads will be critical to spread growth to the more isolated parts of the country which tend to be the poorest.

10. Political instability and the overall business climate appear to be the most important constraints to manufacturing and service sector development, while coordination failures loom large in the agricultural sector. *Political instability* has been a major problem in Togo related to the suppression of democratic demands since 1990. Investors are arguably more concerned about the risks associated with political uncertainty than about extra costs which are known and to which they can adjust. The *business climate* in Togo remains very poor, even when compared to countries at the same level of development, particularly in matters relating to corruption, protecting investors and starting a business. Better *coordination* through inter-professions, contract farming arrangements, government support and regulatory frameworks, will be essential if the rural poor are to benefit from the many agricultural export opportunities available.

11. Among sector specific constraints, the rehabilitation of the phosphate and cotton sectors stands out. Both sectors have fallen to new lows not seen for a generation or more. Phosphate production is one-quarter of past maximum levels and one-tenth of its potential, while world prices are expected to remain relatively high. The cotton sector is in danger of totally disappearing, yet it has been the major source of cash income for the rural population in the poorest parts of the country. The problems in both sectors stem largely from poor management and governance in the corresponding parastatal enterprises, though a failed privatization played a role in phosphates. While these issues are being addressed, they need to be pursued with vigor and eventually supported by the entry of carefully chosen private strategic partners.

Business Climate

12. Togo is ranked 165 out of 183 economies in the Doing Business report for 2010, with virtually no change over the previous year. The country does particularly badly with regards to the creation of a new enterprise, ranking 170th, and the ease of hiring employees (159th), which is unfortunate given the urgent need to create jobs. A Center for Enterprise Formalities has been created at the Chamber of Commerce but it needs to be transformed into a true one-stop shop with all the necessary representatives present and with delegated authority, and its work must be facilitated by reducing the number of documents and authorizations required. Labor laws are rather inflexible, at least on paper, though the enterprise survey indicates that this is not one of the major concerns of private companies. Togo should actively participate in the finalization of the new OHADA-wide Labor Code which has been under preparation for several years.

13. Togo benefits from its participation in OHADA which provides it with a commercial regulatory framework which is modern, stable and transparent. But it remains to be effectively implemented. The Supreme Court in Togo does not refer appeals to the regional Common Court of Justice and Arbitration, which leads to blockage in the judicial process. The time required to transfer commercial property (295 days vs 34 in Ghana) and the cost involved seem excessive.

Even when an entrepreneur is successful in seeking payment on a contract through the courts, it can take one year and a half and cost half of the value of the contract. In the enterprise survey, 60 percent of respondents felt that the courts were not impartial or free of corruption. Greater attention needs to be paid to the professionalization of commercial sections of courts and implementation of commercial law.

14. **High tax rates appear to be an important problem in Togo, notably the tax on wages.** The recent reduction in the profit tax to 27-30% was a significant improvement but the tax on wages remains counterproductive. In a country where job creation is a high priority, it seems unwise to apply a tax of 7 percent on all wages, and indeed this is much higher than most other countries in the region. It is recommended that this be reduced to the regional norm of 2 percent and be assigned to the demand-driven training fund, the National Professional Training and Apprenticeship Fund (FNAFPP), contingent on some reforms in this Fund. Tax reforms are also needed to encourage the formalization of informal sector firms. The payment of the business tax (TP) should not be required ex ante for small firms at the time of creation and at the same fixed amount as for larger firms, and the single professional tax (TPU) could be improved by setting clear criteria which establish the level of tax payable in a transparent manner.

Skills Development

15. **A relatively well-educated labor force is one of Togo's strengths, but more needs to be done to meet the requirements of the job market.** Primary school enrolment is high but the quality of education is declining. Public expenditure per student in secondary and tertiary education has fallen, while unemployment is particularly high among the educated, including those who have technical or vocational training. The private sector needs to be associated more effectively with professional training, through apprenticeships and dual training, input into the design of post-secondary training programs, and the development of high-quality private training institutions.

16. **The National Professional Training and Apprenticeship Fund (FNAFPP) is a good start but would benefit from further improvements.** Mechanisms are needed to ensure that its programs are driven more by the needs of enterprises and less by the services available from training providers. Its mandate should extend to the Free Zone companies, as well as the informal sector. As its effectiveness improves, a greater share of the training tax on private companies should be allocated to the Fund.

17. **Dual or alternating training is particularly promising.** By combining classroom instruction with regular placements in private companies, the students obtain a more practical and relevant training, while firms have the opportunity to test out potential employees. This also provides students with access to up-to-date technology that training institutions may be unable to afford. However, expanding this approach will require a regulatory framework and probably some subsidies to private firms at least in the short run.

Infrastructure

18. **Togo suffers from high cost and unreliable electricity and telecommunication services.** Electricity tariffs are well above the regional average and far above those in non-African developing countries, and unreliability of supply has pushed many companies to invest in generators which are even more expensive sources of power. This makes it unlikely that Togo can be competitive in export manufacturing industries for which electricity is a significant input. In the short term, the financial performance of the electricity distribution company, CEET, needs to be improved so that it does not face power cuts by the electricity production company, CEB, due to lack of payment. In the medium term, access to gas from Nigeria through the West Africa Gas Pipeline can help, but ultimately hydropower from the Adjarala dam project may be the only option to bring electricity rates down to reasonable levels.

19. **Fixed line, mobile phone and internet access rates are also very high.** The situation was further complicated by the suspension of mobile phone services by the only private supplier for an extended period in 2009. Other countries in the region have benefited from greater openness and competition, particularly in the mobile telephone sector. The interests of the telecommunications parastatal need to be downplayed in favor of the competitiveness of the productive sectors of the economy in Togo. An independent regulator would help achieve a more appropriate balance.

20. **The deepwater port has been fairly well managed but it needs to continue improving to keep up with the competition.** Togo has benefited from the unstable situation in Côte d'Ivoire, but this situation is changing. The port can serve as a source of growth if it expands its role in regional trade, notably through transit and re-export trade by truck, and through transshipment by sea. Container traffic is becoming increasingly important in maritime trade, and Togo has brought in experienced private operators to manage the container terminal. However, their rates are high and these concessions are not managed by the port authority, making it difficult to ensure smooth and consistent service to clients. The loading and unloading of non-containerized cargo is slow. Customs procedures must also be further streamlined, and integrated into the implementation of a single window for all import and export procedures.

21. **The port area is small and needs to be developed efficiently in order to maximize the economic impact.** Two large expansion projects are being launched which should be designed in the context of a long-term vision for the port. The area around the port also needs to be allocated to the most valuable uses. The parking of imported cars or the storage of empty containers at very low cost may not be the most socially profitable given that new free zone companies are unable to find land adjacent to the port. The road infrastructure outside the port requires attention in order to reduce congestion, and the poor condition of the main roads leading out of the country discourages some potential clients. Work is due to start on an updated Master Plan in late-2010 and it needs to be completed quickly and ideally before irrevocable decisions are made.

22. **New investment and better maintenance of the road network is urgently needed.** The return of foreign aid is permitting some much needed road construction and rehabilitation, but this must be accompanied by measures to stop the overloading of trucks and to ensure proper

maintenance. Togo adopted a reasonable framework in the late 1990s, but it suffered from the fall in aid and poor governance which necessitated changes. However recent reforms may not resolve the problem. The decision to use locally-generated revenues for major road rehabilitation is likely to deplete the budget required for maintenance, and adequate measures for the control of maintenance work are still lacking. It is recommended that an independent agency be set up with private management, to be responsible for the execution of maintenance work under contract to the government.

23. **The rail concession appears to have been moderately successful but more could be done.** The private operator has respected investment obligations and the volume and quality of service for heavy cargo has improved. Plans to build a rail extension around Lomé in order to end the trucking of clinker to Ghana offer a welcome contribution to the maintenance of the main coastal road. However, the recent decision to break the concession and share it with a second operator has jeopardized this project. A solution is urgently needed.

Trade Facilitation

24. **There are many reasons for excessive costs and delays in all forms of trade.** Regional transit agreements are not implemented, customs and escort services cause delays and extra costs, the allocation of quotas between countries reduces competition, numerous intermediaries apply unjustified charges, and there are many illegal road blocks. Customs clearance involves too many procedures and is still conducted manually even though it has, in principle, been computerized. This has the effect of permitting many unofficial or unnecessary payments. The recent introduction of a scanner has further complicated the process as it is used for all shipments and not selectively. The system of escorts does not appear to function correctly, thereby generating additional costs and delays with no offsetting benefits. The shippers' council has lost its original role but continues to charge significant payments for services which have not been demanded by its members and which are of dubious value. It should be encouraged to abandon its current activities and replace them with a freight exchange.

25. **It is time to abandon the quota arrangement and its queuing system.** By protecting the operation of old and inefficient trucks, it limits the number of rotations and undermines the profitability of investing in modern ones. Competition is blocked, the quality of service is reduced, and overloading is encouraged since it helps make the occasional trip worthwhile. Togo is placed at a disadvantage with regard to Ghana where this practice does not exist. The modernization of the trucking industry is overdue but will not happen until this system is finally ended. High taxes further discourage formal trucking companies in favor of small informal operators.

Transit and Re-export Trade

26. **Togo has long served as an entrepôt for its neighbors,** enjoying a vibrant trade in imports and exports ultimately destined for other countries. This has included a significant amount of merchandise which is temporarily held in bonded warehouses in Lomé pending the search for customers. The value added from re-exports and transit trade is estimated to account

for 10 percent of GDP, the largest component coming from the re-export of used cars. About half of this trade is estimated to enter Nigeria unofficially with most of the rest coming from or going to the land-locked regions of the interior. Togo's role derives from its port, central location, small size, historical trading relationships, and the lure of the highly protected Nigerian market. However, it is at a geographical disadvantage to Benin for access to the Nigerian market, and its road infrastructure is poor. The main benefit is in terms of employment rather than taxes, as Togo has lowered taxes to near-zero in an effort to remain competitive with Benin.

27. **As much of this trade is based on smuggling into Nigeria, it is important to revisit its place in the country's development strategy.** Some of it will vanish naturally if agreement is reached in ECOWAS on the harmonization of import taxation, such that Nigeria abolishes its import bans and reduces its duties to a common maximum of 35 percent. Furthermore, smuggling contributes to a culture of corruption and tax evasion, while diverting scarce entrepreneurial skills away from other productive activities which are more sustainable in the long term. Over time, therefore, Togo should transition towards more formal trading relationships, but this will require greater attention to the normal sources of competitive advantage such as infrastructure and trade facilitation.

28. **In the short run, however, Nigeria is unlikely to change its trade policy drastically, and Togo can continue to benefit from Nigeria's distortions while promoting transit activities to the land-locked countries.** The government should avoid actions that disrupt transit trade. The introduction of higher values on used cars in 2009, while successfully increasing revenues, has contributed to a fall in vehicle sales. Some rollback in valuations of cars in transit, while maintaining higher values for cars imported for domestic use, would help maintain jobs and competitiveness with Benin, while raising some additional revenue.

Togo Free Zone

29. **Togo launched one of the first export processing zones in Africa and one of the more successful ones.** In spite of the country's political instability, the number of enterprises in the zone has gradually grown to 60, with total full-time employment of over 9000, and output valued at approximately US\$300 million in 2008. Exports in that same year were equal to US\$260 million – more than half the total value of merchandise exports from Togo. Unlike many such zones, however, most exports have not been labor-intensive and they have gone to neighboring countries rather than the developed world. Clinker and chemical and plastic products account for more than half of total exports, while 81 percent of exports go to ECOWAS member states, and another 14 percent goes to other African countries.

30. **The Free Zone has been controversial for a variety of reasons.** There have been allegations of labor exploitation, companies which close when their tax holiday expires, fiscal evasion through leakages into the local market, and questions about the net benefit to the Togolese economy, aggravated by a lack of transparency. On the other hand, the minimum wage has typically exceeded that in the national market, the number of jobs created is significant, and their industrial nature is important to the development of the labor force. There are examples of firms who have remained after the 10-year tax holiday ended and others who switched to the national tax regime when it proved more appropriate. The lack of an objective assessment of the

situation ultimately led to an abrupt and retroactive change in the fiscal regime in the 2009 budget which shocked the companies in the zone and put at risk a substantial number of investments.

31. **While a careful cost-benefit analysis is needed, some preliminary conclusions are possible.** The main explanation for the success of the zone appears to be two-fold: i) the generous fiscal regime, and ii) the opportunity to export into the regional market essentially duty-free. The exemption from customs duties and VAT on imported inputs is fairly common for such zones, the 10-year income tax holiday followed by another 10 years of reduced taxes is now much less typical. The option of exporting duty-free within the WAEMU and ECOWAS preferential trade areas is especially unusual as such zones are normally considered to be outside the customs territory and therefore treated like any other overseas supplier. While this anomaly was eventually recognized, in practice it is likely to have continued. Since the Togo Free Zone offers few if any other advantages which might explain its competitive advantage over say Nigeria or Ghana (such as better infrastructure, simplified business climate), one is left to conclude that it is primarily fiscal incentives and porous borders which have driven its expansion. Indeed, there is a risk that if similar zones multiply in the region, a beggar-thy-neighbor situation could ensue, with each country undermining the firms operating in the neighbors' local market, with negative repercussions for everyone's tax base.

32. **A repositioning of the Free Zone seems necessary to promote labor-intensive exports to overseas markets.** This would bring in new investment to the region rather than shuffling investment between countries within the region, and generate much-needed jobs for the growing number of unemployed urban youth. This would build on the more sustainable comparative advantages of Togo – its low-cost labor and port – but would require greater attention to improvements in the investment climate – reliable electricity, cheap telecommunications, streamlined import and export procedures, access to land, and a well-trained labor force. The Free Zone management company, SAZOF, has gained some experience in promoting the interests of its companies which could be helpful in the proposed reorientation, but it will require government-wide cooperation to succeed.

33. **The 2009 fiscal reforms were warranted but now a stable regime is needed to reassure investors.** The authorities have recognized that a longer-term solution is necessary with a more consultative approach to identify an appropriate compromise. It will also be important to define a new investment code which is consistent with the free zone law, to respond to the legitimate needs of those targeting the local market or developing exports based on local natural resources. Finally, a new mining code is needed which should be applied to companies involved in both phosphates and limestone exploitation.

Mining

34. **The clinker and cement industry has been the most successful export sector in the last ten years,** accounting for 39 percent of total exports in 2007. Most of this is based on the processing of large limestone deposits in Togo. A bankrupt, state-owned, regional project was taken over by private investors (WACEM) and transformed into the largest private company in Togo, with expansion into neighboring countries, and the local provision of related inputs such

as bags and rail service. The clinker operation has enjoyed the benefits of free zone status, apparently because of the absence of an alternative investment regime. While this may have been justified at the time, it would now seem reasonable to transfer the production of clinker to the mining regime, especially since a second operator is set to enter.

35. **This sector has been subject to additional public-private tensions** apart from those related to the change in the free zone fiscal regime. Cement is a sensitive product given its extensive use in basic housing and infrastructure, and an apparent shortage has led the government to break one of the two concessions with the original clinker operator and provide some of the limestone reserves to a second investor. However, since local cement production is adequate to meet domestic demand, the shortage appears to be associated more with price controls which have kept prices in Togo below those in some neighboring countries and consequently led to cross-border trade. As a border is never far away in Togo, national policies for any tradable good must generally be defined in a regional context. And in the case of WACEM, the authorities are still struggling to establish a relationship which would derive the maximum social benefits while promoting further private initiative.

36. **Meanwhile, the traditional export leader, the phosphates industry, has suffered from years of mismanagement and decline.** Production has fallen to one-quarter of the previous high of 3 million tons, and phosphate sales have fallen from over 50 percent of total exports to less than 10 percent in 2007. Regular losses have resulted in a lack of maintenance and repair, while available funds have been used inefficiently to prop up obsolete equipment. Over-staffing and poor governance have aggravated the situation. A brief period of private operation in the mid-2000s did not resolve the problems as the partner was chosen on a non-competitive basis and did not have the necessary technical expertise.

37. **The future of the phosphates industry is very bright if corrective action is taken soon.** While existing reserves will be exhausted in the next 5-7 years, new carbonated phosphate reserves are enormous and could last 100 years. Production could increase by a factor of 10, and downstream value-added through the production of phosphoric acid is entirely feasible. Phosphate prices have rebounded and are expected to remain higher than in the last ten years. The total value of phosphates exports could reach US\$800 million in ten years time, which is double the value of all exports at present. However, some key decisions must be taken urgently. Advantage must be taken of current high prices to invest wisely in new technologies, and in long overdue repairs to the factory and infrastructure. New management structures and practices are needed to improve transparency and resource utilization. It is recommended that soon a new strategic partner be judiciously chosen to bring in the needed technical expertise and financial capacity to develop the carbonated reserves and launch the industrialization phase. Adherence to EITI principles will be important to ensure that the revenues generated are duly incorporated into the national budget for the benefit of all. Greater attention needs to be paid to environmental impacts and local community concerns.

Agriculture

38. **Agriculture remains the sector with the greatest potential to directly increase the incomes of the poor.** With 80 percent of the poor in rural areas, and reasonably good agro-

climatic conditions, much more needs to be done to exploit agricultural opportunities. In fact, just recovering to previous levels of production in traditional exports would make an important contribution. Cotton production has fallen dramatically from 187,000 tons in 2003 to a mere 25,000 tons in 2009, while cocoa and coffee exports have fallen by half to levels below 10,000 tons. There is every reason to believe that Togo can be competitive in all three commodities, and the recent improvement in prices is expected to be sustained, notably for cocoa and cotton. Yet all three subsectors face crises and some farmers have already abandoned them.

39. **The cotton sector deserves priority attention given the large number of farmers in poor regions still involved or potentially interested in returning.** However, it is a complicated sector which faces serious coordination challenges, due to its intensive use of inputs and the need for processing prior to export. The first reforms have been undertaken through the clearing of debts, the creation of a new cotton company with farmer participation, and the adoption of a pricing formula, but much more remains to be done. Important problems persist within the company and the farmers' organizations. A campaign, backed up with action, is needed to reassure farmers that the situation has changed, so that production can return to levels that will ensure a minimum profitability. A proper inter-profession must be established and its capacity built up so that the stakeholders can gradually take responsibility for sector management. And a new strategic investor will be needed to bring in private sector discipline and funding, under a carefully monitored concession agreement.

40. **Cocoa and coffee require a comprehensive new strategy.** Old trees need to be replaced with new high-yielding varieties, and measures taken to fight disease and improve quality. A demand-driven extension service will be required, along with a research program, and both will likely involve some public funding in the short term. Here too a strong inter-profession must be built up over time, with support to the cooperative movement, all within a sound regulatory framework. Rural roads will also need rehabilitation. A variety of other niche exports are possible, and private investors should be encouraged to experiment, preferably using a contract-farming approach to involve small farmers.

41. **However, economic growth and income generation will remain modest unless the potential within food production is also developed.** This will require both the encouragement of exports to the sub-region for crops which already satisfy local demand, and selective import substitution where this can be done efficiently. Maize is already exported in small quantities and has good growth potential, notably if the cotton sector rebounds, since the two crops tend to be produced in rotation. Cassava also deserves attention since, like maize, it could benefit from the growth in demand for animal feed in the sub-region, as well as certain industrial uses. Both crops will require improvements in productivity if they are to compete with producers from other countries. The authorities will need to avoid measures which discourage the export of food crops and instead adopt a proactive stance to expand opportunities.

42. **Rice and poultry production could enjoy high rates of growth under certain conditions.** Here the opportunity lies in replacing at least some imports and responding to rising demand stemming from urbanization and higher incomes. The prospect of higher world prices for rice, and the availability of new seed varieties, bodes well for the future profitability of this crop. Past experience recommends a shift in priorities from large irrigation projects to small-

scale irrigation and the development of valley bottoms. Modern poultry-raising will have trouble competing with imported chicken parts, but improved traditional poultry-raising and egg production are promising outlets.

43. **In addition to crop specific programs, there are a number of cross-cutting issues to be addressed.** Land reform is needed to encourage investments which preserve soil fertility and improve productivity. Better rural roads and market information systems are needed. Research and extension services will need to be renewed, though certain measures to increase state control may need to be revisited in order to ensure client responsiveness. Fertilizer distribution could be improved through the promotion of private suppliers, and the adoption of a voucher system similar to the one operating in Ghana. Initiatives are needed to encourage greater rural credit from private banks, perhaps through partial guarantee schemes. Programs to support quality and meet international standards will become increasingly important over time. In all areas, the government will have to make careful choices between those areas where it must play a central role and those where it can rely on the private sector once an appropriate regulatory framework is in place.

Trade Policy

44. **The structure of exports has evolved radically over the years,** with the decline of phosphates, and more recently that of cotton, cocoa and coffee. Cement and clinker have become the largest single export category, accounting for 35 to 40 percent of exports, followed by iron and steel products and phosphates, with about 10 percent each. With the expansion of other free zone exports, there has also been significant diversification in the range of products, and a reorientation of destinations towards the ECOWAS group of countries, which now account for 68-70 percent of the total. This tendency would be further reinforced if re-export and transit trade were included. The structure of imports has changed less but the role of China as a source has increased substantially, from only 3 percent of total imports in 2000 to 16 percent in 2007.

45. **Trade policy is largely determined by regional agreements.** Togo's import regime has been reasonably open, simplified and stable since it adopted the WAEMU 4-band common external tariff in 2000. This is changing somewhat with the establishment of a common external tariff for ECOWAS, which will include a higher fifth band, yet to be defined. ECOWAS is also negotiating a free trade agreement (Economic Partnership Agreement or EPA) with the EU. The fifth band represents a step backward, which will likely encourage fraud and divert some trade to other member states away from cheaper sources abroad. The EPA will have minimal effects on Togo's market access since it already enjoys duty free entry into the EU, but it will entail some loss of customs duties as it opens up its market. Togolese authorities would be advised to strengthen their analytical contribution to these discussions in order to defend their legitimate interests.

46. **Trade development and policy has been hampered by a variety of factors.** Technical capacity is weak, reliable data is not available on a timely basis, and the institutional framework has been unstable. A trade strategy would help focus limited resources on priority issues. A coherent approach to promoting investment and exports should be adopted to avoid discrimination against companies outside the Free Zone. The mandate of the Free Zone

management company (SAZOF) should be expanded, rather than creating a parallel institution for investment promotion. It should be recognized that the fundamental obstacle to export development is competitiveness rather than trade agreements. And since the determinants of competitiveness typically lie beyond the responsibilities of the Ministry of Trade, effective coordinating mechanisms are needed across government. Finally, better consultative processes with the private sector and a more stable policy environment will be essential, since it is private actors who ultimately count for most if not all trade activity.

A. Action Matrix

(The actions in bold type are considered to be priorities)

Objective	Actions	Timeframe and Cost	Project Managers
BUSINESS ENVIRONMENT			
Improve legal and judicial security for business	Set up and establish commercial courts to be financed by the Justice Action Plan; train specialized magistrates	Phase 1 Lomé, 2010-2011 \$100,000	MJ
	Produce a commercial procedure code	2011, \$50,000	MJ
	Respect the provisions of the OHADA Treaty regarding appeals (officially reaffirm the principle of the jurisdiction of OHADA's Common Court of Justice and Arbitration as the court of last resort, rather than the Togo Supreme Court, in commercial matters). Establish a Court of Arbitration at Togo Chamber of Commerce and Industry (CCIT) level and give it the necessary resources.	2010 No cost. Arbitration by the Head of State	MJ
Facilitate business start-ups	Finalize the reform of business start-up procedures, including abolishing the establishment authorization from the Ministry for Trade.	2010 No cost	MCPSP
	Turn the Business Formalities Centre (CFE) into a real one-stop shop with delegation of signature for services.	2010 \$50,000 from WB project	MCPSP, CCIT
	Draw up an inventory of specific sector authorizations (industry, agriculture and other technical ministries). Examine their utility with the participation of the private sector. Revoke certain authorizations, clarify others, and publish them.	2011 \$30,000	MCPSP
Building permits: reduce lead times and costs	Set up one-stop "building permit" shops in the city halls, starting with Lomé	2011 \$20,000	MUH/MAT, MT, MTP and Lomé City Hall
Land deeds and transfers of property: reduce lead times and costs	Conduct a study of the reform of the procedure for obtaining land deeds and transfers of property; hold consultations with the private sector and implement the recommendations.	2011 \$50,000 Cost to be re-estimated	MEF
Modernize taxation (phase out anti-economic taxes and promote the formalization of SMEs)	Phase out (possibly in two stages) the 7 percent payroll tax; replace it with a contribution (including for export processing zone businesses and Investment Code businesses) of 2 percent of payroll to be paid to the National Apprenticeship, Training and Professional Development Fund (FNAFPP) once it has been reformed; tax gap to be calculated	2011 Budget Act and 2012 Budget Act, no cost	MEF
	Conduct a study on the advisability of a Single Local Business Tax (TPU) legislation reforms to switch to an index-related system based on the nature of the business and on objective and easily verifiable physical indices	2011 Budget Act Cost to be estimated, probable increase in revenues	MEF

Objective	Actions	Timeframe and Cost	Project Managers
DEVELOPMENT OF SKILLS			
Promote training in growth sectors	Design and implement skills development programs for growth sectors using the alternating or dual job-training model.	2010-2011 Cost to be estimated	METFP
Improve the performance of the FNAFPP	Evaluate FNAFPP operations and financing	2010-2011 \$10,000	METFP
	Provide the Fund with all the resources collected by apprenticeship tax levies	2011 No cost	MEF
	Improve the Fund's system of governance by setting up a mechanism to regularly consult with large businesses	2011 No cost	METFP
	Survey and evaluate trade association skills development experiences to support their vocational training programs	2011 \$10,000	FNAFPP
Make vocational training more efficient	Make the participation of economic operators operational in the design of vocational training arrangements	2010-2013 To be estimated	METFP
	Develop and implement a public-private-donor partnership Charter for skills development	2011 To be estimated	METFP/MESR
	Take measures to streamline the private training sector, improve its organization, and provide access to financing.	2011 To be estimated	METFP
	Explore the possibility of coordination with the Technical and Financial Partners with a view to helping private operators improve their formulation of financing projects	2011 No cost	METFP
	Encourage the banks to invest in the private sector by providing loan managers with technical assistance in training project evaluation and supervision.	2012 No cost	METFP
	Draw up an inventory of private training firm qualifications and design a support program	2011 To be estimated	METFP
	Set up a monitoring and evaluation information system for the skills development and employment scheme	2011 Financing to be found	METFP/Ministry for Labor and Employment
	Set up a vocational guidance mechanism	2011 To be estimated	METFP
	Review the quality standards governing the opening and running of public and private training centers; grant opening permits in accordance with standards; conduct checks on the training establishments and centers in accordance with standards	2011 No cost	METFP
Extend vocational training to SMEs	Establish a system of training vouchers to stimulate demand for training in SMEs and microenterprise and create a wider range of training	2011 No cost	METFP
TRANSPORT AND TRADE FACILITATION			
Develop a national policy and allocate the resources required for its implementation	Adopt a national policy on the basis of this report; hold national workshops with all partners concerned to define objectives, measures, and implementation methods; prepare a sector policy letter with a detailed timetable.	2010-2012 \$75,000	Prime Minister, MT, MTP, National Assembly
	Reactivate the National Facilitation Committee and (i) give it the budget and resources to conduct	2010 to end-	MCPS, MEF, MT,

Objective	Actions	Timeframe and Cost	Project Managers
	its assignment, (ii) make it the interface between the government, public institutions, economic operators and civil society, (iii) grant its president decision-making power to mobilize the managers in charge of putting the priority actions in place, and (iv) prepare a decree to reinforce this power.	2012	MTP, CCIT
Involve the Sahelian countries in this facilitation policy	Renegotiate the bilateral agreements to abolish the cargo-allocation system, including the obligations to pass through Sahelian country warehouses	2010	Prime Minister and ministers concerned
Strengthen the institutional role of the Lomé port to enable sound development	Change the port's status by means of a port act granting it full governing authority to, among other things, check the terms of cargo handling agents' contracts.	2011	Prime Minister/ National Assembly
	Prepare a new development plan for the port and make the port a transshipment hub on the basis of its natural depth	2010-2011 \$400,000	PAL, MT, MTP
Improve the port's competitiveness	Compare the quality of the port's services and rates with neighboring ports to keep a competitive edge and continue to attract transit traffic; control the cargo handling agents' rates.	2011 and annual follow-up	PAL and the Port Community
Reduce port call costs and the number of port call players	Reduce the amount of Togolese Shippers Board (CNCT) levies with no value-added, especially the charges on imports and exports: (i) the electronic cargo tracking note and (ii) remuneration commission	2010-2012	Prime Minister and National Assembly
	Abolish the unjustified levies on used car imports (some without receipts) by various public and private institutions. 13 structures are involved in the administrative formalities.	2011	Prime Minister/ PAL/ Customs/ Ministries concerned
	Clarify and streamline port space rental terms by (i) respecting market prices, and (ii) reducing the number of intermediaries and sub lessees.	2011	
Improve the preferential policy for goods in transit	Compare the advantages granted by the port with those offered by other ports so that they remain the same or higher; coordinate with customs.	Annual follow-up	PAL and Customs
	Redefine the Solidarity at Sea policy in keeping with the Inter-State Road Transit (ISRT) agreements, including the mandatory stopover at the Sahel Terminal	2010	PAL and Customs
Reorganize the road maintenance system	Reorganize the routine road maintenance functions between (i) work programming/audit (Roads Board - CR); (ii) mobilization of resources (Roads Fund – FR – and the Independent Toll and Road Maintenance Company – CAPER); (iii) work conducted by businesses following calls for tender and supervision by consultants under the authority of an agency responsible for awarding contracts and making payments, audited by the CR+FR+CAPER	2010-2011	MEF, MT, MTP
Mobilize adequate national resources	Step up the mobilization of off-budget resources for routine maintenance by (i) raising the fuel levy; (ii) payment of the truck axle load levy and fines for overloading.	2010-2012; \$50 million per year	MT, MTP, MEF
Protect the road infrastructure	Introduce a maximum axle load of 11.5 metric tons in keeping with the WAEMU agreements, with trained personnel and weighbridges at allotted toll booths.	2011 \$3 million	MT, MTP
Upgrade the entire road network to enable normal maintenance	Prepare a national road renovation program to cover the entire network, including rural roads, on the basis of a commitment to handle routine maintenance using domestic financing.	2011-2017 \$330 million	MT, MTP, MEF
	Seek pre-financing for technical assistance for the studies for the road renovation program.	2011-2012 \$3 million	MEF, MT, MTP
Set up the conditions for healthy competition and improved productivity and service quality	Abolish the “rotation” system managed by the freight bureau in the port of Lomé and set up a freight exchange where shippers and carriers can freely negotiate service prices and quality on best bidder terms.	2011-2012 \$100,000	MT, CNCT
	Reduce the levies charged as cargo-allocation system costs by carrier unions and the shippers board	2011-2012	MT, Unions
	Scale up the technical visits, assigned to an agency, by introducing more methodical controls;	2011	MT, CNF

Objective	Actions	Timeframe and Cost	Project Managers
	computerize data to improve the performance of supervision.		
	Simplify payments at tollgates and weighbridges, with the eventual use of prepaid cards.	2011-2015	MT, CNF
Speed up customs management	Improve the application of the selectivity criteria to bring the percentage of fast-track customs clearance (green channel) up to 50 percent.	2011	MEF/Customs
	Rebuild the customs building at the Port as a modern, efficient service	2011-2012 \$1.5 million	MEF/Customs/PAL
	Combat bribery at each declaration processing step and introduce penalties; make full use of ASYCUDA	2011-2013	MEF/Customs
Improve the flow of traffic throughout the territory	Confirm the phasing-out of escorts from the Sahel Terminal and accept the Chamber of Commerce and Trade (CCIT) guarantee.	2011	MEF/Customs/ CNF
	Apply the single TRIE system without having to reissue these transit documents at the borders.	2011-2012	MEF/Customs/ neighboring countries, CNF
	Take part in a campaign to abolish road blocks in the N1 highway corridor and the costal corridor, and replace controls with interception units that target suspicious trucks	2011-2013	MEF/Security/MT/ MS, Customs
	Study the possibility of using GPS to monitor truck movements	2011-2012 \$100,000	MEF/Customs and neighboring countries, CNF
Prioritize railways for heavy traffic	Launch the construction of the Lomé-Ghana line in accordance with the TogoRail plans to put an end to the transport of clinker by truck from the Aflalo plant.	2011	MT, MTP
EXPORT PROCESSING ZONE			
Align the tax incentive system with the job creation goal	Conduct a cost-benefit analysis of the export processing zone; clearly define the approval criteria to maximize the businesses' contribution to the national economy	2010 Study: \$100,000	MI
	Tailor the incentives to job creation	Workshop cost \$30,000	MI
Availability of plots and their legal security	Set new criteria for the allocation of land plots in the port zone and rents that ensure their rational use on the basis of a study of the current set-up	2010 \$50,000	PAL, MT, MI
	For current rents, make a gradual transition to market prices without jeopardizing the current businesses' operating conditions	2010-2011 No cost	PAL, MT, MI
	Insert a special clause in sale contracts and leases to ensure the legal security of the plots of land and buildings occupied in the export processing zone	Included in the study	MJ
	Conduct a feasibility study on the new site north of Lomé. Conduct a survey of existing and potential investors to find what interest there is in locating on this plot.	2010-2011 \$200,000	MI
	Proceed with raising capital and site preparation – if the conclusions of the study and survey are positive.	2011-2013 \$1-5 million	MI
	Develop a specific framework for public-private partnerships in the development of the special zones.	2011 \$50,000	MEF, MI
Promote the export processing zone	Launch one or more targeting studies based on detailed analyses of production costs in Togo's export processing zone; develop and implement a promotion strategy.	2010-2011 \$150,000- \$200,000	MI

Objective	Actions	Timeframe and Cost	Project Managers
MINING AND CEMENT SECTOR			
Reinvigorate the phosphate sector	Adopt a strategy for the phosphate sector	2010	MME, MEF
	Improve the performance of the Nouvelle Société des Phosphates du Togo (NSPT) by implementing the audit recommendations, in particular (i) a more targeted and controlled plant and infrastructure renovation and replacement program; and (ii) reorganization of the administration and the NSPT's management	2010-2011	MME, NSPT
	Launch the process to identify a strategic partner	2011	MME, MEF
Consolidate the development of the cement/clinker sector	Conclude negotiations for a second clinker operation and coordinate the two operators, especially as regards transport	2010	MME, MEF, MTTP
	Take into account cement prices in neighboring countries in the price-setting policy in Togo.	2010 No cost	MCPSP
Improve the legal framework	Adopt a new mining code and apply it to all mining operations (phosphates, limestone, and iron).	2010-2011	MME, MEF
AGRICULTURE			
Cross-cutting actions			
Encourage agricultural investment and soil conservation	Adopt and implement a new rural land policy: (i) conduct pilot operations; (ii) prepare and adopt the reform/act; (iii) set up transparent, efficient land markets; (iv) decentralize land management and conflict management.	2010-2013 \$10 million	MAEP
	Implement the integrated soil management program in the sensitive/priority zones.	2010-2015 \$5 million	MAEP
Reduce climate risks	Develop irrigable land, prioritizing the development of lowlands and rehabilitation to improve the management and development of reservoirs (for agriculture and fish farming) in the existing zones	2010 \$50 million	MAEP
Reduce transport costs	Implement the emergency program for the rehabilitation of rural roads, targeting the major production zones and high-potential zones that are landlocked and underused.	2010-2015 \$100 million	MAEP and MTP
Improve information access	Promote the communication systems (telephone and Internet) and the market information systems and assist with the emergence of e-exchanges for agricultural produce.	2010 To be estimated	MTC, MCPSP, MAEP
Improve access to high-productivity genetic material	Adopt a national seed and sperm policy (vegetable and animal) and set up the legislative and regulatory framework for the management of production and marketing, under the ECOWAS and WAEMU policy harmonization plan.	2010-2011 \$0.3 million	MAEP
	Conduct a program to build the capacities of seed players in the production, packaging, and distribution of seeds, and improve the national network of private seed professionals (based on the producer organizations and the private sector).	2010-2015 \$10 million	MAEP
Improve the efficiency of the agricultural services	Approve a national agricultural extension policy that (i) associates beneficiaries with the expression of demand and with the design, financing and evaluation of the services required; and (ii) opens up the support/advisory services market to the private sector and NGOs.	2010-2011 \$0.2 million	MAEP
	Introduce a health mandate for the veterinary services	2010 \$0.2 million	MAEP
	Implement a national agricultural services improvement program, largely based on demand and including capacity building for public and private service providers working in support of agricultural production.	2011-2015 \$30.0 million	MAEP
Improve access to and	Conduct a detailed technical audit of the subsidized fertilizer distribution program to determine its	2010	MAEP/MEF

Objective	Actions	Timeframe and Cost	Project Managers
the quality of fertilizers, phytosanitary products, and veterinary products	economic and financial impact, targeting, and impact on the development of networks of private distributors. Redefine the conditions for setting up a sustainable fertilizer supply and distribution system including private distributors.	\$0.2 million	
	Build the capacities of the national laboratories in product composition analysis.	2010-2015 \$0.5 million	MDC
	Implement the legislation and regulations governing the approval and distribution of fertilizers, phytosanitary products, and veterinary products in the WAEMU and ECOWAS zone.		MAEP
Improve access to campaign and investment credit	Implement an operational program to improve the financing of agriculture, based on a range of actions: mobilization of the commercial banks, establishment of the National Agricultural Institutions Support Fund/ Regional Interprofessional Agricultural Development Funds (FNAIA/FRIDA) with suitable operational methods; promotion of the Decentralized Financial Systems (SFD), etc. Conduct a feasibility study on the creation of an agricultural bank.	2010-2015 \$20 million	MAEP/MEF
Promote the quality of imported and exported products	Implement the national regulatory framework texts harmonized with the WAEMU framework and the international agreements, including bringing inspection, control, and quality management procedures into line with standards.	2010-2012 \$0.5 million	MAEP/MDC
	Set up a quality control system for imported strategic products (similar to the Ivoirian CODINORM system) to guarantee a minimum quality level for imported products and enable healthy competition between competing products.	2010-2012 \$1 million	MAEP/MDC
Build control capacity	Improve the quality of the national laboratories' services and identify one to be accredited.	2010-2012 \$2 million	MAEP/MDC
Promote quality to operators and producers	Set up a structure (public-private) to promote the quality of agricultural exports, inform agricultural sector players about the standards and regulations in force on the main export markets, train sector players on the quality approach (HACCP), and help businesses with their upgrading and certification.	2010-2012 \$5 million	MAEP/MDC
Liberalize the food trade	Launch a national debate to redefine the attributions of the Togo Food Security Agency (ANSAT). Eliminate barriers to food trade and exports, and review the government's food security strategy and policy, including the operational audit of ANSAT.	2010-2011 \$0.5 million	MDC/ MEF/MAEP
Support emerging exporters	Prepare and implement a program to give exporters the support they need: (i) build the capacities of individual operators and their associations; (ii) set up the institutional and physical infrastructure; (iii) develop the relevant services (market information, assistance with the preparation of business and export plans, and quality support); and (iv) provide project initiators with financial support.	2010-2015 \$30 million	MAEP/MDC
Increase public agricultural/rural spending, and step up its effectiveness	Increase public spending (actual disbursements) to at least 10 percent of total expenditure, excluding spending on rural roads.	2010- 2015	MEF/MAEP
	Improve (i) the targeting of public spending, with alignment with the highest priorities of Togo's National Agricultural Investment and Food Security Program (PNIASA), and (ii) the planning and execution of the priority programs. Conduct an annual review of the ministry's public spending.	2010- 2015 \$30,000	MAEP
Priority Sectors			
Stimulate coffee and cocoa production	Prepare and implement a stimulus program including (i) renovating and extending the Agricultural Research Center – Forested Areas (CRA-F) seedling production centers; (ii) rehabilitating old plantations and extending surface areas growing Robusta and resistant hybrid cocoa varieties; (iii) setting up a	2011-2015 \$30 million	MAEP

Objective	Actions	Timeframe and Cost	Project Managers
	support mechanism including making the Technical Assistance and Consultancy Institute (ICAT) Coffee/Cocoa Technical Unit operational and driving forward the Togo Agricultural Research Institute (ITRA) research programs; (iv) support to set up credit systems; (v) scaling up basic cooperatives, regional unions and the Togo Federation of Unions of Coffee and Cocoa Producer Groups (FUPROCAT); and (vi) setting up a structure to define the sector's policy and regulatory framework, and an interprofessional organization.		
Restructure and stimulate the cotton sector	Prepare and implement a stimulus program including (i) an information campaign for producers and development of communication systems to restore their confidence; (ii) developing high-performance management tools and methods for the Nouvelle Société Cotonnière du Togo (NSCT); (iii) identifying and selecting a private strategic partner and adopting a framework of mutual obligations between the Government and this operator; (iv) building the capacities and representativeness of the producer organizations; (v) solving the problem of the cotton producer groups' internal debts; and (vi) creating an interprofessional organization.	2010-2015 \$20 million	MAEP/MEF
Develop the poultry sector	<i>Traditional sector.</i> Conduct a program to develop traditional poultry farming, focusing on (i) improving the structuring and organization of small producers; (ii) facilitating access to investment (microcredit); (iii) encouraging the development of poultry breeding and improving breeding techniques (animal health care, improvement of breeding birds, feed, and habitat); (iv) organizing collection from the producers and facilitating the sale of produce to urban centers.	2011-2015 \$10 million	MAEP
	<i>Modern sector.</i> Implement a program based on (i) improving access to medium-term credit to improve production infrastructures; (ii) a better organization for the supply of one-day-old chicks, (iii) improving the feed mills for the technical-economic optimization of feed rationing; (iv) improving animal health care; (v) support for breeding operations by building farmers' technical and commercial capacities; (vi) scaling up the National Association of Poultry Producers of Togo (ANPAT) to manage the sector's common goods; (vii) setting up a poultry slaughterhouse.	2011-2015 \$20 million	MAEP
Develop the cassava sector	Prepare and implement an operational strategy to (i) multiply and distribute highly productive varieties, and spread good farming practices with a view to doubling or tripling agricultural yields; and (ii) support the promotion of technological innovation in processing for both human consumption and industrial use (animal feed, starch, alcohol, etc.).	2011-2015 \$10 million	MAEP
Promote the diversification sectors (cashew, Shea, soy, flowers, etc.)	(i) Draw up an inventory of potential markets for Togolese diversification products, (ii) disseminate the information to the players concerned, (iii) set up a structure (public-private) to inform players of the standards and regulations in the main export markets, train sector players and support exporters involved in these sectors, (iv) develop a strategy to process these products in the export processing zone.	2012-2015 To be estimated	MAEP
Boost fish farming	Set up training and support programs for young fish farmers to start up in business.	2013-2015 \$5 million	MAEP
TRADE POLICY			
Develop the capacities of the Trade Ministry	Identify the skills needed to conduct the program (job profiles) and conduct a human resources audit; draw up a strategic training plan, possibly including by recruitment.	2010-2011 \$100,000	MCPSP
Improve access to statistics	Establish cooperation between Customs, the Central Bank of West African States (BCEAO), the General Directorate for Statistics and the Foreign Trade Directorate on ways of accessing foreign trade statistics.	3 months No cost.	MCPSP
Promote investment and exports	Ensure the consistency of the investment incentive instruments (General Tax Code and Investment Code) and the export incentive instruments (Investment Code and Export Processing Zone Act) by means of concerted, simultaneous reforms.	2010 workshops \$30,000	MEF, MI

1. OVERVIEW AND GROWTH DIAGNOSTIC

A. Introduction

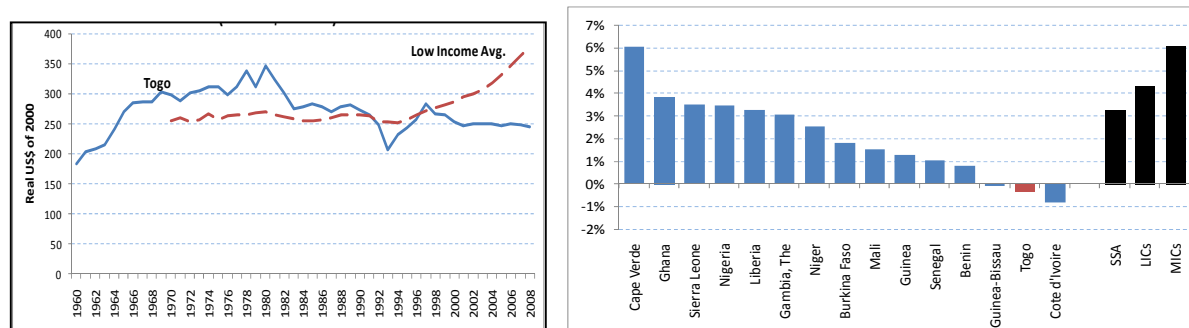
1.1 **Togo is one of the smallest countries in mainland Africa**, with an area of 57,000 km² and a population of 6.5 million, located on the Atlantic Coast between Ghana and Benin. It is also one of the poorest countries in the world, with a per capita GDP of US\$400 in 2008, and a ranking of 159 out of 182 countries in the 2009 UNDP Human Development Index. In 2006, the overall poverty rate was estimated at 62 percent.¹ An additional 20 percent of the population with incomes above the official poverty line is deemed at risk of falling into poverty.

1.2 **Togo's economic performance has lagged even relative to other low-income countries (Figure 1.1)**. In the 1960s, sound macroeconomic policies and a favorable external environment contributed to strong growth of 5.8 percent per year in GDP per capita. But income per capita stagnated in the 1970s in spite of booming commodity prices, due to the failure of highly interventionist policies. The increased government revenues led to public investment in ill-conceived projects and the expansion of parastatal manufacturing enterprises, protected by high import barriers. When commodity prices fell, expenditures soon outpaced revenues, and the state resorted to rising public debt. During the 1980s, like many other countries in Sub-Saharan Africa, Togo experienced a debt crisis, followed by the need for retrenchment and structural adjustment, and per capita income fell 2 percent per year. The 1990s were characterized by increasing political instability and a large decline in aid. Stabilization and adjustment programs were not implemented consistently, and per capita income edged up by only 0.7 percent per year – not enough to offset the decline of the 1980s. With some improvement in the political situation since 2006, economic reforms have been pursued more vigorously. However, the economic recovery was then delayed by major floods in 2008 and the 2008-09 global economic crisis.

1.3 **Gnassingbé Eyadéma was President of Togo for nearly 40 years (1967-2005)**, heading a one-party system until the early 1990s, when opposition parties were allowed in response to popular discontent and donor pressure. Eyadéma won all subsequent elections, under contested circumstances. After his death in February 2005, he was replaced by his son Faure Gnassingbé. International pressure led to an election in April 2005, but Gnassingbé's victory was disputed by the opposition and international observers, triggered violence, with hundreds of lives lost and tens of thousands fleeing to neighboring countries. In August 2006 an agreement, the "*Accord Politique Global*", was signed and parliamentary elections were held in October 2007, starting a new period of reconciliation and commitment to economic reforms.

¹ The poverty line is equivalent to roughly US\$1.40 for Lomé but only about US\$1.00 for the rest of the country. Poverty Reduction Strategy, 2009.

**Figure 1.1: GDP per Capita in Togo and Low Income Countries, 1960 to 2007 (LHS)
Per capita GDP Growth Rates, Togo and Selected ECOWAS Countries 2004-2008 (Real US Dollars of 2000) (RHS)**



Source: DDP data, World Bank.

1.4 Despite recent improvements in political stability and economic reforms, Togo's growth remains low. Real per capita income growth stagnated again over 2004-2008 (an annual average of -0.1 percent), the second lowest of the ECOWAS countries and much lower than the average in Sub-Saharan Africa (SSA) of 3.2 percent and in low-income countries (LICs) of 4.3 percent (Figure 1.1). The IMF estimates a continued low GDP growth rate of 2.5 percent in 2009, which still implies no growth in per capita terms, and not much more is forecast for the following three years.

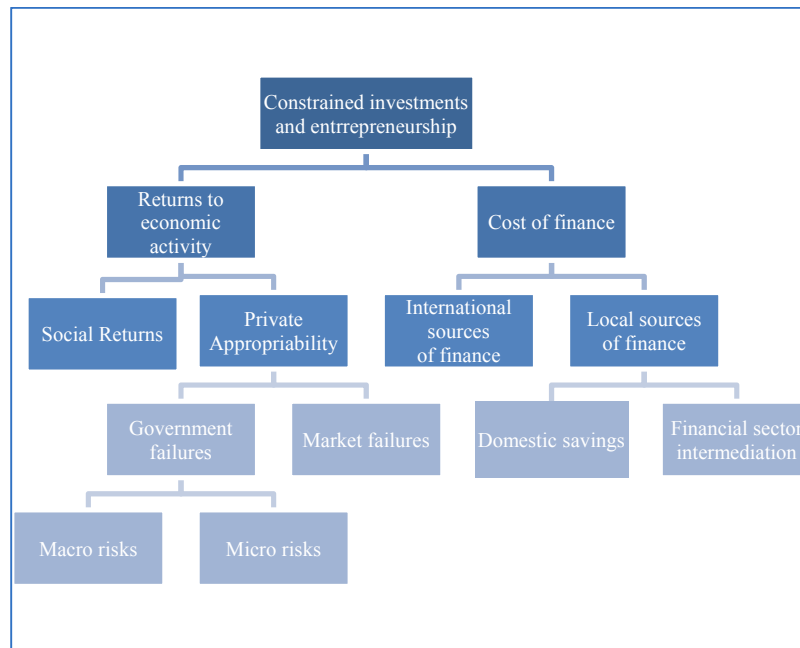
1.5 The improving political situation and the clearance of arrears have led to an increase in foreign assistance since 2007. Togo's repressive regime and political strife resulted in the withdrawal of some major aid donors in the mid-1990s, while World Bank financing stopped in 2002 when the country fell into arrears. With government revenues suffering from the decline in the phosphates industry, a long period of very low public investment ensued. Total aid has grown recently from US\$8.2 per capita in 2001 to US\$18.4 per capita in 2007, still low compared to the LIC and SSA averages of US\$37 and US\$44 respectively. At the end of 2008, Togo qualified for the HIPC debt relief program and normalized relations with the international financial institutions. In 2008 and 2009, Togo achieved nearly all of the structural reform targets agreed with the IMF. Nevertheless, Togo has far to go in moving towards a political and economic climate conducive to sustained growth. With regional and global demand recovering, and investor and donor confidence returning, Togo now faces a critical opportunity to relaunch its economy through the vigorous pursuit of a reform agenda and well-targeted public investments.

B. Growth Diagnostic Framework

1.6 The analysis in this chapter is based on a growth diagnostic framework developed by Hausmann, Rodrik and Velasco (HRV 2005). There are three main steps involved: (1) The *Development Dynamics Analysis*, including an understanding of major factors explaining the country's past growth trends, population dynamics, overall productivity and employment trends, sector dynamics, the stage of economic transformation and diversification; (2) The *Profile of Economic Actors*, including a description of demographic characteristics, incomes, employment, poverty, health and education, broken down by sector and region, and (3) The *Growth*

Diagnostics. The HRV approach relies on a growth diagnostic tree that is used to organize thinking about binding constraints to private sector growth in the short to medium run (Figure 1.2). A variety of data, macro and micro, firm and household level, quantitative and qualitative, are used to assess and rank the severity of various constraints.

Figure 1.2: Growth Diagnostics Tree



Source: Adapted from Hausmann, et al. (2005).

1.7 Investment and entrepreneurship could be low because returns to capital are low or because the cost of finance is high. *Returns to capital* may be low due to low ‘social returns’ because of insufficient investment in complementary factors of production such as infrastructure and human capital, low land productivity linked to poor natural resource management, or unfavorable geographical conditions; or due to low ‘private returns’ to capital, resulting from ‘government failures’ (such as excessive taxes, poor property rights, corruption, social conflicts, macroeconomic instability, etc) and ‘market failures’ (such as coordination externalities and learning externalities negatively affecting the country’s ability to adopt new technologies). The *cost of finance* may be high because the country has limited access to external capital markets or because of problems in the domestic financial market. A country may have difficulties accessing external capital markets for a variety of reasons including high country risk, impediments to inward foreign direct investment (FDI), vulnerabilities in the debt maturity structure, and excessive regulations of the capital account. Bad local finance may be due to low domestic saving and/or poor domestic financial intermediation.

1.8 An exercise in growth diagnostics consists of reviewing and analyzing the factors found along the branches of the growth diagnostic tree in order to ascertain which of these

factors are binding constraints to growth.² Although all factors matter for growth and welfare, the ones that are binding are likely to provide the largest positive direct effect when released. While this methodology seems simple, in practice it is challenging to identify the most severe constraints to growth. Benchmarking the performance of an economy against relevant comparator countries is one way of identifying factors that restrain investment and economic activity. Enterprise survey data is helpful too.

C. Development Dynamics

Overview

1.9 **Togo is a member of the West African Economic Monetary Union (WAEMU) sharing a common currency**, the CFA franc, formerly pegged to the French franc and now to the Euro. Togo therefore does not dispose of an independent monetary policy. Togo's real exchange rate has followed a gradual appreciating trend since the 50 percent devaluation in 1994. Togo runs large trade deficits, financed by foreign aid, remittances, and private capital inflows, particularly FDI. The largest domestically-produced exports are cement and clinker, phosphates, iron and steel products and cotton. Re-exports and transit trade to nearby land-locked countries and Nigeria are a very large component of trade flows.

1.10 **Fiscal policy has been prudent in recent years.** Togo successfully completed an IMF Staff Monitored Program from October 2006 to June 2007 and began a subsequent three-year Poverty Reduction and Growth Facility program (now called an Extended Credit Facility) in the second trimester of 2008. Clearing of arrears, fiscal stabilization, and improved political stability since 2007 have led to increased donor funding, notably from the EU and the World Bank.

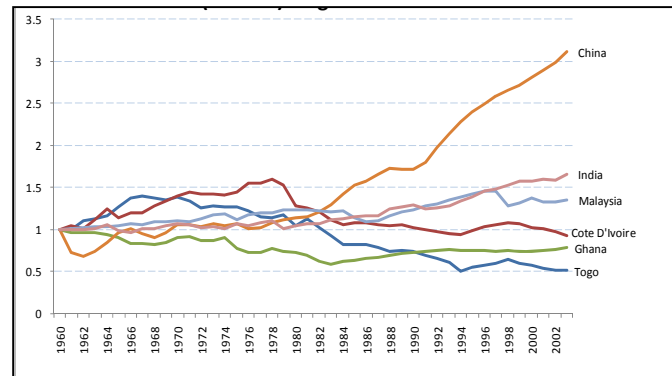
1.11 **Togo is a predominantly rural, agricultural economy:** half of output and two-thirds of employment is associated with the primary sector. Services account for only 20 percent of employment and 25 percent of GDP, with key subsectors including commerce, public services and transport and communications. The natural, deepwater port of Lomé is a key asset and plays an important part in regional trade. The banking sector used to be important but suffered a crisis in the 1980s and again in 2008 and accounts for less than 0.5 percent of GDP. Industry represents 15 percent of employment and 25 percent of GDP, with the main sub-sectors being cement and clinker, phosphates, and agro-processing. Togo has operated a relatively successful export-processing zone (EPZ) zone since 1989, employing over 9,000 workers in some 57 firms.

Productivity, Investment, and Employment Dynamics

1.12 **Figure 1.3 and Table 1.1 suggest that total factor productivity (TFP) has declined secularly since 1970**, with Togo's performance well below that of many other developing economies.

² Note that we do not assume we will find one binding constraint but rather a bundle of constraints that all need to be addressed to trigger growth. However, the goal is not to present a laundry list but a few prioritized areas of concern.

Figure 1.3: Total Factor Productivity (TFP) Index, Togo and Benchmark Countries, 1960=1 to 2003.



Source: Authors' calculations. DDP data, World Bank.

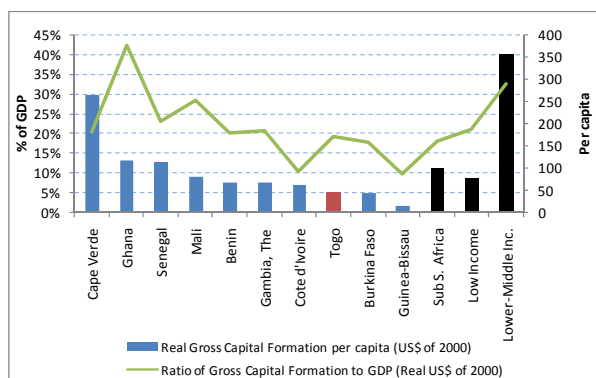
Table 1.1: Total Factor Productivity (TFP) Growth Decomposition

Period	GDP Growth	Physical Capital	Human Capital	Labor	TFP	Per capita GDP growth
1980s	1.2%	0.3%	0.4%	2.4%	-1.9%	-2.0%
1990s	2.2%	-0.1%	0.3%	2.1%	-0.1%	-0.5%
2000-2007	2.0%	0.4%	0.5%	1.8%	-0.7%	-0.8%

Source: Authors' calculations. DDP data, World Bank.

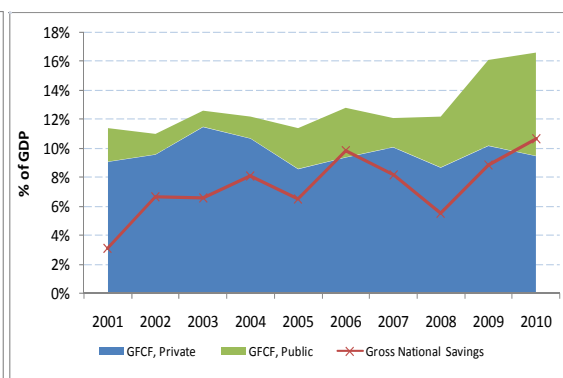
1.13 A falling capital-labor ratio, along with falling TFP, contributed to declining labor productivity and per capital income. While the labor force has grown steadily, and human capital has progressed with improvements in education, physical capital accumulation stagnated in the 1990s, and total factor productivity has fallen steadily since 1980. The capital-labor ratio has fallen back to the level of the 1960's and Togo now has the 11th lowest level of capital formation per capita out of 152 countries. The average investment per capita for the period 2000 to 2005 was US\$45 in Togo, compared to an average of US\$99 average in SSA (Figure 1.4).

Figure 1.4: Capital Formation in Togo and Benchmark Countries, Averages 2000 – 2005 (LHS)



Source: WDI data, World Bank.

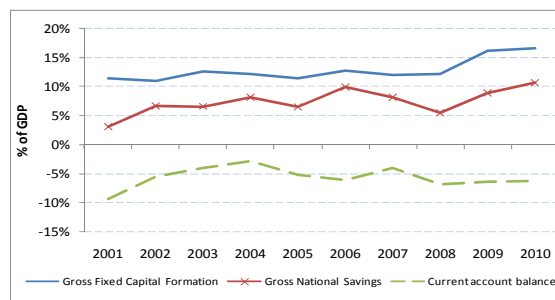
Figure 1.5: Public and Private Gross Capital Formation and National Savings. Togo, 2001 - 2010



Source: International Financial Statistics, IMF.

1.14 **Public investment has been particularly low, largely due to the fall in foreign official assistance since the mid-1990s.** Tax revenues have hovered around 17 percent of GDP. In the mid 1990s, aid as a share of gross national income (GNI) declined to about 3 percent from the 10-15 percent level typical of low income SSA countries. In 2007, the ratio of aid to GNI edged back up to 5 percent and has continued to increase gradually. Consequently, public capital formation is starting to increase (Figure 1.5).

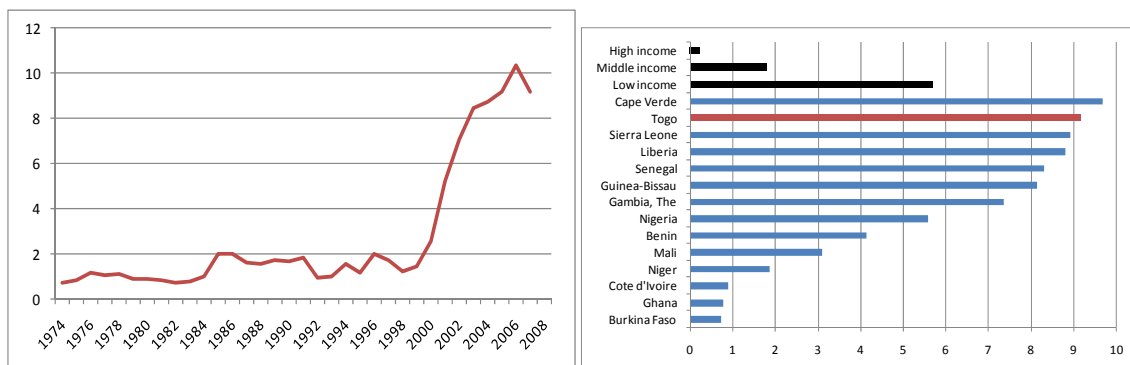
Figure 1.6: Gross Capital Formation, Gross Savings and Current Account Balance, 2001 – 2010



Source: WDI data, World Bank.

1.15 **Togo has a low national saving rate, even lower than its investment rate,** translating into a persistent current account deficit (Figure 1.6:). On the other hand, remittances have increased substantially since 2000 and Togo now has one of the highest ratios of remittances to GDP in Africa (9.2 percent in 2008) (Figure 1.7). These private remittances along with official transfers are the main source of financing for the trade deficit, which has averaged around 15 percent of GDP in recent years.

**Figure 1.7: Workers' Remittances, Togo, 1974-2007 (% of GDP) (LHS)
Workers' Remittances: Togo and Benchmarks. (% of GDP) 2007 (RHS)**



Source: DDP Data, World Bank.

Sector Developments

1.16 **Togo has become increasingly dependent on primary activities, mainly at the expense of its tertiary sector** (Table 1.2:). The share of value added due to primary activities doubled between 1980 and 2009 and now represents almost 50 percent of GDP. However, this

was due less to the dynamism of agriculture and more to the stagnation of industry, which maintained a relatively constant share of GDP (20-25 percent) and the decline of services, which fell from 51 percent of GDP in 1980 to 25 percent in 2009. Subsistence agriculture has grown whereas coffee and cotton output have both declined at about 2 percent annually since 1990. Among traditional primary sector outputs, only cocoa exhibits a slightly increasing trend during the period, although this too has fallen in recent years.

1.17 **Within the secondary sector, extractive industries declined**, as the value added generated by the phosphates sector fell at an average rate of 6.2 percent per year since 1990. This was only partially offset by clinker production from limestone deposits, which has boomed at over 9 percent annually since 1998. Manufacturing expanded between 1990 and 2008, notably in non-metallic minerals and metallurgic products which have risen at 12.4 percent and 11.2 percent per year respectively. The financial crises of the 1980s and 2008 contributed to the decline of services, with banking and insurance dwindling from an already low 6 percent of tertiary GDP (and 2.6 percent of total GDP) to just 1 percent of tertiary GDP in 2008. Commerce has stagnated but transport and communication have performed moderately well, growing at a 2 percent rate per year, reflecting strong transit and re-export trade as well as the introduction of cell phones.

Table 1.2: Shares, Growth rates and Contribution to Growth, Togo, 1960s-2000s.

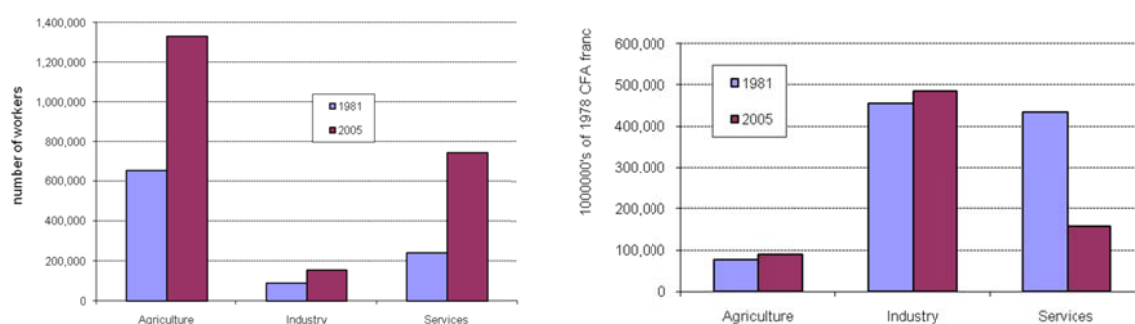
Shares, growth rates and contribution to growth, by main economic activities, by decades.					
	1960s	1970s	1980s	1990s	2000s
Shares in Value Added GDP					
Primary	32.2	26.2	29.4	44.31	46.50
Secondary	18.9	21.3	21.5	21.24	24.90
Tertiary	48.8	52.5	49.1	34.45	28.60
	100.0	100.0	100.0	100.0	100.0
Growth in VA GDP					
Primary	6.2%	2.8%	4.5%	3.1%	2.5%
Secondary	11.2%	7.8%	-0.2%	2.6%	3.6%
Tertiary	7.3%	3.6%	-0.4%	-0.8%	-2.0%
Total VA GDP	7.7%	4.3%	1.1%	1.5%	1.4%
Contribution to Growth					
Primary	2.0%	0.7%	1.3%	1.4%	1.2%
Secondary	2.1%	1.7%	0.0%	0.6%	0.9%
Tertiary	3.6%	1.9%	-0.2%	-0.3%	-0.6%
Total VA GDP	7.7%	4.3%	1.1%	1.5%	1.4%

Notes: All calculations use data in constant LCUs.

Source: Authors' calculations based on data from the World Bank, DDP and Government of Togo.

1.18 **There has been a marked shift in sectoral employment**, with a rising share in services, a falling share for industry, and little change in the dominance of agriculture. With the decline in the share of services in GDP, there has been a dramatic fall in productivity in this sector (Figure 1.8, RHS). In addition, the sector with the highest productivity – industry – has show the least growth in employment. Thus, there has been a relative shift in the sectoral composition from high productivity industrial employment to lower productivity service sector jobs. This has led to a decrease in overall labor productivity in the economy.

Figure 1.8: Employment by Sectors (LHS), Output per Worker by Sectors (RHS).



Source: DDP Data, World Bank, and 2006 Core Welfare Indicators.

Table 1.3: Decomposition of Changes in Per Capita GDP (Percent points Per Year). 1981-2005.

Contributions from changes in:				
	Output per worker	Level Employment	Sectoral composition of employment	Total
Change in Per Capita GDP:				-1.01
Sectoral Contribution	-1.5	0.0	0.3	-1.20
-Primary	0.3	-0.3	0.1	0.15
-Secondary	0.1	-0.1	-0.2	-0.14
-Tertiary	-1.9	0.4	0.3	-1.21
Participation rate				-0.05
Pop1564/Population				0.24

Note: Changes in per capita output are decomposed into (i) changes in output per worker assuming no changes in employment and its sectoral composition; (ii) changes in the employment level per capita assuming no changes in output per worker and the sectoral composition of employment; and (iii) changes in the sectoral composition of employment holding everything else equal.

Source: Staff calculations, DDP Data, World Bank, and 2006 Core Welfare Indicators.

Demand Composition

1.19 Exports and capital formation grew strongly in the 1970s, but the rise in government spending proved unsustainable, and was followed by a financial and fiscal crisis in the early 1980s which ushered in two decades of retrenchment. Only recently have government spending, investment and exports recovered. Table 1.4 summarizes trends in aggregate demand over the last four decades.

Table 1.4: Growth Rates of Aggregated Demand/Supply, by Demand Components, by Decade (%)

Period	Real GDP	Imports of Goods and Services	Aggregate Supply/ Demand*	Private Consumption	Public Consumption	Gross Capital Formation	Exports of Goods and Services
1970s	2.8	10.9	5.8	-1.1	9.8	11.9	8.5
1980s	1.1	1.0	1.0	4.9	-2.3	-0.2	-1.0
1990s	2.3	-1.2	0.9	4.1	-0.5	-4.8	0.3
2000s	1.8	4.0	2.6	1.2	3.9	3.4	5.6

*Aggregate supply = GDP plus imports = aggregate demand= domestic demand plus exports.

Source: Authors' calculation, WDI data, World Bank.

D. Poverty, Employment, and Education

1.20 Togo is a very poor country with significant regional differences but is nonetheless relatively egalitarian.³ The national headcount poverty rate is 62 percent, with regional rates which are highest in the North and generally decline as one moves South: Savanes (90 percent), Kara (75 percent), Centrale (78 percent), Plateaux (60 percent) and Maritime (69 percent). The poverty rate is 24.5 percent in Lomé.⁴ Overall the urban poverty rate is 37 percent, compared to 74 percent in rural areas. Rural areas account for 80 percent of the poor. However, Togo has a relatively equal income distribution, with a Gini coefficient in 2006 of 34 percent compared to the 44 percent average for SSA.

1.21 Togo has a fairly high population growth rate of 2.4 percent, with a fertility rate of 4.8 births per woman, typical for a low-income country. The share of working age to total population has increased since 1992, resulting in a declining dependency ratio, but the positive effect of this trend has been dampened by a slight decline in labor force per working age population due to a decreasing participation rate and rising unemployment.

Literacy and Education

1.22 Overall literacy is low, as in other sub-Saharan African countries, but the variation in both literacy and education levels between urban and rural areas and across regions is substantial. The literacy rate for the 15-45 age group is 88 percent in Lomé, 84 percent in urban areas overall, 52 percent in rural areas, and only 26 percent in rural Savanes. Education levels of urban workers are substantially higher than those of rural workers. 45 percent of urban workers have finished junior high or a higher education level, over 40 percent have finished primary school and only 15 percent have not finished primary education. Conversely, half of rural workers have not completed primary school and another 37 percent have no schooling beyond primary school. Literacy is improving, as the rate among younger age groups is substantially higher than the overall national rate, and most children aged between 6 and 11 attend school in both rural and urban areas. Gross primary enrolment rates now exceed 100 percent.

1.23 Not surprisingly, the incidence of poverty is higher for workers with a lower education level in both rural and urban areas. However, even among those with a high school education in rural areas the incidence of poverty remains at 39 percent. In urban areas, the corresponding rate is only 6 percent.

³ Most of the analysis in this section is based on the Core Welfare Indicators Questionnaire (QUIBB/CWIQ) 2006. The poverty line applied is FCFA 164842, using the FAO/ WHO equivalence scales (see World Bank (2007)).

⁴ A higher poverty line is used in Lomé to reflect the higher cost of living.

Employment

Table 1.5: Wage and Self Employment Status, by Sector Togo, 2006

	Wage or piece-rate earner	Self-employed/ family helper	Total
Agriculture	0.9%	58.0%	58.9%
Mining	0.2%	0.4%	0.6%
Manufacturing	0.5%	3.2%	3.7%
Construction	0.6%	1.2%	1.7%
Transport	1.1%	1.5%	2.6%
Commerce and Trade	1.3%	20.2%	21.5%
Education/ Health	2.0%	0.6%	2.6%
Administration	0.8%	0.1%	0.9%
Financial Services	1.7%	4.4%	6.1%
Other Services	0.3%	1.1%	1.4%
Total	9.4%	90.6%	100.0%

1.24 **Most employment is in subsistence agriculture in rural areas or in the urban informal sector, where services dominate** (Table 1.5). Agriculture accounts for almost 60 percent of national employment. In urban areas, commerce and trade is the largest source of employment, accounting for 22 percent of national employment. The high share of self employment and family helpers (91 percent) suggests a high incidence of low-skilled and low-productivity informal employment. Wage-employment is predominant largely in education, health and public administration, and to a lesser extent occurs in mining, construction and transport. However, the share of these sectors in total employment is very low. As a result, only around 24 percent of urban workers receive a salary or are paid on a piece rate basis. The remainder are apprentices, non-paid family workers or self-employed.

1.25 **Workers tend to be underemployed rather than unemployed.** Measured overall unemployment rates are 7.4 percent and 1.4 percent in urban and rural Togo, respectively. At the same time 19 percent of rural and 25 percent of urban workers are underemployed - defined as those workers who declared to have tried to increase their incomes in the last seven days.

E. Analysis of Potential Constraints to Growth

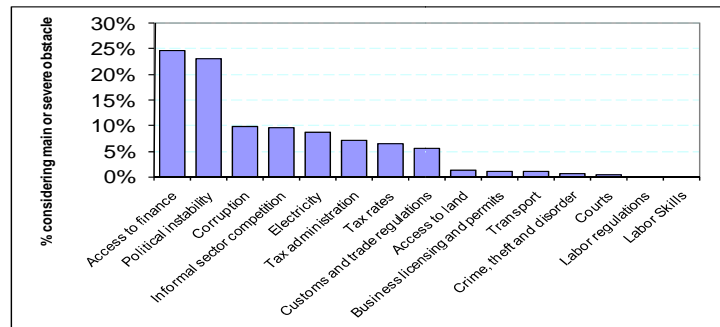
1.26 **Recent enterprise survey data⁵ for Togo offers useful information about the main constraints faced by firms in Lomé.** This is helpful in ranking constraints, but must be interpreted carefully and tested against other information. In particular, this data does not cover the problems faced by the agricultural sector, and it is heavily biased in favor of the business environment in Lomé since that is where 90 percent of non-agricultural enterprises are located.

1.27 **Political instability and access to finance are by far the two most serious perceived constraints** (Figure 1.9). Corruption, competition from the informal sector, trade regulations and

⁵ www.enterprisesurveys.org Enterprise survey data is available for over 100,000 firms in 117 countries. The surveys include indicators that benchmark the quality of the business environment across countries. They are commonly referred to as "Investment Climate Assessment" (ICA) indicators. Togo's business enterprise survey was concentrated in the capital city, Lomé, and includes 300 enterprises, of which 145 are micro firms (0-4 workers); 99 are small (5-19 workers); 41 are medium (20-99 workers); and 15 are large (over 100 workers). This sample included 19 firms which benefit from Free Zone status. Firm representatives are asked to rank a list of 15 obstacles into three categories of severity.

customs, electricity, and tax administration are also important. Crime, courts, labor regulations, labor skills, transport, business licensing, and access to land are viewed as much less onerous. These perceptions vary somewhat by size of firms but political instability, access to finance and corruption are always the top three.

Figure 1.9: Main Perceived Constraints to Business (ICA), Togo, 2009.



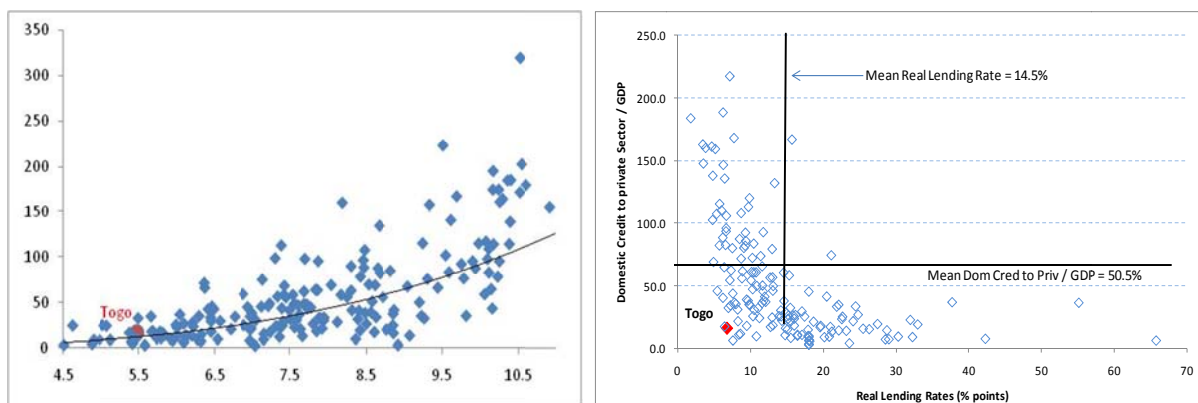
Source: ICA data, World Bank.

Cost of and Access to Capital

1.28 **Lending volumes and interest rates are not indicative of serious credit constraints.** If the cost or access to capital is constraining growth, we should observe high interest rates and/or low flows of credit to the private sector from domestic or foreign sources. The evidence is mixed. Credit to the private sector as a share of GDP is low in Togo, but consistent with Togo's GDP level (Figure 1.10: , LHS). Also, real interest rates are low (Figure 1.10, RHS.)

Figure 1.10: Domestic Credit to Private Sector (Percent of GDP) vs log of GDP per Capita (constant US\$), 2006 (LHS)

Domestic Credit to Private Sector (Percent of GDP) vs Real Interest Rate, 2000-2008 (RHS)

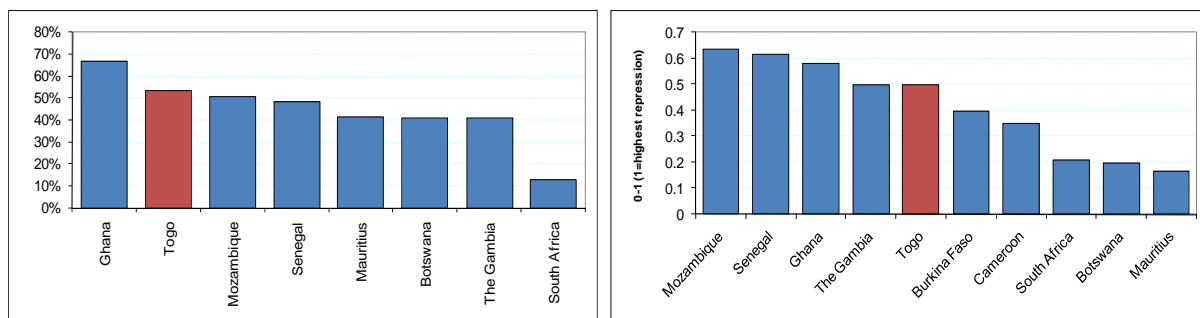


Source: DDP data, World Bank, and Lending rate information from Banks in Togo

1.29 **Although ICA surveys rank access to finance as the top constraint to business in Togo, a closer look reveals a more ambiguous situation.** This perception is common in all low-income countries and may be misleading as it could reflect the poor creditworthiness of borrowers rather than a failure of financial markets per se. An index of “financial repression” that summarizes a set of objective constraints to access to credit for individual firms reveals that over 50 percent have suffered from some form of financial constraint, a number that is high but

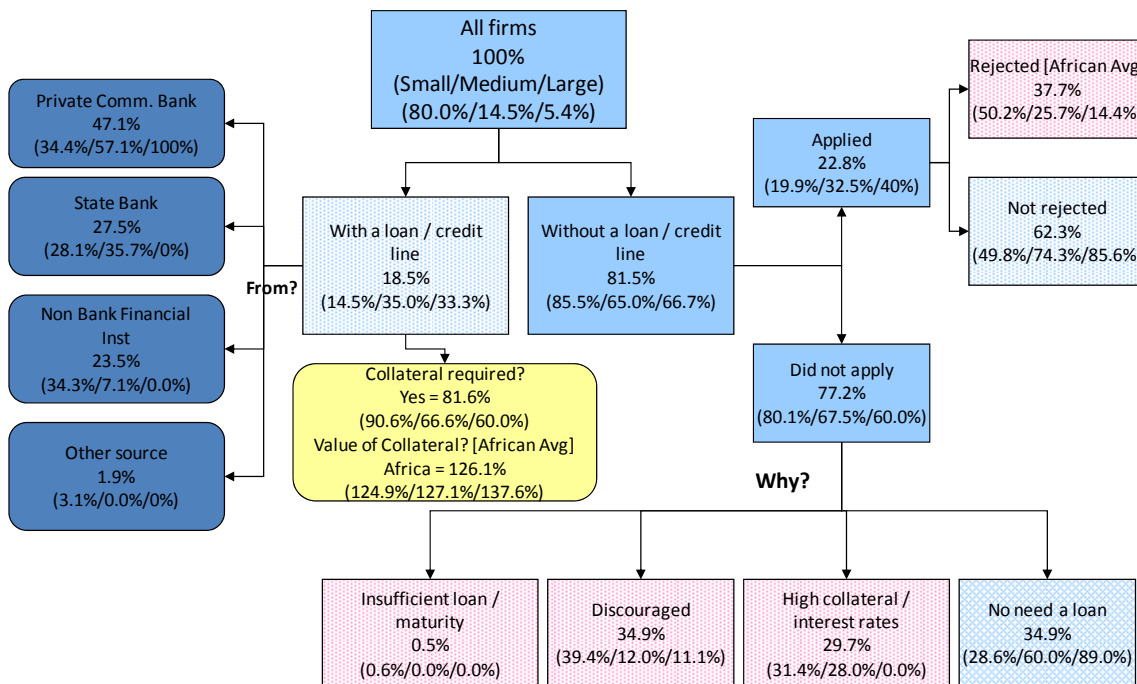
lower than in Senegal or Ghana (Figure 1.11). The Financial Repression Index (a 0-1 scale, where a higher index means higher repression) represents the fraction of firms that do not have a loan either because they applied for it but were rejected or because they were discouraged from applying (as a result of the high cost of credit, insufficient funds offered, bad maturity of the loans, or the amount of the required collateral). Of those firms which applied for a loan, 38 percent were rejected, which is comparable to the African average. For those firms that did not have a loan, 77 percent never applied, and one-third of these stated no need for a loan (Figure 1.12).

**Figure 1.11: Percentage of Firms that Think Finance is a Major Constraint to Business (LHS)
Index of Financial Repression (RHS), Togo and Benchmarks (RHS)**



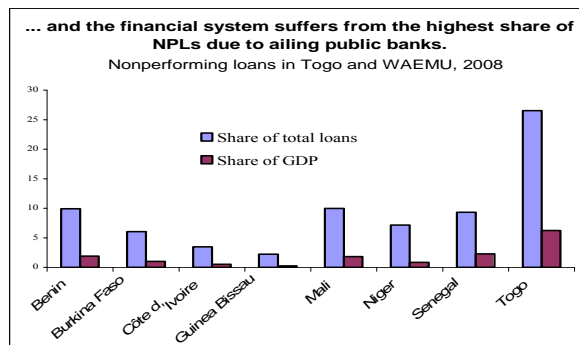
Source: ICA data, World Bank. Togo data from 2009.

Figure 1.12: Demand for Loans and Reason for Declined Application, by size of firm, Togo, 2009.



Source: ICA data, World Bank.

Figure 1.13: Nonperforming Loans, 2008.

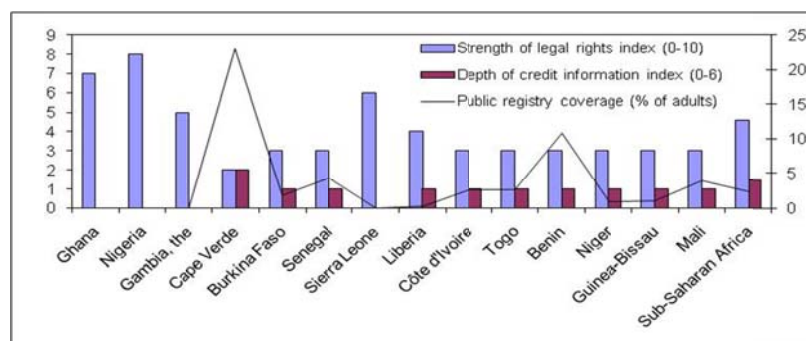


Source: IMF (2009a).

1.30 **Other studies suggest that financial intermediation in Togo is deficient.** IMF (2009a) highlights banking sector vulnerabilities as a key short term challenge for the economy. The major private banks were severely undercapitalized in the early 2000s, largely due to nonperforming loans to the troubled cotton and phosphate sectors, and had to be nationalized. The share of nonperforming loans in 2008 was the highest in West Africa (Figure 1.13).

1.31 **Bank performance is improving, however.** Three state-owned banks were fully recapitalized with government support in December 2008, and their privatization is proceeding. Togo has more than a dozen commercial banks, including some regional financial establishments, but the share of private banks is still low by regional standards (Figure 1.15). The Banking Sector Size Index and the Doing Business 2010 indicators on legal rights, credit information and public registry coverage are low but do not stand out compared to the same measures for Togo's neighboring countries (Figure 1.14).

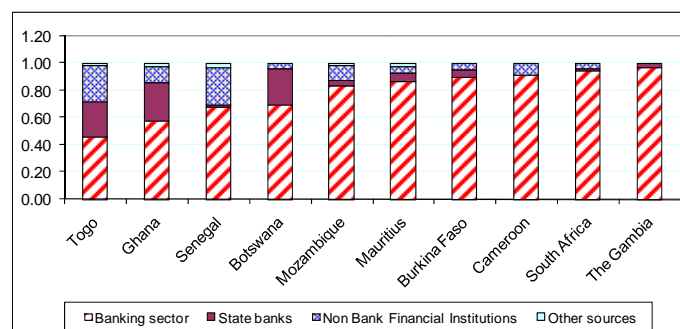
Figure 1.14: Legal Rights, Credit Information and Public Registry Coverage, 2009



Source: Doing Business 2010, World Bank.

1.32 **Microfinance has expanded, especially in rural areas** (IMF, 2009a). By June 2008, microfinance institutions' deposits and loans each amounted to about 15 percent of corresponding values for the banking system (PRSP, 2009). The number of beneficiaries was around 540,000, about 8 percent of the population. This can be compared to averages of 0.5 percent in Eastern Europe and Central Asia and 2.5 percent in South Asia (Gonzales and Rosenberg, 2006). Regional banks are also an increasingly important source of credit to small businesses and entrepreneurs (IMF, 2009b).

Figure 1.15: Distribution of Loans by Type of Financial Institutions, Togo and Benchmarks.



Source: ICA data, World Bank. Togo data from 2009.

1.33 **Overall, the financial system is flawed**, but Togo’s low level of credit appears to be as much the result of low demand, and hence a consequence of low returns to investments, as high cost of capital and low supply of lending. There are no reliable estimates of the return on capital, but capital returns can be inferred to be low by the low growth of total factor productivity discussed earlier as well as other weaknesses in the business environment discussed below.

Geography and Regional Potential

1.34 **Although Togo is very small, its economic prospects are not constrained by its geographic characteristics.** Togo is a coastal economy with a natural port, and is well placed to serve as trading hub for the region. Population density and urbanization are in line with other countries of the region. Togo has the highest ratio of arable land to total area within ECOWAS, and generally enjoys adequate if variable rainfall. It is also blessed with exceptional phosphate and limestone resources.

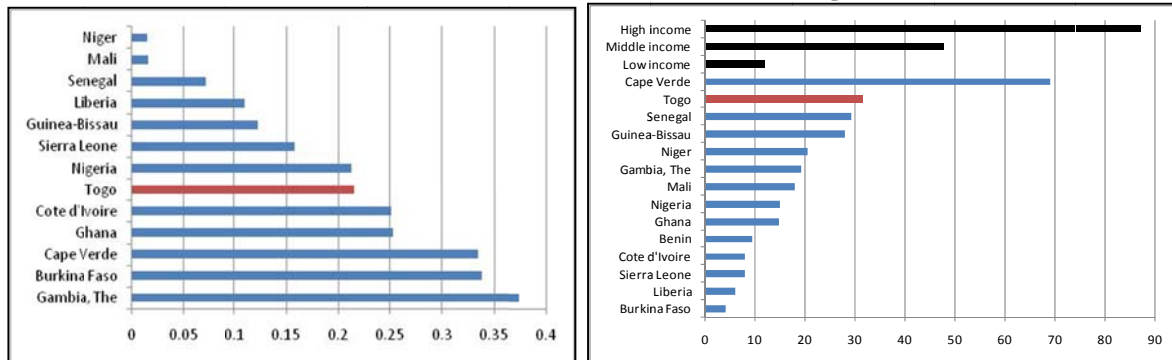
Infrastructure

1.35 **According to the World Bank Logistic Performance Index (LPI), Togo’s infrastructure is above average given its GDP level.** Transport is not viewed as a major constraint to growth in the ICA surveys, although it should be noted that the firms surveyed were all located in Lomé, so their perception is probably influenced by the relatively well-functioning port. Togo is ranked 119th out of 150 countries in the overall LPI, but in terms of infrastructure it is ranked 90th. Note, however, that this data is from 2007, before the 2008 floods damaged numerous bridges. Furthermore, both of these analyses fail to capture the constraints faced by agriculture, notably the deteriorated condition of rural roads.

1.36 **The Port of Lomé is the deepest in West Africa, a major advantage in view of the increasing role of large container ships in international trade.** 90 percent of Togo’s external trade goes through the Port of Lomé. About 40 percent of imports entering through the port are goods in transit or for re-export, reflecting the low cost and relatively efficient functioning of the port compared to others in the region. Port traffic increased on average by 9 percent per year over 2003-2008 and so far there are no signs of a downturn in activity due to the current global crisis.

1.37 **Road density in Togo is about average relative to its neighbors' but the share that is paved is higher than that of other West African countries (Figure 1.16).** The quality of the road network has been deteriorating, however, due to lack of maintenance and investment in new roads, and the misuse of available resources. Several new road projects are now under way or planned, funded by increased aid.

**Figure 1.16: Road Density (km Road per sq. km), 2001-2006 (LHS)
Roads, Paved (% of Total Roads), 2000-2006 (RHS), Togo and Benchmarks.**

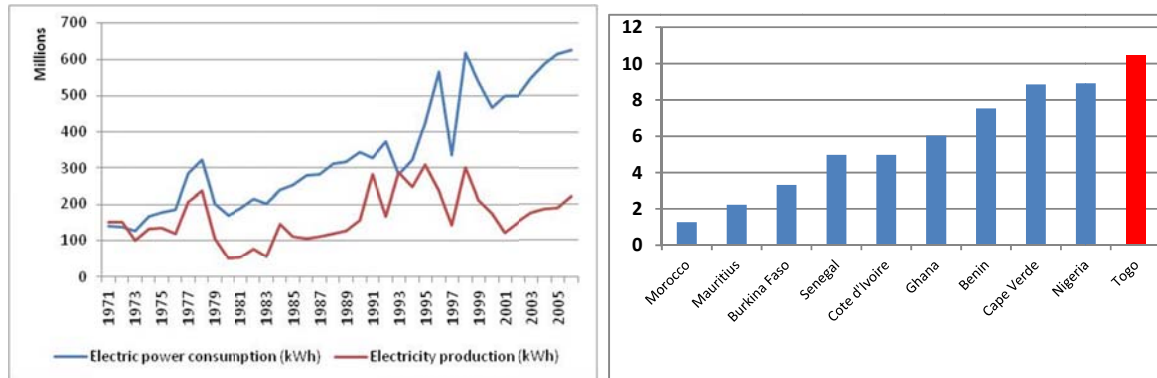


Note: Data were from different years for different countries but all within the period 2000-2006. Source: DDP data, World Bank. Togo data from Assiongon and Chausse (2008).

1.38 **Togo's rail network has suffered from years of neglect, although parts have recently been rehabilitated.** Reinstatement of the main line to the North could make an important contribution to transit trade as well as support the development of the poorer Northern regions. The dedicated line from the phosphates mine to its port requires urgent attention. Extension of the rail around Lomé to the Ghanaian border would help reduce the impact of clinker transport on the roads.

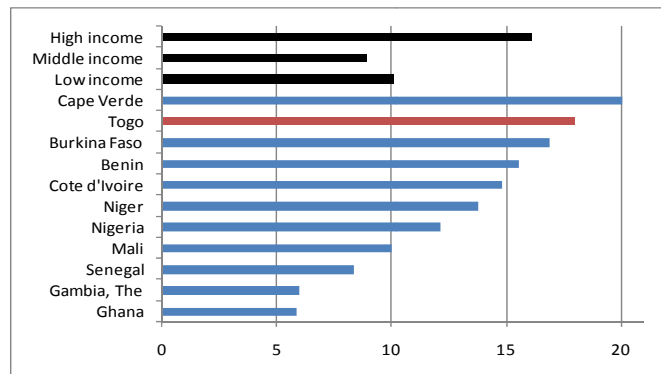
1.39 **Electricity consumption in Togo is low but consistent with its GDP per capita.** However, only a third is covered by domestic production and the gap between production and consumption is increasing (Figure 1.17, LHS). Electricity charges, which are higher in Togo than in other countries in the region, and frequent blackouts pose a particularly important constraint for the mining companies and firms in the free zone. Thus the value of lost sales due to power outages is higher than for most other comparable countries (Figure 1.17, RHS). This has obliged many enterprises to invest in expensive generating capacity.

**Figure 1.17: Electricity Consumption and Production in Togo, 1971-2005 (LHS)
Value Lost due to Power Outages as a % of sales (RHS)**



Source: DDP Data, and ICA survey, World Bank.

Figure 1.18: Mobile Cellular Prepaid Tariff (US\$ per Month), 2008.



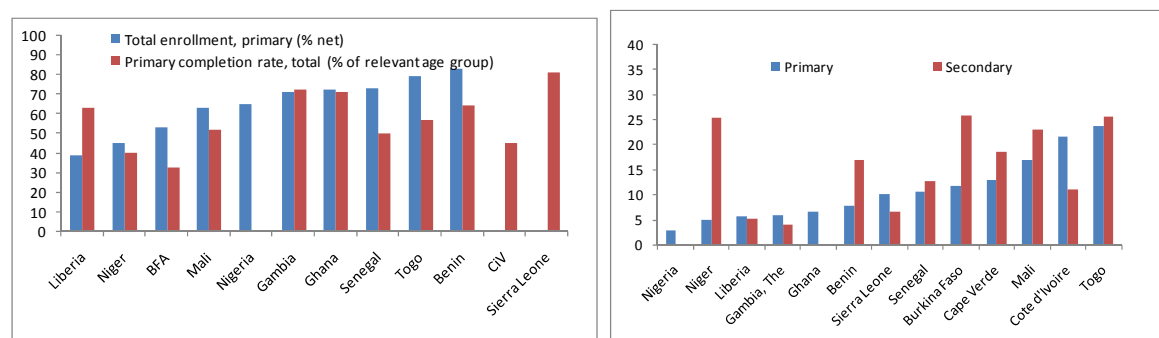
Source: DDP Data, World Bank

1.40 **Togo has a fairly low rate of mobile cellular subscription.** Network coverage is relatively good for the region but prices are well above those of other countries (Figure 1.18). There are only two cell phone companies, the larger of which is state-owned. Internet use is very low in Togo.

Health and Education

1.41 **Togo's social indicators are slightly better than those of the region.** Togo's infant mortality rate is the second lowest in ECOWAS and the share of births attended by a skilled health worker is the second highest. Togo has a relatively high primary enrollment rate, but the primary completion rate is much lower, reflecting high repetition rates and a high number of dropouts. The teacher-pupil ratio is also low. Total health expenditure per capita is relatively low, and the share of private health expenditures to total expenditures is high compared to the benchmark countries.

**Figure 1.19: Education Enrollment rates, 2007 (LHS)
Repetition Rate for Primary and Secondary Schooling, 2007 (RHS)**



Source: DDP data, World Bank.

Table 1.6: Unemployment and Underemployed by Education Level for Rural, Urban Areas and Lomé, Togo 2006.

	Unemployed			Underemployed		
	Urban	Rural	Lomé	Urban	Rural	Lomé
None	3.9%	0.6%	5.4%	19.4%	24.5%	22.5%
Primary	7.4%	2.3%	7.8%	20.7%	25.2%	21.2%
Junior high	7.4%	3.9%	8.3%	15.7%	21.4%	17.6%
Senior high & above	11.4%	2.3%	12.2%	13.7%	18.6%	14.6%
Total	7.4%	1.4%	8.5%	17.8%	24.2%	19.0%

Source: CWIQ 2006 and author's calculations

1.42 **Unemployment is highest among the most educated, suggesting that education is not a binding constraint** (Table 1.6). While the unemployed may have inappropriate skills for the job market, the ICA survey results indicate that the availability of skilled workers in Togo was not viewed as a serious constraint. In fact, the survey indicates that managers are relatively well-educated compared to other countries in the region.

Macroeconomic Stability

1.43 **Given membership in WAEMU, and the peg of its common currency to the Euro, monetary policy is severely constrained**, and inflation is not a serious problem. Fiscal policy has adhered to targets established in agreement with the IMF, although this is partly a consequence of low execution on the expenditure side, particularly for public investment. The domestic primary balance was in a surplus of 0.4 percent of GDP in 2008, and tax and custom revenue collection were higher than expected. Investment spending rose to an estimated 3.5 percent of GDP in 2008 from 2.0 percent in 2007, and is projected to continue to grow strongly in the next few years to about 6-7 percent of GDP (IMF 2009a).

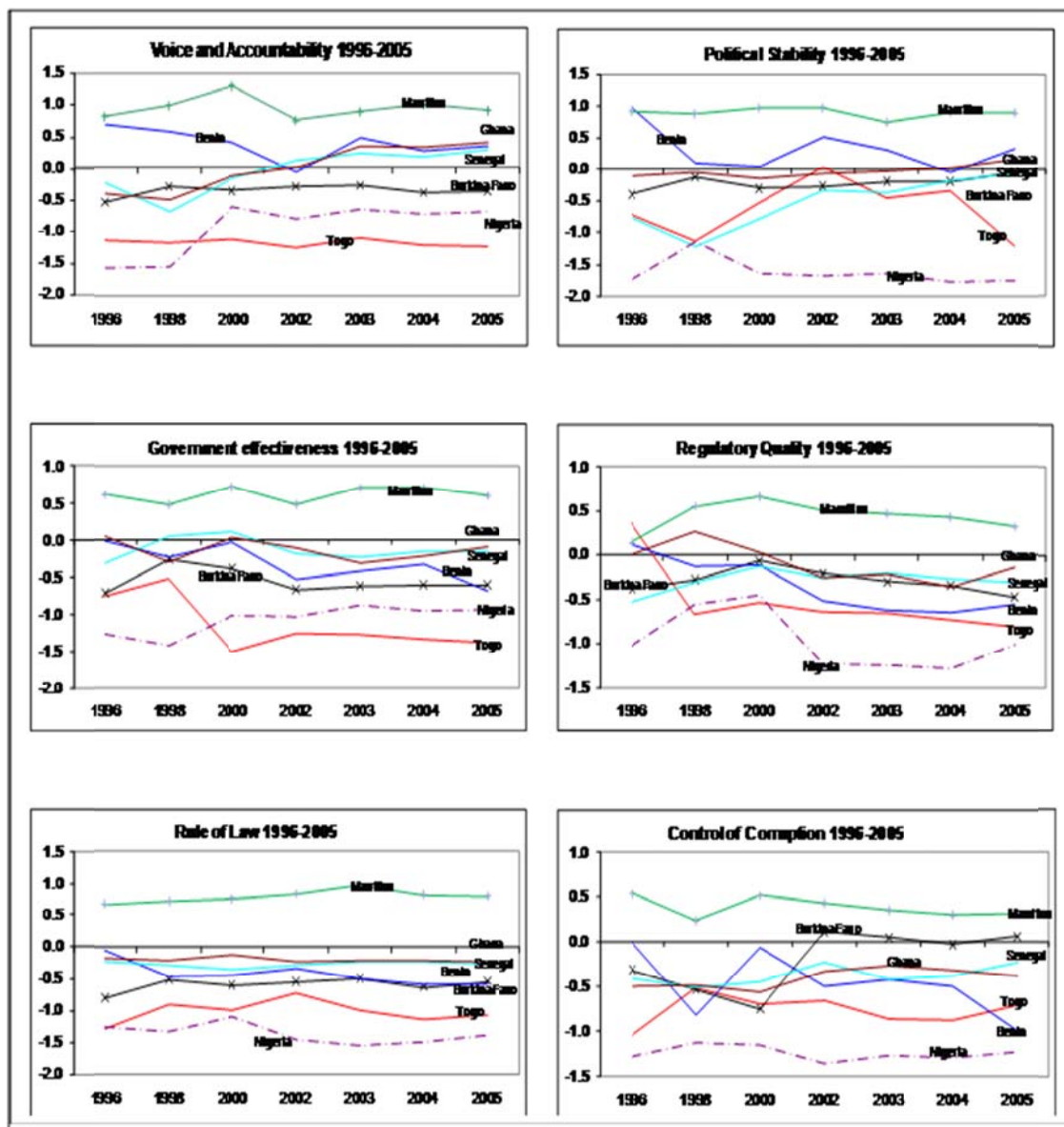
1.44 **Togo hopes to reach the HIPC completion point by the end of 2010**, whereupon it will qualify for debt relief under both the HIPC initiative and the Multilateral Debt Relief Initiative (MDRI). It is hence well on its way towards debt sustainability. Togo has had a high level of arrears on its external debt obligations, but many of these arrears were cleared during 2008 and

the remainder is being cleared or rescheduled. Macroeconomic stability is not at present a binding constraint to growth in Togo, but it will be essential to maintain current performance and avoid non-concessional loans in the short to medium-term which could lead to a repeat of the errors of the 1970s and 1980s.

Governance, Corruption and Government Efficiency

1.45 **Political instability and corruption were among the most often cited severe constraints in the ICA surveys, as noted above.** Togo also ranks poorly in other measures of governance. Togo's scores on the World Bank's governance indicators are low even for West Africa and show little or no improvement over 1996-2007 (Figure 1.20).

Figure 1.20: Governance Indicators: Togo and Benchmark Countries



Source: Governance Database, World Bank.

1.46 **Mismanagement of state owned enterprises (SOEs) has been a familiar problem in Togo.** Some port operations, the railway and electricity provision are now in private hands. Reforms are underway for the phosphate and cotton parastatals. Several banks have undergone restructuring and are due to be privatized. However, vested interests can be expected to delay the process. It will be important to pursue these initiatives in a more competitive and transparent manner than has heretofore been the case.

Barriers to and Costs of Doing Business

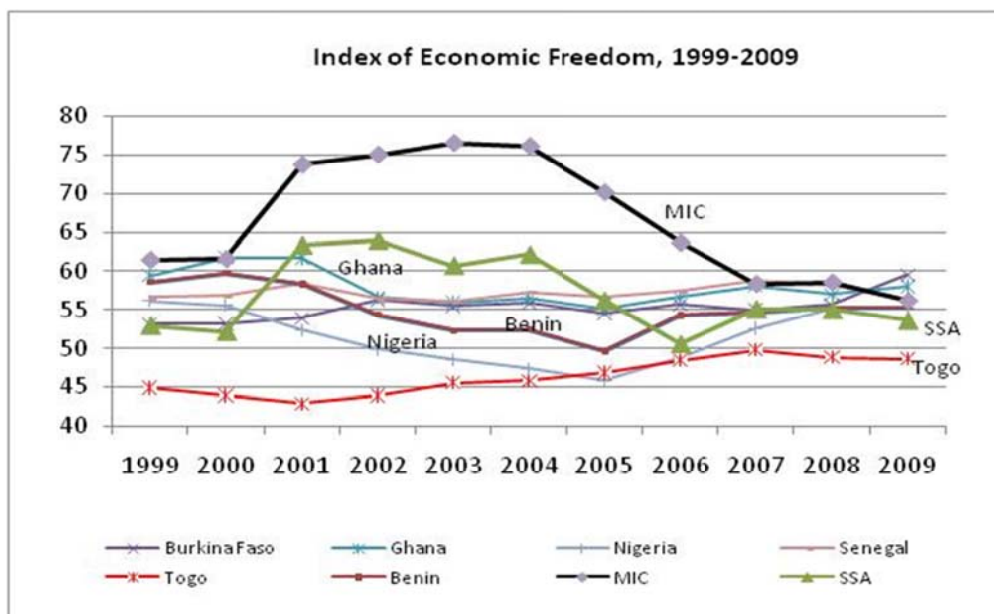
1.47 **Togo’s scores on standard measures of the business climate are poor.** Togo’s score on the Heritage Foundation’s index of ‘economic freedom’ has improved slightly since 2001 but remains low, ranking 33rd out of 46 countries in Sub-Saharan Africa (Table 1.7). Its score was particularly low on ‘freedom from corruption’. Progress was made on the overall index of economic freedom between 2001 and 2007, but seems to have stalled more recently (Figure 1.21).

Table 1.7 Index of Economic Freedom Components, 2008

	Sub-Saharan Africa	Togo
2009 Overall	53.1	48.7
Business Freedom	51.9	36.4
Trade Freedom	64.9	70.6
Fiscal Freedom	72.2	53.7
Gov’t Size	70.7	86.6
Monetary Freedom	71.4	81.5
Investment Freedom	42.1	30.0
Financial Freedom	40.9	30.0
Property Rights	32.6	30.0
Freedom from Corruption	29.0	23.0
Labor Freedom	55.6	44.7

Source: Authors’ Calculations based on data from The Heritage Foundation.

Figure 1.21: Index of Economic Freedom, Changes Over Time, Togo and Selected Comparators, 1999-2009 (RHS).



Source: Heritage Foundation.

1.48 **In the World Bank’s Doing Business in 2010 (DB), Togo was ranked even lower, at 165th out of 183 countries.** Togo’s DB category scores accord well with the ICA survey results.

Togo ranks particularly poorly in the category of starting a business. Only in the case of trading across borders does Togo do well relative to its neighbors, reflecting the relatively efficient port of Lomé. More details and analysis of Togo's DB rankings is provided in the chapter on the investment climate.

1.49 The free zone alleviates some constraints but does not markedly improve the business environment. The ICA findings indicate that the business environment is somewhat better for firms in the free zone than for those outside, but firms in the free zone share many of the same concerns as others, notably regarding access to finance and political instability. Free-zone firms view licensing, tax administration and customs management as somewhat less constraining, however, than do firms outside the free zone.

Market Failures

1.50 Economic development involves innovation and export diversification, but this process is inhibited by market failures. Two categories of market failures have been the focus of recent economic literature: self-discovery and coordination failures (Hausmann and Rodrik, 2004).

Self-Discovery

1.51 Self-discovery refers to the process of identifying industries with potential but as of yet unrealized comparative advantage. Private entrepreneurs may be reluctant to accept the risks involved in developing new products or industries if they fear that others will quickly imitate their activity and eliminate the profits necessary to offset the initial investments and risks. Historical export data from the country in question, as well as in other countries at similar income levels, can be used to infer likely opportunities for export diversification and growth (Klinger and Lederman 2006, Hausmann et al. 2005, Hausmann and Klinger 2006, and Klinger and Lederman 2006). This literature uses the concept of revealed comparative advantage (RCA) over time, e.g. changes in export composition between different periods, to assess the dynamism of a country's exports. Exports of particular commodities can also be assessed in terms of their growth potential, by examining the income levels of other countries that export this and similar products. That is, products typically exported by high-income countries are assumed to be more beneficial for generating growth than products typically exported by low-income countries.

1.52 The turnover in exports suggests that self-discovery is not a binding constraint to growth in Togo. About 20 percent of Togo's exports comprising 31 product groups at the 3-digit SITC level have emerged only since 2000, suggesting that some innovation is taking place. Exports of this group have increased 14.5 percent between 1992-96 and 2002-06. The "implied income" associated with this export basket, when looking at other countries exporting the same products, was 30 percent above that of the traditional exports of Togo.

Coordination Failures

1.53 Coordination failures occur when there is an insufficient mass of related activities or services to jump-start an industry with potential comparative advantage. This failure can arise when there are not enough firms in a specialized sector to support the necessary supporting services, or when a large number of smallholders depend on external agents to provide essential

public goods. The free zone in Togo can be viewed as an attempt to overcome coordination failures, although its main contribution appears to have been the fiscal advantages. As will be described in Chapter 6, more needs to be done to attract export-oriented industries targeting markets beyond the sub-region through a coordinated package of services.

1.54 Coordination failures are particularly common in smallholder agriculture where farmers are dependent on a variety of private and public actors to provide inputs, training, research, marketing, infrastructure, processing capacity and finance. This has been a major problem for Togo's traditional cash crop exports of cotton, cocoa and coffee and helps to explain their decline. The state-owned company, SOTOCO, can be understood as an attempt by government to overcome some of the market failures in the cotton sector, but governance problems undermined its performance. Two private ginning companies collapsed as a result of these coordination failures. For non-traditional agricultural exports, international private investors can sometimes provide the necessary coordination of activities to break into new markets. Coordination is a major theme of Chapter 8 on agriculture.

F. Conclusions

1.55 Not surprisingly, labor productivity needs to be increased across the economy. Agriculture has the lowest levels of productivity but occupies the largest number of persons, so average productivity will not improve much unless it also rises in the agricultural sector. The dramatic decline in labor productivity in services must be reversed; this may be the easiest challenge since the mere return to 1981 levels would be a major step forward. Since industry has by far the highest productivity levels, it can make a major contribution by absorbing more labor from agriculture and services.

1.56 Equally unsurprising, there are multiple constraints on economic activity in Togo. Several of these constraints, however, are of lesser importance: *human capital*, *geography*, *macroeconomic stability*, and *self-discovery* do not appear to be binding at the present time.

1.57 The role of access to credit for the private sector is ambiguous. Credit is rated as one of the most severe constraints to business in surveys, but that is very common in enterprise surveys in all countries. It appears that the low volume of lending results both from lack of demand by borrowers due to poor investment opportunities and only partly from limited supply of credit by lenders. On the positive side, real interest rates are relatively low. The financial sector has serious weaknesses notably in the size of non-performing loans and the small share of private banks. Some progress is occurring in the restructuring of state-owned bank but much remains to be done to create a more functional banking system. This would help restore the labor productivity of one important part of the services sector.

1.58 The severity of the constraints posed by infrastructure is depends on the type. Overall, firms tend not to rate infrastructure as among the most serious problems, but the available data ignores the constraints to agricultural development. At a more disaggregated level, the picture is also mixed. The port of Lomé functions relatively well and Togo's road system is on par with other countries in the region, but electricity and telecommunications are below regional averages in terms of both cost and quality of services. In addition, infrastructure is likely to be a key determinant of Togo's success in building a growth strategy as a regional trade hub, and rural roads will be critical to spread growth to the more isolated parts of the country

which tend to be the poorest. The recent re-engagement of donors and resulting increase in public infrastructure investment should be highly beneficial.

1.59 **The analysis of this chapter suggests that political instability and the overall business climate are the most important constraints to manufacturing and service sector development, while coordination failures loom large in the agricultural sector.** *Political instability* has been a major problem in Togo related to the suppression of democratic demands since 1990 and more recently the succession of Faure Gnassingbé, with its initial violence and subsequent tentative moves toward democracy. Investors are arguably more concerned about the risks associated with political uncertainty than about extra costs which are known and to which they can adjust. Surveys indicate that the *business climate* in Togo remains very poor, even when compared to countries at the same development level, particularly in matters relating to corruption, protecting investors and starting a business. Better *coordination* will be essential if the rural poor are to benefit from the many agricultural export opportunities available.

2. THE BUSINESS CLIMATE

2.1 **In a broad sense, the business or investment climate refers to a series of factors that determine business competitiveness.** In a narrower sense, the business climate is defined as the set of legal, regulatory/administrative, and institutional conditions that govern business activity. The competitiveness index appearing in the Global Competitiveness Report and, by extension, the Africa Competitiveness Report 2009⁶ is based on the broader definition, which does not apply to Togo. Consequently, in this paper we use the narrower definition, most of which is covered in the World Bank Group's *Doing Business* ranking, and have also included a separate section on taxation supplemented by infrastructure (electricity, telecommunications, etc.) information, given that the latter are business production factors.⁷ Transport and vocational training are covered in two separate chapters.

A. The Business Legal and Judicial Framework

2.2 **The legal and judicial security of economic activities,** provided by a stable and transparent framework suited to the modern business world, along with an expeditious and effective judicial system, are essential for investment and the development of businesses in a country. Togo does have a judicial business framework of this nature through the OHADA Uniform Acts,⁸ which cover business law common to 16 countries and provide a modern and sound legal framework for private sector activities.⁹ The eight Uniform Acts that entered into force in 1998 and 2004 cover a broad swath of business law¹⁰ pertaining to:

- General commercial law
- Commercial company and economic interest groups law
- Organization of securities
- Organization of simplified/streamlined collection procedures and execution measures
- Organization of collective debt recovery proceedings
- Arbitration law
- Organization and harmonization of business accounting systems (SYSCOA accounting framework)
- Contracts for the transport of goods by road

2.3 **The OHADA Treaty was amended in 2008** and the Uniform Acts are currently being amended in order to adapt them to ongoing changes in international law and to the situation in

⁶ Published jointly by the World Economic Forum, the World Bank Group, and the African Development Bank.

⁷ Infrastructure is used here in the sense employed by businesspersons rather than in the sense employed in economic theory.

⁸ The Organization for the Harmonization of Business Law in Africa (OHADA) was established by means of a 1993 Treaty, amended in 2008. Togo's National Assembly authorized the ratification of this amended treaty in December 2009. OHADA is a grouping of 16 countries, 14 of which belong to the CFA Franc area; the other two countries being the Comoros and Guinea.

⁹ Contrary to a number of claims, OHADA Uniform Acts cannot be "legally challenged" because of non-ratification of these Acts by national parliaments. Consequently, it cannot be asserted that "solutions need to be quickly found in order to avoid challenges at a later date to contracts and/or legal decisions." The Uniform Acts are adopted by the OHADA Council of Ministers and ratified by publication in the Official Gazette of OHADA [*Journal Officiel de l'OHADA*]. For this reason, no parliamentary ratification is required for the entry into force of these Acts. The only instruments requiring ratification by national parliaments are the 1993 Treaty and the 2008 amendment to this Treaty.

¹⁰ As is the case with the "business climate," there is no universally accepted definition of "business law." Banking and insurance law, anti-trust legislation, labor law, etc. are also widely accepted as being in the domain of business law.

African countries, based on the lessons learned from more than ten years of practical application. Work on a Uniform Act on Labor Law was started several years ago.

2.4 However, legal security obtained through the modernization and harmonization of law is not enough.¹¹ The legal security offered by enforcement, which can be guaranteed only by courts that are very familiar with business law and can handle proceedings geared toward expeditious solutions, protection of creditor rights, and rescuing troubled businesses must be ensured. OHADA seeks to provide this legal security through:

- The training of all judges and persons called upon to enforce this law (lawyers, bailiffs, corporate attorneys, etc.) at a Regional Training Center for Legal Officers [*Ecole régionale supérieure de la magistrature ERSUMA*];
- Oversight of the enforcement and interpretation of uniform standards by a single supreme court of appeals, namely, the Common Court of Justice and Arbitration [*Commune de Justice et d'Arbitrage CCJA*]. The CCJA serves as the appeals court for all disputes related to uniform law. Matters are referred to it through applications appealing the decisions of national courts, with the exception of decisions imposing criminal sanctions; and
- The adoption of rules of procedures suited to the aforementioned imperatives (Uniform Act on debt collection, collective debt recovery proceedings for businesses, arbitration, etc.).

2.5 Consequently, the main problem with legal and judicial security in Togo does not lie with the legislative framework; instead, it lies with the functioning of the judicial system. OHADA provides for the establishment and use in member States of commercial and negotiable instrument registers [*registres de commerce et de crédit mobilier RCCM*] in which the instruments related to the establishment of and changes in companies are recorded, as well as securities (negotiable bonds). In Togo, this function is performed by the clerk of the commercial court. Disputes related to business law are referred to the commercial divisions of the courts of first instance and appeal.

2.6 However, one essential element of OHADA business law is not applied in Togo: oversight of the enforcement and interpretation of the harmonized acts by the CCJA. This provision should guarantee greater impartiality by judges, who are removed from their national courts and receive remuneration that makes them less likely to fall prey to corruption. This provision also helps establish case law for all member countries that can serve as a frame of reference for courts of first instance and appeal. Unfortunately, Togo does not observe this important provision of OHADA law. Its Supreme Court fails to indicate that it has no jurisdiction when appeals are referred to it. At the same time, it refrains from issuing rulings, inasmuch as this would violate the OHADA Treaty. This situation creates an impasse that is prejudicial to the smooth functioning of the justice system with respect to commercial matters in Togo.

¹¹ Professor Joseph ISSA-SAYEGH, “An Overview of the Case Law of OHADA Uniform Acts” [[Le bilan jurisprudentiel du droit uniforme OHADA](#)], 2008 Speech to Congress in Lomé on “the Role of Law in Economic Development” [[Le rôle du droit dans le développement économique](#)].

2.7 **A national program to modernize the justice system is underway**, with funding from development partners (the European Union, France, and the UNDP). This modernization targets: (i) the independence of the justice system vis-à-vis the Executive; (ii) a more efficient justice system through capacity-building targeting magistrates and the provision of equipment and computer systems to the central courts, etc.; (iii) making the legal system more accessible to citizens; (iv) making the law predictable; and (v) making the administration subject to law. It seems that adequate attention is not being paid in this program to the enforcement of commercial law, which is critical for the proper functioning of an economy.

Recommendations:

- Pay special attention to commercial courts in implementing the program for the modernization of the justice system.
- End the impasse created by non-compliance with the provisions of the OHADA Treaty in the area of appeals.
- Prepare properly Togo's position with respect to the Uniform Act on Labor Law.

B. Private Sector Regulatory Environment

2.8 **In addition to the general framework for business law and the judicial environment, a favorable regulatory and institutional environment is essential** for private sector development. In order to allow governments to compare the business environment in their countries with international best practices and to identify reforms necessary, the World Bank Group has developed a tool for evaluating regulatory reforms throughout the world called *Doing Business*.

2.9 ***Doing Business* ranks countries based on 10 indicators related to starting a business, dealing with construction permits**, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. *Doing Business* therefore measures only the legal/regulatory aspect of the business environment and excludes such other important indicators as macroeconomic policy, exchange rate, infrastructure quality, and the crime rate; in other words, it does not look at the business climate in a broader sense. Some aspects of the 10 indicators fall within the legal purview and are therefore covered by the OHADA Uniform Acts. This applies to a number of the components of the "protecting investors" indicator, which pertains to business law. Likewise, the *Doing Business* indicator called "closing a business" pertains to the organization of collective debt recovery proceedings and thus to OHADA's bankruptcy law. The "enforcing contracts" indicator is one way of gauging the effectiveness of the judicial system. In order to follow the *Doing Business* approach, no distinction is made here between legal components (and thus those covered by the OHADA Uniform Acts) and regulatory components (regulations that fall within the sphere of national jurisdiction, administrative acts, etc.).

2.10 **Regardless of the methodological limits of the approach** (standardized indicators, ranking based on the normative aspect of texts while in practice the situation may be better or worse from the standpoint of theoretical timeframes or costs, etc.), *Doing Business* rankings have, without a doubt, become the business climate barometer for countries and are an important factor in investment decisions made by businesses when choosing a business location.

Governments are cognizant of this and are competing with each other to improve their countries' rankings.

2.11 **In this report, *Doing Business* data are supplemented or illustrated, as appropriate, by the findings of a survey conducted in Togo** between May and September 2009 by a team from a specialized consulting firm, under the supervision of the Enterprise Analysis Unit at the World Bank. This Unit uses surveys done of businesses the world over to conduct research on the microeconomic determinants of growth. These surveys cull data on the business climate from the vantage point of businesses and their perceptions of constraints to their performance and economic growth in general. Data on approximately 100,000 businesses in 118 countries are available and allow policymakers to conduct a benchmarking of their countries and to identify, prioritize, and implement economic reforms targeting private sector development.

2.12 **In the *Doing Business 2010* ranking,¹² Togo ranks 165th of 183 economies**—a position that remains virtually unchanged compared to 2009.¹³ Table 2.1 shows the general ranking and the ranking for each of the 10 indicators included in the overall ranking.

Table 2.1: 2010 *Doing Business* Rankings for Togo

Ease of...	<i>Doing Business</i> 2010	<i>Doing Business</i> 2009	Variation 2010/ 2009
<u>Starting a business</u>	170	181	+11
<u>Dealing with construction permits</u>	152	145	-7
<u>Employing workers</u>	159	148	-11
<u>Registering property</u>	155	158	+3
<u>Getting credit</u>	150	147	-3
<u>Protecting investors</u>	147	143	-4
<u>Paying taxes</u>	155	160	+5
<u>Trading across borders</u>	87	90	+3
<u>Enforcing contracts</u>	154	151	-3
Closing a business	97	97	0
Overall ranking	165	166	+1

Source: *Doing Business 2010*, consulted online December 15, 2009.

2.13 **Togo was included for the first time in the countries covered by the survey**, while in the case of other countries the surveys are conducted periodically. Questionnaires are standardized so as to be comparable at a global level. The responses provided by businesses are confidential; only aggregate statistics may be published. Unlike *Doing Business* data, (which are not based on resources actually observed, but on the timeframes and costs to be expected under normal circumstances given the regulations in effect), the findings of Enterprise Surveys are

¹² Corresponding to the end-May 2009 deadline for compiling data.

¹³ 166th of 181 countries in 2009—position recalculated to take into account changes in methodology and the addition of two new countries in 2010.

based on the actual experiences of businesses or at least reflect their perceptions. The two approaches can therefore complement each other in a beneficial way.¹⁴

2.14 The ranking related to starting a business improved, while the indicator related to employing workers declined. The deterioration in the latter indicator is not necessarily attributable to unfavorable measures adopted by the Togolese Government. Given that this is a ranking exercise, any measure that raises the ranking for one country lowers the ranking of a country where the situation remains unchanged. Overall, Togo’s ranking in 8 of the 10 indicators ranges from 147-170, that is, the bottom quartile of the countries included, with two noteworthy exceptions: (a) trading across borders, where its ranking (87th) places Togo slightly above the average for the 183 countries and reflects the relative efficiency of the Port of Lomé; and (b) closing a business (97th), which is governed by the OHADA Uniform Act on the organization of collective debt recovery proceedings (bankruptcy law). The information below provides a more in-depth analysis of the ranking for each of the 10 indicators.

C. Starting a Business (170/183)

2.15 This indicator covers all procedures officially required for an entrepreneur to start an industrial or commercial business. After reviewing laws, regulations, and all information available to the public, a detailed list of procedures and timeframes under normal circumstances is prepared, taking into account the sequence of the procedures to be executed and the possibility of carrying out these procedures simultaneously. Minimum capital requirements are added to administrative costs. The assumption is made that the agencies handling the business establishment process are free of corruption—in other words, no consideration is given to the possibility of informal payments being used to expedite the processing of a file. The data collected are supplemented and checked by local incorporation lawyers and by government officials. To ensure that the data are comparable across countries, several assumptions are made regarding the business: it is a limited liability company; it is owned by five nationals; it has no special tax system; and factories, stores, and offices are rented. Other assumptions pertain to the amount of capital, the number of employees (10 to 50), etc.¹⁵ Costs and timeframes are summarized in Table 2.2.¹⁶

Table 2.2: Starting a Business – Costs and Timeframes

	Togo	Sub-Saharan Africa	OECD Average
Procedures (number)	7	9	6
Time (working days)	75	46	13
Cost of procedures (as a % of per capita income)	205%	100%	5%
Minimum paid-in capital (as a % of per capita income)	514%	145%	16%

Source: Doing Business 2010.

¹⁴ Survey results will be published later on as an Investment Climate Policy Note in Togo.

¹⁵ For the complete list of assumptions, see: <http://français.doingbusiness.org/MethodologySurveys/StartingBusiness.aspx>. The methodology outlined here is illustrative. Other assumptions are made for the remaining indicators and can be consulted on the same website by selecting the appropriate index.

¹⁶ Details related to cost and timeframes can be found on: <http://www.doingbusiness.org>, by selecting “Togo” or by going directly to <http://www.doingbusiness.org/ExploreEconomies/?economyid=187>, *Resources – details*. The number of procedures, timeframes, and costs are readily available in the French version; however, only the details are provided in the English version.

2.16 The main entities involved with starting a business in Togo are:

- The notarial office (preparation and deposit of bylaws, which is required for private and public limited liability companies in accordance with the OHADA Uniform Act on companies,
- The Commercial Registry (Clerk of the Commercial Court),
- The Directorate General of Taxation for issuance of the economic operator card,¹⁷
- The Ministry of Commerce for issuance of the business establishment authorization.

2.17 A Center for Business Procedures [Centre de Formalités des Entreprises CFE] was established within Togo’s Chamber of Commerce and Industry (CCIT). However, it is not truly a “one-stop-window” that brings together representatives of the various agencies involved, with delegation of signature authority. Currently, the Center merely circulates files in the relevant agencies, while these agencies have no obligation to respect timeframes. Therefore, rather than being a “one-stop-window,” this Center is a “one-more-stop-window.” Given that use of the Center is optional, lawyers generally submit files directly to the relevant agencies in the case of private and public limited liability companies.¹⁸ Services provided by the CFE require payment, and use of the CFE allows the CCIT to compile a list of member clients. Despite the fact that the CFE is computerized, it is unable¹⁹ to provide statistics related to average wait times for various procedures and thus the overall average time for starting a business in Togo. Consequently, from the vantage point of *Doing Business*, wait times have become longer despite the reduction in the number of procedures (75 days for 7 procedures in the 2010 edition compared to 53 days for 13 procedures in the 2009 edition). What appears to be a contradiction can be easily explained, given that a number of procedures (obtaining an economic operator card from the Directorate General of Taxation, obtaining an importer/exporter card from the Ministry of Commerce, entry of information in the Commercial Register, registration with the Labor Inspectorate and the Social Security Office, etc.) have been combined, using *Doing Business* terminology, into one procedure: deposit of documentation with the CFE, while the process is not quite that simple.

2.18 According to *Doing Business*, most of the lengthy delays originate with the Directorate General of Taxation and the Ministry of Commerce. The latter issues the business establishment authorization, which is personally signed by the Minister. Business establishment authorization poses two problems: (a) the problem of its inherent advisability; and (b) the problem of specific approval that must be obtained from the other ministerial offices prior to its issuance. With regard to the advisability of authorization, the justification provided is the need to “track” operators. However, there is no computerized list of operators; the only record is a file containing photocopies of cards delivered. Moreover, the Ministry is not informed of changes entered in the Commercial Register (such as capital increases, modification in partner composition, changes in corporate purpose, closing of businesses, etc.). Effective tracking therefore seems impossible. The main problem, however, lies in the fact that there is no

¹⁷ Unlike a number of other OHADA countries where the only document required is a trading or professional tax certificate drawn up by the inspector of the relevant tax center, in Togo an *economic operator card*, signed by the Directorate General of Taxation, is required for the establishment of a business.

¹⁸ This seems to be the preferred approach of the relevant authorities and, based on the very sketchy information gathered, should lead to shorter wait times.

¹⁹ In mid-2009.

documentation providing clear information on sector-specific approval required from the ministerial department in question. There is no record of such documentation (when such documentation exists, approval criteria are often left to the discretion of officials of the sectoral ministries).²⁰ Rejections are unsubstantiated and do not cite the documentation used as a basis for this decision.²¹

2.19 A team from the World Bank Investment Climate Advisory Service specializing in reforms aimed at improving Doing Business rankings visited Togo in April 2009 at the request of the Head of State and made a series of recommendations.²² A workshop chaired by the Minister of Commerce and Private Sector Development was held in May 2009 with the participation of all relevant agencies and the private sector, with a view to identifying the different procedures involved with starting a business in Togo, preparing supporting documentation, and reaching a consensus on the reduction in cost and time for the procedures to be retained. In early 2010, the Ministry of Commerce indicated that the number and cost of procedures had already been significantly reduced, a change that should be reflected in the 2011 Doing Business edition (which, under normal circumstances, should be published in September 2010).

Recommendations

- Restructure the operations of the CFE and make it a true one-stop-shop with representation by the main agencies involved and delegation of signatures. Institute time-related performance criteria, keep data that allow for *ex-post* verification of these timeframes, and identify the agencies where guidelines are not being followed by officials. Draw on the experience of countries such as Senegal that have managed to reduce wait times drastically.
- Conduct a survey of specific sectoral authorizations and review their true utility (other than providing the ministries in question with extra-budgetary revenue from file processing fees), with private sector assistance. In cases where a valid case can be made for authorizations, clearly delineate the criteria for obtaining these authorizations and publish them for the benefit of operators. In other cases, eliminate these authorizations, officially prohibit all government employees from requesting a document not officially required, and stipulate sanctions to be imposed for violations.

D. Dealing with Construction Permits (152/183)

2.20 This indicator records all procedures and calculates the time and cost necessary to build a warehouse. It includes obtaining the necessary licenses and permits, providing the required notifications and conducting the required inspections, and obtaining connections (water, telephone, electricity). Taxes and miscellaneous fees amounting to CFAF 2.5 million are required to obtain a construction permit and meet all the requirements to build a warehouse valued at CFAF 260 million in Lomé, the capital of Togo. The total time period necessary

²⁰ In one specific case, proof of a degree in computer science was required to establish a computer business. Bill Gates, the founder of Microsoft, never received a degree in computer science or any other university degree...

²¹ The authors of the report noted in May 2009 that rejection notes were written on “post-it” notes, with only the word “rejected” appearing on these notes. No reason, let alone reference to relevant supporting documents, was provided.

²² Investment Climate Advisory Service is a World Bank department managed by IFC. It assists a large number of countries and has a unit that helps countries improve their *Doing Business* ranking and is separate from the *Doing Business* department that determines rankings. The report containing the recommendations is available upon request.

stands at 277 working days (in other words, more than one calendar year), including an average of 30 days for telephone connection, 86 days for water connection, and 30 days for electricity connection (simultaneous procedures).

Table 2.3: Dealing with Construction Permits – Procedures, Timeframes, and Costs

	Togo	Sub-Saharan Africa	OECD Average
Procedures (number)	15	17	15
Time (working days)	277	251	157
Cost of procedures (as a % of per capita income)	1,285%	1,956%	56%

Source: Doing Business 2010.

Recommendation

2.21 **One-stop-shops in the main local government offices need to be set up in order to expedite issuance of constructions permits**, following the example of other African countries that have successfully instituted these reforms. Wait times for services provided by the public sector must be drastically reduced.

E. Employing Workers (159/183)

2.22 **This indicator measures the regulation of employment, more specifically as it affects hiring, the rigidity of working hours, and worker redundancy.** Togo's ranking in 2010—159—was lower than its 2009 ranking. Indeed, its Labor Code contains rigid provisions that stymie the flexibility of the labor market. For example, the labor code stipulates that before anyone is hired, hiring agencies or the employer must ensure that the job seeker has registered beforehand with the public employment department. However, the advisability of mandatory referral of a matter to the labor inspector in cases of individual or collective redundancy is subject to different opinions. In the view of some employers, this provision should be maintained at the time of hiring (even if it leads to a lower *Doing Business* ranking) in order to prevent the filing of cases later on for unfair dismissal.

Table 2.4: Employing Workers – Indices and Costs

	Togo	Sub-Saharan Africa	OECD Average
Difficulty of hiring index (0-100)	83	37	27
Rigidity of hours index (0-100)	40	29	30
Difficulty of redundancy index (0-100)	40	40	23
Rigidity of employment index (0-100)	54	36	26
Average redundancy cost (in weeks of salary)	36	68	27

Source: Doing Business 2010.

Recommendations

2.23 **As an OHADA member country, Togo should adopt a substantiated position regarding the OHADA Uniform Act on Labor Law**, in a context of strengthened tripartite

consultation. Labor flexibility (term contracts, annualization of working time, freedom to hire) is seen as a positive factor for investment climate that ultimately contributes to job creation by boosting investment. However, in exchange for greater flexibility, the employer should make a contribution to offset the job insecurity that may result from this flexibility (for example, a bonus for employment insecurity in the case of short-term contracts). The role of the labor inspection office is to be determined.

2.24 **The *Doing Business* indicator measures only the rigidity of labor regulations.** It does not include information on the actual enforcement of these regulations or other important aspects of the labor market such as the frequency of collective labor disputes (strikes), trends in the referral of individual disputes to labor courts, trends in rulings handed down (in favor of the employer or the employee) etc. Furthermore, it does not include information on the level of skills and the productivity of labor. The information derived from the Enterprise Survey serves as a useful supplement to the indicator and reveals that fewer than five percent of Togolese businesses view labor laws as a major constraint.

2.25 **The survey also confirms that labor costs in Togo are very reasonable,** a factor that should prove beneficial if labor productivity and skills are developed.

Table 2.5: Average Monthly Cost per Employee

Business Characteristics	Average Cost (in CFAF)	
Big/small business	85,800	40,300
Export/local market	83,900	35,200
Free zone/customs territory	54,600	50,500
Industry/services	46,400	52,900
Foreign/Togolese capital	87,400	35,200

Note: Average labor costs correspond to the wage bill per employee. These costs are covered by the employer and are therefore higher than employees' gross wages.

Source: 2009 Enterprise Survey.

However, the survey reveals that 22 percent of free zone businesses and 18 percent of customs territory businesses view the lack of skilled labor as a major constraint. See proposals in this regard in Chapter 3 on vocational training.

F. Registering Property - (155/183)

2.26 **This indicator records the full sequence of procedures necessary for the transfer of property title from the seller to the buyer in the case of the purchase of land or a building.** Every procedure required by law or necessary in practice is included, whether it is the responsibility of the seller or the buyer or is to be completed by a third party acting on their behalf. The time necessary for the transfer of commercial or industrial property is excessively long in Togo, even in relation to the average for Sub-Saharan Africa. At approximately 13 percent of the property value,²³ the cost of the transfer is also higher than the average in Sub-Saharan Africa and includes the 9 percent registration fee paid to the Property, Registration, and Stamp Duty (taxes) Office and the 1.2 percent land maintenance tax. It is indeed surprising that Government fees charged to businesses are so high during the establishment phase, even before

²³ Standard assumption: value of CFAF 10 million.

the startup of activities, given that the Investment Code provides for the granting of tax incentives.

Table 2.6: Transfer of Property – Procedures, Timeframes, and Costs

	Togo	Sub-Saharan Africa	OECD Average
Procedures (number)	5	7	5
Time (working days)	295	81	25
Cost of transfer (as a % of the property value)	13%	10%	5%

Source: Doing Business 2010.

Recommendations

2.27 The title registration and transfer process in Togo should be completely overhauled so as to remove the constraint it places on the business environment. Quantitative targets in terms of time and cost should be set, while drawing on the experience of other African countries that have implemented reforms in this area.²⁴

G. Getting Credit - (150/183)

2.28 This indicator measures the strength of the rights of borrowers and lenders as well as access to credit information. The first set of indicators describes regulations regarding collateral and bankruptcy (this information, which is provided to banks, facilitates access to credit given that it reduces the risk to bankers and creditors in general). The second set measures the coverage, quality, and accessibility of credit information available through public and private credit information registries. It should be noted that this indicator does not measure the ease of getting credit in a country (which depends on a host of other factors), but rather, the legal and institutional environment for credit risk, all things being equal.

2.29 Experience shows that competition among financial services, secured rights of borrowers, lenders, and shareholders, transparency, dissemination of information and prudential surveillance of risk in accordance with international standards are some of the main factors that contribute to the development of the modern financial sector and the private sector in a country. When lender rights are weak, financial intermediaries are less inclined to lend to businesses, and in situations where shareholder rights are not protected, investors hesitate to make money available to companies. The table below outlines the indices included in the indicator.

²⁴ Several West African countries have managed to significantly reduce wait times - Côte d'Ivoire: 62 days, Burkina Faso: 59 days, and Ghana: 34 days. However, in most WAEMU countries the figure is approximately 13 percent of the property value, while in Kenya it is 4.2 percent, and in Ghana 1.1 percent.

Table 2.7: Getting Credit – Indices and Coverage

	Togo	Sub-Saharan Africa	OECD Average
Strength of legal rights index (0-10)	3	4.6	6.8
Depth of credit information index (0-6)	1	1.5	4.9
Public registry coverage (% of adults)	2.7	2.4	8.8
Private credit bureau coverage (% of adults)	0	4.5	59.6

Source: Doing Business 2010.

2.30 The debt collection law in Togo is viewed by private sector interlocutors as being very rigid. It should be noted that this law is based on the OHADA Uniform Act on debt collection and that several other OHADA member countries (among them Côte d’Ivoire, Cameroon, Benin, and Niger) are ranked even lower than Togo. This raises the question as to whether the legislation is deficient or whether problems exist with enforcement. In the area of the accessibility and quality of credit information available through public registries, the only entity is the BCEAO’s Risk Bureau, which registers banking sector loans and is available to the financial sector upon request. This Bureau does not keep records of late payments and there are no private offices with information on bank loans, insolvent debtors, etc.²⁵

Recommendations

2.31 It would be helpful to assess whether the OHADA Uniform Act on debt recovery is deficient or whether specific problems are encountered with enforcement. With regard to access to credit information, the public authorities can establish a legal framework for the collection of information by private offices for the benefit of creditors, by adopting and enforcing laws on data protection and on credit files that allow for sharing information while at the same time protecting consumer rights.

2.32 The survey of businesses provides additional information on the situation with respect to access by Togolese businesses to credit. It reveals that 26 percent of customs territory businesses have a loan or line of credit with a bank while only 6 percent of free zone businesses have the same service,²⁶ with 72 percent of businesses in the latter category viewing access to financing as a major constraint. The latter group includes both businesses that have tried to obtain financing and have been rejected and those that have not sought financing for a variety of reasons, including their lack of acceptability to banks (see Chapter 1). More sophisticated surveys would be necessary in order to draw operational conclusions.

²⁵ The importance accorded by the *Doing Business* ranking to private credit information registries seems to be based on Anglo-Saxon practices and there are doubts as to whether these practices are compatible with Roman law. This field could be explored in greater depth in an OHADA or *Francophonie* context. An assessment of the *Doing Business* report suggests the possibility of a methodological bias that puts countries using the “French” legal system at a disadvantage, but does not go as far as to validate this.

²⁶ It can be assumed that a number of foreign capital businesses in the free zone have access to financing through their parent companies.

H. Protecting Investors (147/183)

2.33 **This indicator measures the strength of minority shareholder protections against directors' misuse of corporate assets for personal gain.** The indicators provide three areas of investor protection: transparency of related-party transactions (extent of disclosure index), liability for self-dealing (extent of director liability index), and shareholders' ability to sue officers and directors for misconduct (ease of shareholder suits index).

Recommendations

2.34 **The trust of shareholders and potential investors is strengthened when the legal system provides mechanisms that allow shareholders to sue at reasonable costs and within reasonable timeframes.** However, there is the risk that a legal system that allows any shareholder to legally challenge the activities of a company would give rise to an excessive number of lawsuits. Consequently, a balance should be struck between the desire to allow investors to sue when their rights are violated and avoidance of an excessive number of lawsuits that can result in the adoption of a risk-averse stance by officers and directors. An effective legal system is essential in order to curb any desire to violate the rights of shareholders.

Table 2.8: Protecting Investors - Indices

	Togo	Sub-Saharan Africa	OECD Average
Disclosure information index (0-10)	6	4.8	5.9
Extent of director liability index (0-10)	1	3.3	5.0
Ease of shareholder suits index (0-10)	4	5.1	6.6
Protecting investors index (0-10)	3.7	4.4	5.8

Source: Doing Business 2010.

I. Paying Taxes (155/183)

2.35 **This indicator measures taxes and the functioning of the tax administration.** It records the amount of taxes, fees, and mandatory contributions that a medium-size company must pay and measures the administrative procedures for payment. Taxes, fees, and contributions include: taxes on profits, property taxes, property transfer taxes, the dividend tax, the capital gains tax, the financial transactions tax, social contributions and other labor taxes paid by the employer, etc. According to the *Doing Business* methodology,²⁷ the total tax rate is lower in Togo than in the rest of Sub-Saharan Africa, in particular after passage of the 2009 budget law, which reduced corporate taxes on industries to 30 percent and on all other companies²⁸ to 33 percent, thus bringing taxes in line with most other WAEMU countries.

²⁷ See <http://www.doingbusiness.org/MethodologySurveys/PayingTaxes.aspx>

²⁸ And to 27 percent and 30 percent, respectively, by the 2010 budget law, after publication of *Doing Business 2010*.

Table 2.9: Paying Taxes – Various Indicators

	Togo	Sub-Saharan Africa	OECD Average
Payments (number per year)	53	37.7	12.8
Time (hours per year)	270	306.0	194.1
Taxes on profits (%)	11.1* (30-33)	23.9	16.8
Social contributions (as a % of gross profit)	28.3	13.1	24.4
Other taxes (as a % of gross profit)	13.3	30.5	3.3
Total tax rate (as a % of gross profit)	52.7 (71.6)	67.5	44

*The 11.1 percent doing business figure is based on a special methodology (see <http://www.doingbusiness.org/MethodologySurveys/PayingTaxes.aspx>) and is very far removed from statutory rates.

Source: Doing Business 2010. The figures in italics correspond to the statutory rates for Togo; however, these statutory rates are not available for Sub-Saharan Africa and the OECD.

Recommendations

2.36 **Togo should continue its efforts to modernize the tax administration and reduce the tax burden.** In Africa, competition to attract investors is intense and a number of countries have already reduced their corporate tax rate to 25 percent. Moderate taxation in an ordinary law context makes it possible to do away with tax incentives, which are cumbersome to manage and generate significant tax-related expenditure for the State.

Chart 2.1: Firms Identifying Tax Rates as a Major Constraint



Source: 2009 Enterprise Survey.

2.37 **The objective data from the *Doing Business* ranking contrast sharply with the findings of the Enterprise Survey.** More than 70 percent of businesses view the tax burden (in other words, the level of taxation rather than relations with the tax authorities) as a major constraint in Togo. While it is customary for businesses to complain about taxes in surveys of this nature, it is surprising to find the highest percentage in Togo from a sampling of ten economies selected for benchmarking.

J. Trading across Borders (87/183)

2.38 **This indicator outlines the procedures, times, and costs for importing and exporting a container of goods using ocean transport.** For exporting goods, procedures begin with the packing of the goods at the warehouse and end with their loading on the boat. For importing goods, procedures range from the vessel's arrival to the cargo's delivery at the warehouse. Payment is made by letter of credit and costs do not include actual maritime freight. In this category, Togo has a very decent ranking: 87th at the global level. Performance in terms of time and costs are well above the average for Sub-Saharan Africa, all the more so since the timeframes for import and export seem to be overestimated relative to actual numbers. However, the comparison is not relevant, given that Togo is competing mainly with ports along the West African coast. At the moment, Togo's performance is comparable to Ghana's (83rd) and better than Benin's (128th) and Côte d'Ivoire's (160th). For recommendations, see the chapter on transport.

Table 2.10: Trading Across Borders – Various Indicators

	Togo	Sub-Saharan Africa	OECD Average
Export documents (number)	6	8	4
Export time (days)	24	34	11
Export cost (US\$ per container)	940	1,942	1,090
Import documents (number)	8	9	5
Time (days)	29	39	11
Import costs (US\$ per container)	963	2,365	1,146

Source: Doing Business 2010.

K. Enforcing Contracts (154/183)

2.39 **The indicator for enforcing contracts measures the efficiency of the judicial system in resolving commercial disputes.** The data are established by following the step-by-step movement of a commercial payment dispute before local courts, from the time the complaint is filed to the time of settlement with the lender. In Togo, 41 steps are required over a period of 588 working days (more than two calendar years) on average. The total estimated cost is 47.5 percent of the initial amount of the dispute; in other words, if the complainant is fully vindicated, he receives only half of the amount due. The low ranking is attributable to the many dysfunctions of the justice system. Moreover, the Enterprise Survey shows that 40 percent view the justice system as being impartial and free of corruption; in other words, 60 percent hold the opposite view.

Recommendations

2.40 **Through OHADA, Togo has a modern business law system.** It must reform its own judicial system in order to fully enjoy the benefits of investor perception of a secure legal and judicial system.

L. Closing a Business (97/183)

2.41 **This indicator measures the time and cost of collective bankruptcy proceedings involving businesses.** The recovery rate represents the percentage that a lender can expect to recover of the debt owed. At first glance, it seems paradoxical to view the closing of a business as a positive development for the business climate. However, when this process is expeditious and its costs reasonable, lenders can exercise their rights and contribute to the development of the lending process between commercial partners (in particular through supplier credit), which forms one of the pillars of private sector development. Togo is ranked 94th at the global level for this indicator. The procedure takes an average of three years, costs 15 percent of the property value, and lenders recover approximately 27 percent of the value of their loan. This percentage is much too low and should be improved in order to offer security to creditors and develop commercial credit.

Recommendation:

2.42 **As is the case with credit recovery**, a review should be undertaken to determine whether the problem lies with the OHADA Uniform Act on collection procedures or rather with deficiencies in the enforcement of the procedure linked, for example, to the method of payment to the bankruptcy receiver or the judicial system.

Corporate Taxation

2.43 **Corporate taxes are included under the “Paying Taxes” indicator in the *Doing Business* ranking**, which assesses the rate of taxation as well as whether procedures are cumbersome (number of annual payments and time spent to prepare and make payments). Taking into account the importance of taxes to the activities of businesses, we assess this topic in greater detail here. Official Togolese businesses are subject to the following main taxes and fees (the list is not exhaustive):

Direct Taxes:

- Corporate tax (30 percent of the profit for industries and 33 percent for others until 2009, after which the rates will fall to 27 percent and 30 percent, respectively, based on the 2010 budget law) or the minimum lump sum tax using a schedule based on sales figures
- Payroll tax (7 percent),
- Property tax,
- Professional tax.

Indirect Taxes:

- Value added tax (VAT) (18 percent),
- Financial activity tax (FAT) (10 percent),
- Consumer taxes, including excise taxes on petroleum products.

2.44 Until 2008, corporate taxes were too high. The 2009 budget law lowered this tax by 7 percent and the 2010 budget law lowered it by a further 3 percent, thus bringing corporate taxes to 27 percent for businesses operating in the industry sector and 30 percent for other companies. Togo's taxes are now in line with those of other countries in the subregion. Furthermore, the 2010 budget law introduces an attractive possibility: accelerated depreciation of property, the effect of which is to reduce further the corporate tax base and thus corporate taxes. Togo is therefore moving toward a reasonable level of taxation that facilitates widespread implementation of the common regime, at least for the majority of businesses, and thus toward the elimination of exemptions that are difficult to manage, as set forth in the "old regime" investment code.

2.45 Payroll taxes, which stand at 7 percent, are counterproductive in a country plagued by high unemployment, where job creation is a priority.²⁹ As far as we know, Togo and Benin are the only WAEMU countries where such a significant amount of income taxes are still withheld. Other WAEMU countries levy a learning and vocational training tax of approximately 2 percent, which is allocated to a special fund. In Togo, only a portion of the tax (approximately 1 percent of the 7 percent) is allocated to vocational training; the other 6 percent is fiscal in nature.

2.46 Two variables are used to calculate the professional tax: (1) overall sales of the business, excluding VAT; (2) the rental value of land, buildings, etc. used by the business to conduct its activities, including facilities of any kind that may be subject to property tax. In its present form, the professional tax is therefore: (a) also an uneconomic tax (and is thus akin to the payroll tax), given that it taxes the production tools of businesses; and (b) it duplicates other taxes and taxes for which the same assessment basis is used, namely VAT and property taxes, and is therefore at odds with the goal to streamline the tax system. The main justification for the professional tax is historical; it replaces the old trading tax that was allocated to local governments. However in Togo, only a portion of the professional tax is currently allocated to local governments. The other portion goes towards the general budget and bonuses for tax officials.³⁰

Recommendations

2.47 Payroll tax should be lowered to 2 percent, in line with the rate in other WAEMU countries, with this tax being converted into a learning and vocational training tax, to be managed by the national learning, training, and vocational development fund (*Fonds national d'apprentissage, de formation et de perfectionnement professionnels* FNAFPP). Firms that fund training themselves should be able to obtain reimbursement of up to 2 percent of the amount paid, with the necessary safeguards being put in place to prevent improper use. Free zone

²⁹ The formal sector, excluding the Government, employs only a small percentage of the active population. Estimates vary widely depending on the source. The most reliable estimate from a methodological standpoint seems to be the report prepared by Jean-Michel Marchat, entitled "Togo's labor market" [*Le marché du travail au Togo*], CERDI/Maxwell Stamp, 1999. This report places the number of persons employed in the modern (formal) sector at 73,000, 18,000 of whom are in the private sector (1.1 percent of the population between the ages of 15 and 64) and 65,000 persons in central government, local government, State companies and similar entities (4 percent of the active population). These estimates are, in general terms, accurate, with the bulk of privatization having been already completed at that time.

³⁰ A certain percentage goes into a "bonus" fund paid to DGI staff. While the principle of bonuses is not being challenged, these bonuses should be based on unit performance relative to annual goals, instead of simply being a fixed percentage of an existing tax.

businesses as well as businesses eligible under the investment code should also be subject to this 2 percent tax in order to provide an incentive to develop the human resources they need for the same reasons as other businesses.

2.48 Togo must undertake discussion of professional tax reform, a subject that has taken on greater urgency with the recent elimination of this tax in France. However, this discussion must be part of a general discussion on local government financing and will probably be discussed in a subregional or regional framework (WAEMU's Tax Authorities Forum and/or the Center for Meetings and Studies by Tax Administration Officers (Centre de Rencontres et d'Etudes des Dirigeants des Administrations Fiscales CREDAF), with assistance from the IMF and the Regional Technical Assistance Centers in Africa (AFRITACs). It will be important for Togo to contribute actively to these discussions and to prepare points for analysis at the national level, by compiling information on tax revenue, including the features of businesses subject to taxes, exemptions, use of taxes, possible replacement sources, etc.

Investment Code

2.49 Given the relatively high tax burden imposed by its common regime in the General Tax Code, Togo implemented an Investment Code in 1989 containing tax and customs exemptions. For a number of reasons, among them the publication of a WAEMU common investment code, the 1989 code was very rarely used and was then de facto suspended in 1996. Instead of adopting the transparent framework provided by the investment code, special agreements were concluded with the businesses operating in Togo, particularly in a privatization context, despite the lack of a clear legal basis for such action.

2.50 The Government has prepared the draft of a new investment code. Compared to the current code, the presentation of the draft is much clearer, and the guarantees accorded and avenues for the settlement of disputes are satisfactory. However, from a conceptual standpoint, the framework for this draft remains the 1980s codes and incorporates virtually none of the best practices that have become widely accepted around the world in the past twenty years. In Togo's special context, it runs the risk of making little or no contribution to overcoming the major economic and social challenges, particularly the creation of productive employment. The main deficiencies of this draft are:

- It is very complicated, granting various incentives based on the project size, the selected location and the likelihood of export generation.
- It makes projects exceeding CFAF 600 billion subject to prior approval and signature through an interministerial decree.
- It accords *ex-ante* benefits based on case review rather than *ex-post* benefits based on the actual performance of the business (particularly in terms of employment creation).
- It gives priority to tax incentives to promote decentralization—an approach that has failed virtually everywhere it has been applied.³¹

³¹ Businesses choose locations outside the capital so as to be close to their raw materials, rather than based on tax incentives. This leads to a loss of tax revenue.

- It uses the outmoded incentive of corporate tax exemptions, while there are other more modern and targeted instruments (such as tax credits) that result in fewer revenue shortfalls for the State while also being conducive to investment.
- It is too broad in scope; it includes mining investments, which should be a source of revenue rather than expenditure for the Government, as well as first-stage processing activities, which must be carried out in the country where the raw material is produced (such as cotton ginning) and for which exemptions are not appropriate.

Recommendation

2.51 In-depth discussion is required with the aim of overhauling the current draft in such a way that it can contribute to economic recovery. Coordination with the new legislation on free zones/economic parks is also desirable.

SME and Microenterprise Taxation

2.52 Togo has adopted a tax framework to promote SMEs/SMIs and formalize microenterprises. SMEs and SMIs, whose sales figures are included in some of the limits established by the Tax Code³² are subject to a streamlined system for the real profit taxation (or the streamlined real profit regime). They are required to have an accounting system that follows the streamlined rules of the SYSCOHADA accounting framework, which applies to all OHADA member countries and includes three systems: regular, streamlined, and a basic cash flow system. Tax rates are the same as those applied to the regular system; the only difference is that accounting procedures are streamlined. Businesses that fall below the threshold can opt for the streamlined real profit system, provided that they can meet the accounting standards and find this system more advantageous than the synthetic tax system.

2.53 In the case of microenterprises, the 2000 budget law introduced a synthetic tax called the Single Professional Tax (*taxe professionnelle unique*, TPU), which represents and provides exemption for payment of four categories of taxes: income tax, professional tax, value added tax, and payroll tax, and replaces the old lump sum system. Initially intended for individuals, the TPU was extended to corporations by means of the 2006 budget law, including sole proprietorships provided for in the OHADA Uniform Act on companies. The TPU certainly represents a step forward in the Government's efforts to gradually "formalize" the informal sector. However, this tax continues to pose serious problems. In fact, the TPU tax base is calculated on the basis of the taxpayer's "assumed" sales and is determined after consulting both parties. In other words, this method of taxation gives rise to "negotiations" between tax officers and small taxpayers, the outcome of which is not always beneficial to the taxpayer or the public treasury. In addition to the informal payments that it can encourage, this method of determining the TPU raises other problems: (a) it does not offer transparency to the micro entrepreneur, who is never sure of the taxes owed until the negotiations are over; and (b) it is not profitable to the tax authorities, taking into account the time spent by tax officers "negotiating" and establishing the tax base relative to the revenue generated.

³² Since the 2006 budget law, between CFAF 30 and 70 million for businesses, individuals, or corporations, whose primary business is the sale of merchandise, and CFAF 10 to 20 million for others.

2.54 **For more than a decade, proposals have been made to establish an “index-based” system** that would avoid problems of the nature described above and would replace the current tax base of “estimates” with a system using a set of “index-based” or even visual coefficients, based on the following distinctions: the nature of the activity, the neighborhood and street (downtown area/outskirts, paved or unpaved road), the size and condition of the professional building (exterior, whether or not made of durable materials); that is, exactly the same criteria that currently allows tax officers to calculate projected sales figures, but based on the cumulative experiences, garnered by many officers, which have been systematized and then codified.³³ This method of determining the TPU would offer the advantage of greater transparency to the small taxpayer (the nature of the tax base would be published, thus making it possible for the taxpayer to know in advance the amount of taxes owed), would avoid informal negotiations and payments that are prejudicial to the public treasury, would permit agents to focus on investigations and more “profitable” tax collection activities in terms of taxes collected relative to time spent. Provisions can be made for the possibility of taxpayer appeals or DGI objections in those instances that do not fit clearly into this category. However, the rank and file at the DGI should not be expected to take the initiative to implement such a reform.³⁴ The impetus must come from management or outside the department (for example, the Ministry of Finance and/or the Ministry for Private Sector Development) if greater formalization of the informal sector and the development of SMEs are truly priorities for the Government.

2.55 **With a view to providing assistance to small businesses that have opted to enter the formal sector, in 2004 Togo put in place a legal framework for the establishment of approved tax management centers (*Centres de Gestion Agréés, CGA*).**³⁵ CGAs are authorized to submit the accounting records of their members and, in general, to provide them with tax- and management-related assistance. As an incentive, the 2006 budget law provides for a 10 percent reduction in the taxes of businesses that are affiliated with a tax management center and are subject to income tax under the streamlined real profit tax system.

M. Factors of Production – Electricity and Telecommunications

Electricity

2.56 **The Togo Electricity Company (*Compagnie Energie Electrique du Togo, CEET*) is responsible for electricity distribution in Togo, while production and transport are essentially handled by *Communauté Electrique du Bénin (CEB)*, a public company owned by the Governments of Benin and Togo.** Following sector reform, electricity distribution was turned over in 2001, under a concession arrangement, to *Togo Electricité*, a subsidiary of Elyo. In 2006, the Government terminated this arrangement with *Togo Electricité* and the CEET assumed responsibility for supplying electricity. The CEET has more than 4,000 km of lines in its medium- and low-tension network. About 90 percent of the electricity sold (over 450 million kWh per year) comes from the CEB and the remaining 10 percent from CEET thermal power

³³ An innovative study on local taxes in Togo done around 1999-2000 led to these recommendations. More recently, the work of Gérard Chambas (CERDI) on local taxation reached the same conclusion. See <http://www.slideshare.net/Capacity4Dev/jour4-session2chambas-presentation>

³⁴ All the more so since the amount of professional tax collected is currently used as the basis for determining the bonus paid to tax officers.

³⁵ Law 2004-013 of June 15, 2004.

plants. The main CEB suppliers are the Volta River Authority in Ghana, the Ivorian Water and Electricity Company, and the Transmission Company of Nigeria (TCN).

2.57 Since 2007, Togo has faced a series of electricity crises that have affected the production capacity of private businesses and driven up their production costs. The major businesses have had to resort to generators. The high cost of fuel associated with these generators has impacted the competitiveness of their products or their profit margins. According to some estimates, this energy crisis reduced Togo's GDP growth by at least one percentage point (approximately CFAF 10 billion) in 2008. The problems are attributable to: (a) problems with the supply of hydroelectric power by the Nangbéto dam, which provided only 10 MW in 2007 while its installed capacity is 65 MW; (b) the reduction in the supply of electricity from Ghana and Côte d'Ivoire to the CEB owing to the drought, higher demand in both countries, and the non-payment of arrears by the CEB to the Volta River Authority; and (c) the high cost of JET A1 fuel, which has prevented the CEB from using the extra gas turbine that was installed to boost capacity.

2.58 Until July 2009, the average low-tension electricity rate in Togo stood at CFAF 100/kWh. The average in Sub-Saharan Africa is estimated at CFAF 56/kWh compared to CFAF 30/kWh for Latin America and CFAF 1730/kWh for South Asia.³⁶ In July 2009, medium-tension rates (commercial clients) were increased in Togo by 12 percent, while the household rate remained unchanged.³⁷

2.59 It is not possible to assess here the CEB's production costs, the cost of additional CEET thermal generation,³⁸ or rate-setting factors. However, it can be said that the high cost and irregular supply of electricity have had a negative impact on the competitiveness of businesses and discouraged potential investors. In the context of post-crisis economic recovery, special attention should be paid to the role of electricity as a production factor, including efforts to promote the free zone, which should target businesses that consume little electricity as long as there is no realistic projection of when electricity rates might be lowered.

2.60 In the interim, the Government has taken the following crisis alleviation measures:

- Purchase of 14 generators with a total capacity of 20 MW. While this additional capacity has led to fewer power cuts, higher operating costs (fuel) have already been passed on in rates (see above).
- Signing of a twenty-five year concession agreement with a private company (Contour Global). The plant is scheduled to begin operations during the first quarter of 2010 and to supply electricity at an average price of 14 cents/kWh (CFAF 60/kWh).³⁹ However, given that this price is higher than the average paid to the CEB (CFAF 55kWh), subsidies will have to be provided in the short-term.⁴⁰

³⁶ Source: Eberhard *et al* 2008 and CEET.

³⁷ The additional cost to operate CEET generators will continue to be covered by a budget subsidy.

³⁸ The CEET is, however, reporting a 20 percent technical loss and has not managed to lower this figure despite the commitment of the Government in the context of first and second emergency programs supported by the World Bank.

³⁹ Assuming an average price level of heavy fuel oil (HFO).

⁴⁰ It is also very likely that this plant will not be fully operational for a number of years, owing to insufficient demand, a factor that risks driving up average production costs.

2.61 **A number of local private sector initiatives** have also been taken:

- Promotion of ethanol biofuel produced by sugar cane bagasse.
- Establishment of a coal-based 30 MW power plant by a local cement company, for its own power consumption that will, however, reduce the demand for electricity supplied by the CEET.

2.62 **The start up of operations of the West African gas pipeline at a later date should improve the energy situation in Togo in the long term.** This 1,033 kilometer pipeline, which costs US\$500 million, will transport gas from Nigeria to its three West African neighbors, Benin, Togo, and Ghana. The first deliveries of gas to Togo should begin in early 2010. However, it has not been possible to obtain even a rough estimate of the expected impact of lower supply costs on the electricity rates paid by businesses. In the long term, the building of the Adjarala dam will be able to reduce significantly the cost of electricity in Togo.

Telecommunications

2.63 The telecommunications sector is composed of landlines, cellular telephones, and the Internet.

Landlines

2.64 **The State company Togo-Télécom has a monopoly on landlines in Togo.** The number of subscribers stood at approximately 62,200 in 2008 and has remained virtually unchanged since 2003, a situation that is common in many African countries as far as landlines are concerned. The network covers all the administrative districts of prefectures and sub-prefectures and more than 122 villages with at least 3,000 inhabitants. Landline rates are CFAF 30 per minute for urban calls, CFAF 60 per minute for interurban calls, CFAF 120 per minute for calls to cellular telephones, and CFAF 300 for international calls. International rates (which have the biggest impact on businesses) are high relative to other West African countries.

Table 2.11: Rates for International Calls during Peak Hours

(CFAF per minute)

	Togo	Côte d'Ivoire	Senegal	Mali
To the European Union and ECOWAS	354	250	130	148
To the rest of the world	354	341	130	185

2.65 **This situation applies not only to outgoing traffic, but even more so, to incoming traffic,** with Togo being among the most expensive countries in Africa. For business agents that have commercial relations overseas, a quick glance at this situation does not convey the impression of Togo as a competitive country in terms of factor costs. In terms of quality, the average rate of communication disruptions stands at approximately 23 percent between 7 a.m. and 12 noon, 19 percent between 12 noon and 6 p.m. and 21 percent between 6 p.m. and 11 p.m.⁴¹

⁴¹ Source: Togo-Télécom survey

2.66 **The high rates for international calls in Togo are attributable to two factors:** (1) the inverse relationship, demonstrated by many studies, between telecommunications costs and the degree of openness of the sector. In other words, countries that have managed to establish effective levels of competition benefit from the lowest prices. In fact, we note that landline operations have been liberalized in Côte d'Ivoire and Mali, where competition among operators has driven down costs significantly, while Togo-Télécom continues to benefit from a monopoly on international calls; (2) during the period of socioeconomic unrest and perhaps owing to the failure to adopt a long-term view of the sector, Togo missed the opportunity to participate in the SAT-3 system, a submarine cable system that runs from Portugal to South Africa and then to India and Malaysia. Segments of this system serve Senegal, Côte d'Ivoire, Ghana, Benin, Nigeria, Cameroon, Gabon, and Angola along the Atlantic coast. Togo does not have a landing point and, as a result, has to buy access from Benin or use satellite technology, which is much more expensive.

Cellular telephones

2.67 **Two operators share the cellular telephone market:** Togocel (a subsidiary of Togo-Télécom, the State-owned company) and Moov (formerly Télécel, Groupe Atlantique Télécom, a privately owned Ivorian company, which recently became a partner of the operator Etisalat of Dubai). A third cellular license is about to be issued. Between 2000 and 2008, the number of cellular telephone subscribers increased sharply from 55,800 to 1,660,500, 70 percent of whom are Togocel subscribers and 30 percent, Moov. Mobile telephone density therefore rose from 1.3 percent in 2000 to 29.1 percent in 2008. In the case of international calls, virtually all communication must go through the Togo-Télécom network, a situation that is reflected in the price: approximately CFAF 300 per minute for ECOWAS countries (situation as of end-2008) and CFAF 490 for the rest of the world. In Senegal, the international communications rate charged by the operator Orange is CFAF 170 per minute, that is, one-third of the cost in Togo. A new agreement was finally signed with Moov, which will now have direct international access, but not, however, before a long interruption in service.

2.68 **New technological solutions such as VOIP, which are likely to lower costs considerably for businesses and individuals,** are constrained by sectoral policy, the main objective of which seems to be the profitability of the State-owned company. Even the entry of a third mobile operator may not significantly lower rates if the Telecommunications Regulatory Agency [*Agence de Régulation des Télécommunications ART*] does not effectively exercise its authority in setting network rates and, more importantly, in terms of openness to the international market.

Internet

2.69 **There are three operators in the Internet market:** Togo-Télécom, Café Informatique, and eProcess de Ecobank, which have installed an Internet host to provide Internet access to Internet Service Providers (ISPs) and private organizations. Togo-Télécom is by far the dominant player in this market. The rates charged to "business" clients are outlined in Table 2.12.

Table 2.12: Internet Rates for “Business” Clients

Speed	Installation fees (CFAF)	Monthly fees (CFAF)
128 Kbps	82,600	63,720
256 Kbps	82,600	69,120
512 Kbps	116,820	212,400
1 M	212,400	495,600
2M	1,062,000	1,132,800

Source: Togo-Télécom 2008.

2.70 **Internet subscription rates can be described as prohibitive in Togo, as illustrated by the following comparison**, which is, however, limited to West Africa. Bearing in mind that a 1M high-speed connection is the minimum acceptable for a business, Togo’s monthly rates are twice as high as those of Côte d’Ivoire and 12 times higher than Senegal’s rates, where the Government is making an all-out effort to attract New Information and Communication Technologies (NICTs). It should be noted that, based on information obtained, some Togolese companies that would be willing to pay very high prices to meet their operating needs cannot obtain high-speed connections, owing to the fact that the Internet dial-up connection is supposed to be more profitable for Togo-Télécom. From a quality standpoint, connection is sporadic and the temporary disconnection rate very high. The price structure for telecommunications and particularly for the Internet does not allow Togo to position itself in the New Information Technologies (NIC) market, particular insofar as the Internet is concerned, as Ghana and Senegal have done in the sub-region (call centers, back-office operations).

Table 2.13: Comparison of Monthly Internet Business Rates (in CFAF including all Taxes)

	Togo (Togo-Télécom)	Burkina Faso (Onatel)	Côte d’Ivoire (Aviso)	Senegal (Sonatel)
ADSL 128 K	63,200	19,900	19,500	-
ADSL 256 K	82,600	34,900	20,000	-
ADSL 512 K	116,820	59,900	42,000	12,500
ADSL 1 M	212,400	114,900	85,000	17,000
ADSL 2 M	1,062,000	219,000	169,000	39,200

Source: Togo-Télécom and Internet research on the rates of other operators, 2008.

2.71 **Modern telecommunications is a vital factor in a business climate**, in particular for foreign trade and services (banks, insurance, transport, etc.). In an economy that is becoming globalized, the cost and quality of telecommunications determine the competitiveness of many sectors and are important factors in investment-related decisions. This cost is falling sharply throughout the world as a result of technological progress and regulatory reforms, especially widespread competition among operators. The positive example offered by Senegal in terms of significantly reducing telecommunications rates could encourage the Togolese authorities to objectively examine whether current regulatory provisions are appropriate and to consider the impact of monopolies and their dismantling on competitiveness and economic recovery, even though this would, in the short term, have a negative impact on the profitability of State-owned companies in this sector,

Recommendations

2.72 **To address the high costs** which are partly attributable to a missed opportunity in terms of the SAT-3 network and partly to the lack of a strategic vision for the telecommunication

sector, a sectoral policy⁴² that accords clear priority to the country's competitiveness through enhancing access to private sector participation should be considered.

Box 2.1: General Recommendations to Improve the Business Climate

The impact of the business climate on economic growth and job creation has been amply demonstrated. Specific inducements and incentives (investment code, specialized institutions, etc.) will not achieve their objectives in a context where the environment is not conducive to investment and business competitiveness. Currently, a broad consensus exists on the policies to be adopted and measures to be implemented to improve the business climate in Togo. What seems to be missing is impetus from the highest State authorities, along with a **priority action plan** that sets **measurable objectives** to be achieved within **specific timeframes** (possibly with intermediate steps) and makes those **ministries and agencies responsible** for helping achieve objectives **accountable**. The guiding principle of the action plan should be the impact of economic development measures, in particular on the situation of SMEs, which make a significant contribution to job creation.

The Ministry responsible for private sector promotion could spearhead this action plan, even though the agencies responsible for the various reforms (Taxes, Customs, Justice, Vocational Training, Infrastructure, etc.) are not under its oversight. It would therefore be essential to put in place a priority action plan **monitoring framework** that includes the main actor, namely the private sector, through the various entities that represent it. This monitoring framework could provide a practical forum for dialogue between the public and private sectors, an activity that has been overlooked for many years. This forum could meet periodically to take stock of progress and identify obstacles that may have been brought to the attention of the highest authorities if they are not resolved within a reasonable timeframe. The national secretariat proposed by the Integrated Framework Program to implement the matrix of actions for this study could assume this role, provided that the design is sound and authorization is granted.

⁴² Free zone businesses are also impacted by this sectoral policy situation, given that they are not isolated from the economic environment, despite the preferential tariffs they are granted.

3. SKILLS DEVELOPMENT FOR ENHANCED COMPETITIVENESS: THE CHALLENGE FOR VOCATIONAL TRAINING

3.1 **What are the potential sources of economic growth and how will they contribute to job creation in the modern sector?** The prospects for phosphate mining are good. However, this is a capital-intensive activity, not an engine for job creation. The same holds true of clinker, the main ingredient of cement. Cotton, coffee, and cocoa, on the other hand, offer growth prospects that entail job creation. Most of these jobs will require only a primary school education (the quality of which will nevertheless be important), while a relatively small proportion—roughly 10 percent of the total number—will require a secondary school education and technical qualifications. In all likelihood, job creation in the modern sector will hinge instead on improvement of the business climate and diversification of the economy into employment-generating subsectors, particularly the Free Zone (FZ), services (especially transportation), and agricultural exports. In the short term, the informal sector, where 82 percent of young people were employed in 2006, will remain the greatest source of job creation (see Table 3.1).

Table 3.1: Breakdown of Working Population of 25-34 Years of Age, Based on Level of Education and Employment Status (%) in 2006

		None	Primary	Secondary 1	Secondary 2	Technical and vocational	Higher	Total
Public	H	0.6	5.7	22.6	33.9	16.4	20.8	100.0
	V	0.1	0.6	3.6	16.5	14.6	25.4	3.4
Private	H	10.2	22.4	29.6	16.7	13.8	7.3	100.0
	V	2.3	5.4	10.3	17.8	27.1	19.6	7.6
Informal	H	38.8	33.7	20.5	4.6	1.5	0.9	100.0
	V	95.1	88.4	76.9	53.4	31.5	26.2	81.7
Unemployed	H	11.5	23.6	27.6	12.0	14.1	11.1	100.0
	V	2.5	5.5	9.2	12.3	26.8	28.8	7.3
Total	H	33.3	31.1	21.8	7.1	3.8	2.8	100.0
	V	100.0	100.0	100.0	100.0	100.0	100.0	100.0

H = horizontal percentage, V = vertical percentage

Source: Calculations based on the QUIBB 2006 household survey.

A. Education/Training Sector

3.2 **Togo is ahead of most of the neighboring countries in terms of school enrollment.** Nevertheless, the quality of education and student retention remain important priorities. Togo has succeeded in ensuring that almost all children start primary school, but just 66 percent of this age group will finish primary school, and only 58 percent will continue their studies. The survival rate falls further during the first cycle of secondary education, and just 55 percent of this

age group will start the second cycle of secondary education. Only half of these students manage to complete their secondary education. In addition, Togo faces a major challenge in the area of nonformal education, namely the challenge of providing functional literacy education and “second-chance” schools for those who have never been to school or who dropped out before learning how to read or perform arithmetic. Data from the household survey conducted in 2001 indicate that some 32 percent of adults who completed primary school had since reverted to illiteracy.

3.3 The main challenges for the education system are to improve the quality of basic education and boost internal efficiency. These tasks are made more difficult by extreme population pressure, already felt at the secondary level, where classrooms are overpopulated and resources above and beyond blackboards are very limited. Funding has been unable to keep step with growth in the student population: real spending per student in the second cycle of secondary education fell by 16 percent between 2000 and 2007, and by 38 percent over the same period for higher education. This growth pattern, driven by universal access to primary school, places education in competition with economic sectors by cutting into fiscal space. It is clear that the vocational training subsector will greatly depend on private sector financing, given the input costs.

3.4 Employment will remain a major challenge for an education system in which the proportion of primary school graduates climbs to nearly 100 per cent of the age group by 2020. The Education and Training Sector Plan (PSE) envisions that roughly 30 percent of those completing primary school and the first cycle of secondary school will not continue further studies, but instead enter the labor market. The current context is already one of very high unemployment (30 percent of people from 15 to 50 years of age) and underemployment. Only a strong recovery of the national economy can produce the right conditions for job creation, typically with a lag of one or two years. The challenge in Togo is to avoid creating a situation of permanent and endemic unemployment of educated persons, such as exists in the countries of North Africa. Vocational training will have a key role to play in moving the unemployed into the labor force. At the present time, however, technical and vocational training does not appear to be in tune with the needs of the marketplace: the unemployment rate for graduates of such training was estimated at some 27 percent in 2006 (see Table 3.1).

B. Vocational Training

3.5 The Education and Training Sector Plan (2010-2020), known by its French acronym PSE, was approved by the Government and its development partners in March 2010. This plan lays out guidelines for developing the sector. The PSE identifies strategies for subsectors and provides the key elements of programs, including vocational training, deemed essential for economic diversification and growth. Although the strategies are set, the programs have only been sketched out in broad terms, thus leaving the possibility of examining alternative approaches based on the lessons of international experience.

3.6 Vocational training faces two distinct challenges. The first is to support efforts to modernize and diversify the economy by conveying the content and skills required for economic diversification; for example, for the processing of farm, fishery, and forest products for export, or for modernization of the services and transportation sectors. The second challenge is to modernize employment in the informal sector through training aimed at introducing new

technologies and methods designed to boost productivity and accelerate the transition of small enterprises toward modern, medium-size ones; this involves management training (financial management, personnel management, procurement, and quality control).

3.7 Some features are common to both approaches, especially the central role played by the client in selecting the training and in defining the required content and skills. Other shared features include the need to build a collaborative relationship between client and training operator and to establish the Government's regulatory role in regard to verification of the technical and financial references of operators, enforcement of health and safety standards, governance, and the monitoring and evaluation of training operations, along with the development of an information system on economic and employment trends as a way to provide relevant information to training clients and operators alike.

3.8 However, there are major differences between the two sectors that will shape the strategy and design of the programs. Enterprises in the modern sector are more apt to recognize that training can transform an enterprise, resulting not only in gains in productivity but also in product diversification, and are thus more likely to invest in training. In the informal sector, the tendency is to stick to what is familiar, and to avoid the risks associated with the introduction of new technologies or products. Still, the reluctance to embrace training is due primarily to its cost—the cost of sending apprentices to take courses, or the cost of increasing the amount of production time devoted to in-house, on-the-job training. In the case of the informal sector, the challenge is thus to stimulate demand for training and to create a credible and affordable supply, resulting in the creation of a training market.

3.9 The challenge for the modern sector is discussed first and centers on its importance for modernization and diversification of the economy, even though the number of jobs at stake might be far fewer than in the informal sector. Case studies—"dual training," training of technicians in community colleges—suggest a number of approaches that are not only compatible with the Togolese context but also, in the case of dual training, already tested.

3.10 The strategy toward the informal sector has only been sketched out in broad terms by the PSE. The goal is to "reconfigure" and modernize traditional apprenticeships. However, the technical and economic feasibility—as well as the cultural compatibility—of different approaches still need to be reviewed before they can be adopted. Examples from Benin and Kenya are discussed. The stakes are high. While waiting for the investment climate to improve, priority will be placed on integrating a large majority of graduates of primary school and the first cycle of secondary school into small and medium enterprises and the agricultural sector.

3.11 Private sector involvement can be important for both sectors. Some 70 percent of vocational training staff already fall within the private sector, but the supply of training is of poor quality and does not reflect real market needs. Approaches designed to improve sector organization and financing will be discussed, illustrated with examples from Ghana and Senegal.

Vocational Training and the Modern Sector

3.12 The Togo National Professional Training and Apprenticeship Fund (Fonds national d'apprentissage, de formation et de perfectionnement professionnel du Togo: FNAFPP) provides the interface with the modern sector. A tripartite board, made up of Government, business, and

worker representatives, supervises the Fund. Created in 1998 with World Bank support, the Fund has since been supported by a contribution of 1 percent levied on wages paid by businesses. In practice, the Treasury does not transfer to the training fund the full amount of tax that it collects.

3.13 Operating expenses seem high in relation to the services provided, although it was not possible to perform an evaluation. The Fund's income is far from being fully utilized; each year roughly 25 percent of its income is sent to the Treasury. Just 50 percent of income is earmarked for training costs. The remaining 25 percent covers operating expenses. However, these expenses are underestimated because they do not include wages. As a public entity within the Ministry of Technical and Vocational Education, the Fund does not manage its human resources or its wage bill.

3.14 Several key sectors have been excluded until now. Free zone enterprises are not eligible to receive the Fund's resources because they are not required to pay the 1 percent tax. This holds true as well for most of the small and medium enterprises in the informal sector, which also do not pay the tax. The Fund's activities are thus very limited: 1,986 persons trained in 2007 and 1,031 in 2008.

3.15 The Fund's effectiveness is limited by its procedures and by the weaknesses of training operators. The Fund receives training applications either from businesses themselves or from consulting firms acting at their request. Until 2009, a large number of service providers were preparing training programs and then providing the programs themselves, and often they would shape proposals to meet specifications for "ready-made" programs. This resulted in an approach based mainly on supply, rather than demand, and thus of questionable relevance. In 2009, the Fund instituted a new rule that prohibits the firm responsible for developing the application from being the executor.

3.16 Any private company that wants to provide training services must be accredited, but accreditation is not required for public training institutions. There are some 50 firms specialized in training, but the quality of their technical performance has not been evaluated. In all probability, many of them are recent creations, unlikely to be long-lasting, set up to dispense "trendy" training. Such firms are mainly specialized in the services sector and hardly represent a vector of technological modernization.

3.17 A private sector initiative undertaken by the automobile trade organization points to the existence of unsatisfied demand for training in new technologies. The Automobile Trade Association (*Association des métiers de l'automobile*: APROMA) took the initiative to launch a training program to improve the management skills and knowledge of repair shop owners (personnel management, accounting, inventory, etc.) and train their technicians in new technologies. A recent study of the car repair/maintenance sector illustrates the difficulties encountered. A census of repair shops shows a general lack of electronic equipment needed to diagnose technical problems in the most recent models of automobiles; testing is complicated by the fact that the engine, brakes, and other components are regulated by servomotors, which are controlled by computer programs. The operators' association has proposed assistance from vocational training. Such a program could be supported by car dealers, who could make modern diagnostic tools and repairs available to the program. The program would be beefed up with foreign technical assistance.

3.18 The Free Zone (FZ) would appear to be a preferred vector for transmitting modern training. In comparison to enterprises that produce goods or services for the local market, free zone firms are more likely to modernize their equipment and introduce new technologies to remain competitive. FZ employers consider that one major advantage for Togo is the good level of education among workers in relation to wage scales. Over the period 2006-2008, the work force assigned to production required a primary school level of education (77 percent), with smaller cohorts of technicians (20 percent) and managers (3 percent). The experience of other free zones (Egypt, Mauritius, Morocco) underscores the importance of agility in the face of a world market where comparative advantages can change rapidly. Robust mechanisms for modifying processes, technologies, and job profiles appear to be essential, along with training programs.

3.19 Free zone firms consider that skills development is an integral part of their competitive environment and believe their workers are capable of adapting to changing conditions. They are in favor of training, since they know well that productivity and competitiveness hinge on the availability of training that addresses their specific needs.⁴³ However, the FZ is not entitled to draw on the Fund. FZ companies pay a reduced contribution of 2 percent of labor costs, sent directly to the Treasury, but make no contribution to the Fund.

3.20 The situation is quite different in other FZs, such as the Tangiers Free Zone, which provides a useful example. Companies such as Siemens and Volkswagen have access to the parent company's training resources and, in collaboration with Moroccan vocational training, they dispense the most modern training. They have also established cooperative ties with universities that provide short-course technological training (the Togo PSE envisions the development of such courses). This could also work well in Togo if formal relations were established with FZ companies. A share of the revenues derived from the FZ could be earmarked for the Fund, thus encouraging such collaboration.

3.21 The Regional Center for Technical and Vocational Education (*Centre régional d'enseignement technique et de formation professionnelle*: CRETFP) of the Maritime Region clearly illustrates the lack of relations between vocational training and FZ operators. Located next to the FZ, the Center provides training in auto mechanics and carpentry. Its equipment and the training of some of its instructors were financed with German assistance, managed by GTZ. The dual training approach is used, i.e. training that alternates between the training center (theoretical and practical training in a workshop setting) and the job site (on-the-job training). It would have been logical for the center to collaborate with the FZ company and the port authority in regard to auto mechanics, and with the manufacturer of teak furniture destined for export (a company that is now defunct) in regard to carpentry. But this has not been the case, partly because FZ companies do not have access to the Fund. Relations between the Center and economic operators remain informal and occasional. An auto repairer could ask to use certain equipment (the chassis alignment equipment or the painting facilities), or a government agency could ask to have furniture repaired, but there are no formal contractual ties. The PSE calls for vocational training to address these needs by creating public/private partnerships for work/study programs for employees and apprentices, i.e. a return to the reform of the 1980s supported by the *Caisse de Coopération Economique*, GTZ, and the World Bank. Box 3.1 describes the dual

⁴³ The WACEM Group defines a set of professional skills for each position in the company and provides specific training to workers to fill any gaps.

approach, characterized mainly by a close relationship between the training center and client companies.

Box 3.1: Dual Approach

First practiced mainly in Germany, the key elements of this training are the direct involvement of the individual company and the importance attached to in-house training. The director of the company agrees to adhere to the standards established for the specific position in terms of content and skills. The director appoints a person—typically an experienced technician—to monitor closely the trainee’s progress. The trainee is paid for his/her days of work at a government-approved rate, based on the minimum wage. In France, the program usually involves spending half-time at the company and half at the training institution. At the latter, the program of studies includes courses specific to the given occupation, along with general education courses as stipulated by the Government. For professional skills, examinations are prepared and conducted by the relevant trade organization.

For this approach to succeed, a number of conditions must be met: the company must be looking for training, must be sufficiently well organized and of adequate scale to integrate training and production, and must be able to assign an experienced technician; the training institution must have direct and personal ties with the company’s training officer and a regulatory framework regarding content, skills, and assessment of learning; finally, there is a need for ethical standards and a labor law.

The approach sometimes runs into implementation problems. First of all, it entails a cost for the company (due to the necessity of assigning one or more technicians, even on a part-time basis); moreover, the company must comply with the rules. Therefore, some companies do not agree to receive apprentices. If there is a shortage of positions, the Government’s response may be to establish a training contract with the company. However, the company retains the right to select the apprentices.

In Togo, modern sector enterprises are few in number and they are not often of sufficient size to permit the training and monitoring of apprentices. However, this approach could be effective in the case of large economic operators (clinker, phosphates), and also in the case of trade organizations such as APROMA, which could sponsor such training. The approach has already been tried at CRETFP/Maritime, which received assistance from Germany, organized by GTZ, with financing for equipment and training scholarships for trainers.

3.22 Community colleges also provide a successful approach to work/study programs and are found in a number of countries (Canada, the United States, Jordan, and recently Senegal). Economic operators define the targeted content and skills and determine the number of apprentices to be trained. The operators provide modern, top-of-the-line equipment and assign technicians (foremen, experienced mechanics) as trainers, while the Government makes program design and evaluation specialists available to them, as well as workshops and classrooms and administrative support. This approach is characterized by a better training/employment match and sufficient flexibility to close or open courses of study based on demand. Box 3.2 describes a program of cooperation in Senegal.

Box 3.2: Training of Technicians at Post-Secondary Institutions: A Collaboration between Canada and Senegal

Under the Education for Employment program, funded by the Canadian International Development Agency (CIDA) and managed by the Association of Canadian Community Colleges (ACCC), Collège de Maisonneuve (in Montreal, Quebec) was selected to develop a two-year partnership with the post-secondary institution Sainte-Jeanne d'Arc, in Dakar, Senegal. The project objective is to validate an existing program on agroprocessing industries and develop a new program on hygiene, safety, and the environment. To facilitate the employability of Senegalese youth, the project also aims to develop continuing education and create more formal ties with businesses. A number of services and departments of Collège de Maisonneuve will contribute to the partnership: the Department of Dietetics, the Institute of Packaging Technology and Food Process Engineering (Institut de technologie des emballages et du génie alimentaire: ITEGA), and the Continuing Education Service. A similar arrangement could be possible between agricultural or fishery product export companies and CRETFP/Maritime.

3.23 **There is an important lesson to be drawn from both these case studies.** Equipment costs and the rapid evolution of the technology place investment costs beyond the reach of the Government's financial capabilities, which means that contributions of equipment and materials from private operators are an indispensable element of the training partnership. No serious enterprise would want its employees to be trained on outdated equipment. The implications are clear for technical secondary education. There have been no investments in technical equipment for twenty years. The cost and specificity of equipment mean that in-house training is a must (for operating a harbor crane, for example, the cost of which may exceed US\$500,000). This is true of PAL, WACEM, and phosphate mining. Vocational training should find ways to involve the training specialists of such businesses in training policy development and program design. At a later stage of diversification of the economy, with a greater number of medium-size enterprises, one economic solution might be to create an institute for the design and engineering of training programs, the mandate of which would be to help companies better organize their in-house training or set up their own training departments. This approach was introduced at large state-owned companies in Algeria (by the World Bank in 1989) and recently revived by AFD (2009).

The Challenge in the Informal Sector

3.24 **For the informal sector, traditional apprenticeships remain the primary vehicle for acquiring skills for most workers.** Those who drop out of school before completing their studies enter the labor market either as apprentices or as unskilled workers. Traditional apprenticeships, which predominate in an informal economy, are governed by personal arrangements that do not involve contracts detailing the obligations and responsibilities of each party. Most businesses in the informal sector operate with unsophisticated technology and traditional organizational methods, and therefore require rudimentary skills and job-specific skills.

3.25 **The informal sector lacks access to the Fund, the mandate of which should therefore be broadened or else other financial channels identified.** In any event, cost is the main obstacle to training in the informal sector. It is expensive to send someone to be trained, and

apprentices who have received formal training may demand higher wages. There is thus a need to find flexible approaches that are affordable to clients.

3.26 The PSE sketches out a new strategy. In the case of traditional trades and jobs in the rural development sector, a partnership is proposed between masters and farmers and vocational training and agricultural extension services. The partnership will be supported by the trade organization, farmer associations, and NGOs. The main objective is to create a stream of training, by training masters and raising their level of technology, so they can in turn train apprentices and employees. The goal is to maintain sustainable unit costs, while amplifying the impact of the training. However, the cost to the master remains a major obstacle. The master may be tempted to get maximum work from the apprentice, who is often viewed as “cheap labor,” and therefore neglect his or her training responsibilities. In any case, the specifications and operational procedures still have to be worked out, which provides an opportunity to draw lessons from international experience and plan more effectively for a future pilot project.

3.27 One successful experience is that of the Jua Kali network of small enterprises in Kenya (1996). The demand for training was greatly stimulated, and supply was expanded to include owners of small enterprises who found a new training vocation as master artisans. The key factor was the use of training vouchers, which were distributed to small enterprises. The latter could then approach public or private training operators and pay with the vouchers. The operators were selected beforehand by competitive examination, based on their skills in specific areas.⁴⁴ One innovative feature is that marketing and distribution of the vouchers is awarded—again on a competitive basis—to intermediaries, which may be private companies or Jua Kali associations. The intermediaries help clients prepare their requests for training and identify the most appropriate training. The client pays a set price equivalent to 10 percent of the value of the training voucher, and the intermediary is entitled to keep roughly 3 percent of the voucher’s value to cover the cost of services provided. The impact has been very positive from the point of view of client satisfaction, and also on the part of trainers. Many vouchers have been spent on training from master artisans and a network of trainers has thus been created on the ground, in close proximity to clients.

3.28 A similar fund exists in Mauritius. In recognition of the fact that under-training in SMEs was hindering their modernization and the use of new technologies, the decision was made to set up a system of vouchers to encourage these enterprises to have their employees trained. The choice of training an operator remains with the enterprise, but the operator must comply with specifications and standards established by the National Vocational Training Board. Once the training has been provided, the voucher is submitted to this institution, along with documentary evidence, for payment. However, this approach ran into an unexpected problem. Demand was not limited by cost, but rather by the fact that employers were not ready to send their employees for training because of the impact on productivity, which was very substantial in companies where the profit margin was already low. Small enterprises in Togo—particularly in the informal sector—would perhaps show the same reluctance. Initially, the possibility of subsidies for SMEs should therefore be taken into consideration. The subsidy could be based on the apprentices’ wages, as is the case in Malawi. In that country, subsidies are the main expenditure of the apprenticeship fund, paid throughout the entire apprenticeship.

⁴⁴ This approach has proved its worth in the area of functional literacy, where training has been contracted out in Senegal, Mali, and Côte d’Ivoire. The performance of operators should be monitored and expenses verified.

3.29 The Artisan Support Bureau (Bureau d'appui aux artisans, BAA) of Benin, supported by Switzerland, provides another example of an institution of financial mediation and advice. This organization connects masters and their apprentices, through their trade associations (woodworkers, blacksmiths, apparel), to training operators, whether public, denominational, or for-profit. The associations are at the helm. They are responsible for organizing and carrying out training programs and for selecting apprentices, acting through a Training Committee (Comité de formation: CF). Members of the CF are in close contact with operators concerning course design, the choice of instructors, and payment for their services. In collaboration with operators, the CF establishes the content of theoretical and practical examinations and participates on the board of examiners. Training culminates in a state-recognized apprenticeship certificate. Members visit the training sites and the masters' workshops. This is in fact the dual system, as established in Switzerland as well as Germany. The apprentices' masters are themselves eligible to receive training, typically in groups of 20 to 30 at the training centers. They are motivated by the opportunity to learn new technologies and also by the desire not to be surpassed by their apprentices. BAA has enjoyed contacts with CRETFP/Maritime of Lomé, assisted by GTZ.

3.30 Benin has also created an autonomous fund for modernizing small and micro-enterprises, called the Continuing Vocational Training and Apprenticeship Development Fund (*Fonds de développement de la formation professionnelle continue et de l'apprentissage* FODEFCA). Managed by representatives of government and the private sector (employers and workers), the Fund allows a flexible response to requests for training by creating and financing partnerships between training beneficiaries (SMEs, cooperatives, regional and trade associations in the modern and informal sectors). FODEFCA also aims to transform the management and marketing of small enterprises. FODEFCA assesses the technical and economic feasibility of training requests. It reviews the technical skills and financial references of the training operators who will be called upon to train the requesting enterprises. Training projects in excess of CFAF 3 million are submitted to competitive bidding; below this threshold, the choice is based on the quality of service expected. Training beneficiaries contribute 15 percent of operating expenses. The Fund promotes training in the informal sector for small trades and agriculture: management training to facilitate the transition to the modern sector, training in new production techniques (for example, for the processing of agricultural products), and functional literacy (the "contracting-out" approach). The Fund also finances the alternating training supported by BAA. The Fund provides quality control by monitoring activities in the field. In collaboration with the Labor Watchdog Agency, it studies the impact and cost-effectiveness of training.

C. A Stronger Partnership with the Private Sector

3.31 The private sector could be an important resource. Currently, private sector training operations are characterized by a poor fit with market needs, weak capacity for designing and engineering training activities, and a lack of credit. Very often the company finances its activities from its own resources. There is no tradition of bank financing and the risks are considered high. This often results in a computer training center with no computers, where instruction remains purely theoretical. Other courses are driven by public demand with little attention to market prospects; thus, for example, cosmetology and sewing institutes are proliferating (the appeal of this type of training is apparently that it does not require much of an investment).

3.32 The challenge is thus to rationalize the sector, organize it more effectively, and develop a financing package. GTZ, as part of its assistance in reforming vocational training in Uganda, helps the association of private operators match its supply of services to market demand, while simultaneously improving the quality of training and enhancing its “image.” PROPARGO, the private investment service of the French Development Agency (*Agence française de développement*, AFD), and the education services of the International Finance Corporation (IFC) of the World Bank provide advice to groups of private operators in order to help them comply with government regulations pertaining to health standards, safety, and insurance and formulate “bankable” financing projects. These agencies also help financial institutions better understand the returns on sector investments, establishing partnerships in which some of the risks are shared. In Senegal, these two institutions work closely together.

Box 3.3: Two Private Sector Initiatives in Senegal

The **National Federation of the Clothing Industry** (*Fédération nationale de l'habillement FEDNATH*) in Senegal is an example of a purely private initiative. Businesses in this subsector joined together as a cooperative to establish a training center in Dakar, with the goal of modernizing the sector in order to penetrate the international market of the fashion industry. The center dispenses three types of fee-based training: academic courses (fashion industry, marketing) of 2 to 9 months for sector professionals—typically heads of companies—with technical cooperation from *Académie Internationale de Coupe* in Paris; vocational training courses of 2 to 9 months (specific skills: design, cutting-out, textiles); and courses by the hour, with modules targeting individuals who seek to improve their skills. FEDNATH has received assistance from AFD.

Hotel industry training. Under the auspices of the Ministry of Tourism, a hotel industry training center was created, in which the position of board chair is assigned to a hotel CEO on a rotating basis. Hotels send managers of their various departments (reception, restaurant/bar, personnel management, inventory) to serve as part-time instructors. Trainees alternate between internships at the training hotel and their home hotels.

3.33 Backed by a favorable regulatory environment and access to credit, trade associations will organize themselves to provide training that meets their own specifications. Box 3.3 discusses two such cases. The first involves a group of small enterprises, encouraged by demand from tourists, who are determined to penetrate the international market of the fashion industry. The second involves hotel companies that are aware of the need to improve their services to satisfy a tourist clientele.

3.34 Access to financial credit is indispensable for the development of a high-quality private education sector. In Ghana, strong demand for private education and training has created new financing needs for site acquisition, facility construction, and equipment purchases, along with all the other necessary inputs for quality education in an increasingly competitive market. One bank (the Trust Bank) had already entered the SME market with a loan portfolio totaling some US\$13 million, a portion of which went to private operators in the education sector. IFC worked with the bank to design and implement an education financing service, providing advice to borrowers in the areas of project organization, financial management, and management planning. IFC also helped the bank develop its capacity to evaluate education projects and perform technical and financial monitoring.

3.35 The private sector could play an important role in widespread expansion of information and communication technologies (ICTs), essential for modernization of the economy. The PSE seeks to expand access to ICTs as a way to support education programs at all levels, boost the quality, and improve administrative and financial management, with major ramifications for labor productivity. Given the size of the country and the shortage of human resources, this strategy is both logical and necessary. However, there are important steps that need to be taken beforehand, as the PSE partly recognizes, including, most particularly, negotiations with the ministry responsible for telecommunications so as to ensure reasonable prices for access and for the use of satellites or fiber-optic cables.

3.36 Gains will be achieved in terms of the quality of education and training, but also in terms of improved access to education. The Internet can open the door to high-quality, modern content, well-tested, skills-based training modules (especially in science and mathematics), access to the best qualified teachers via videoconference, teaching support from education authorities via e-mail, and “model lesson plans” for teachers. ICTs are thus a powerful instrument in efforts to improve quality. Moreover, they help reduce qualitative differences between schools. The same benefits accrue in the training sector. In Morocco, the Greater Casablanca master plan gives priority to Wi-Fi Internet interconnections between free zone firms and training centers, permitting an exchange of training programs and more individualized learning. The Internet also opens the door to databases on jobs and careers and provides access to audiovisual presentations on specific industries and their training requirements. The Internet allows personalized research on vocations and careers on top of more formal vocational guidance.

3.37 Is there a role for technical secondary education? In fact, both general and technical secondary schools face the same problems of weak capacities: dilapidated, unsuitable facilities and shortages of equipment, textbooks, and qualified teachers.⁴⁵ Technical and general high schools face the same gulf between school and employers. Any contacts are informal, and the school director has no motivation to establish regular contact and a working relationship. School budgets are tight; unit spending in general secondary schools fell by 16 percent from 2007 to 2008, and it is impossible to compete with private sector wages. Instructors lack updated knowledge and skills. Effective modernization requires investments beyond the Government’s financial capacities.

3.38 The example of Egypt is persuasive. After decades of existence, the technical secondary branches (agriculture, commerce, industry, etc.) that received two thirds of secondary school students have been converted to general education, in view of their lack of external effectiveness. At the tertiary level, for example, the quality of general secondary education appears to be the most decisive factor of success in scientific and technical degree courses and advanced short-course vocational training.

⁴⁵ A high school was visited in close proximity to Lomé that had 2,500 students, classes of 80 students in the final year of sciences, a student/physics textbook ratio of 4:1, and no experiments except on the blackboard. The furniture was inappropriate for the students’ age and the classrooms were poorly illuminated. The high school had no library or computers, neither for students nor for the administration.

D. Academic and Vocational Orientation and Employment Information

3.39 **The success of potential reforms hinges on the capacity to keep step with job market trends and match the supply of training to actual demand in a timely fashion.** As reflected in the mismatch between supply and demand for training in the private sector right now, there is a lack of information concerning the job market, both on the part of “consumers” and on the part of training operators. To better inform the latter, the PSE calls for the creation of a school guidance service. However, this should not be limited to information on opportunities for further studies, but also include the labor market. This is an urgent matter because most students leaving primary school or the first cycle of secondary school have very few reliable sources of information on opportunities to continue their studies or choose a training program.

3.40 **The PSE also calls for the creation of an “employment information service” or *observatoire* to better inform training consumers and providers alike.** In view of its mandate to monitor trends in the economy and its close working relationship with the Ministry of Finance, it would seem logical to house this service within the Ministry of Planning. However, in the interest of optimizing the use of human resources and to ensure flexibility and efficiency in conducting employment surveys and longitudinal studies of careers, these responsibilities could be given to the University. Its Department of Applied Economics could help carry out this work. The involvement of professors and candidates for master’s and doctoral degrees would have positive pedagogical repercussions by linking training and academic research to these important functions.

4. TRANSPORTATION AND TRADE FACILITATION

4.1 **Togo's economy is heavily reliant on foreign trade for growth.** Situated on the coast, this country has developed a major import-export, transportation and transit business because of its port and the corridors serving neighboring landlocked countries. It has become practically the mandatory corridor, although alternatives exist. If Togo wants to maintain and further develop this business, it should reduce the costs of its transportation and transit services to remain competitive. Implementation of a trade facilitation strategy with the goal of making the transportation and transit system more effective appears to be a priority. The costs of these services are high because there are several factors and practices that generate extra costs levied in transactions at the port, customs, and several services, as well as on the road during transit both at import and at export.

4.2 **At import, these extra costs undermine the competitiveness of Togo's economy and that of the neighboring landlocked countries.** They increase the price of inputs needed for production and make the cost price of products high. At export, transit costs come into play, making the products of these countries even less competitive on world markets. The high cost of transportation and transit in Togo stems from three types of causes: (i) the poor condition and mediocre management of infrastructure (port, roads, railways, and airports), (ii) management constraints of the means of transportation (ships, trucks, and trains), and (iii) a fairly hostile regulatory environment for transportation and transit. The latter is riddled with major obstacles (institutional and regional framework, various taxes and levies, customs, multiple controls, and abnormal practices), despite the regional conventions and the treaties conceived and signed to facilitate transit, but not enforced.

A. Problems in the Transportation and Transit Sector

4.3 **The main challenge for Togo as the hub of transport flows to neighboring countries, particularly the landlocked ones,** is to make sure that market access costs (for both domestic and international markets) are low enough to remain competitive with similar services in other coastal countries. Further, Togo needs to ensure the competitiveness of its own products in order to develop its growth potential.

4.4 **The port can be an asset for renewed growth, on the condition that it is soon made more attractive under the reforms to be adopted.** In reality, the Port of Lomé has no guarantee of retaining transit trade, which has fallen over the last four years,⁴⁶ because the situation in Côte d'Ivoire is returning to normal and the neighboring coastal countries are also making port investments and undertaking reforms to improve their competitiveness. Togo should therefore attract private investors to improve the performance of its port and step up the facilitation strategy in order to hold onto the country's comparative advantages and maintain its lead.

4.5 **There are many access corridors from the Atlantic Ocean to the countries of the Sahel (Burkina Faso, Mali, and Niger).** The starting points for the five most important corridors are the ports of Dakar, Abidjan, Tema, Lomé, and Cotonou. There is great competition

⁴⁶ However, this drop in transit traffic at the port is not reflected in the statistics on road freight leaving the port toward countries of the Sahel and neighboring countries. In fact, these statistics indicate that freight increased between 2005 and 2008, which could be due to imports to Togo being resold to transit countries and re-exports coming from the free port.

and heavy interdependence among them. During the crisis in Côte d'Ivoire, transit traffic had to take other corridors, and the share of traffic through Abidjan in 2003 fell to less than 10 percent of the usual volume. This traffic spilled over to the ports of Dakar, Tema, Lomé, and Cotonou, giving a boost to Togo for a time. Along two major routes, there is competition between road and rail. The latter links the three landlocked countries to the ocean.

4.6 It is necessary to improve the condition of the infrastructure and how well it functions, because transport times are long on the access corridors to countries of the Sahel and neighboring countries. The mediocre condition of the roads means that peak speeds on good sections of roadways rarely exceed 60 km/h, and they are often less than 15 km/h on poor sections. On the railroad, the peak speed is about 45 km/h, and roughly 20 km/h in areas with hold-ups. Clearly, to stimulate growth and boost trade, there is a need first and foremost for adequate transportation infrastructure and professional operators offering quality transportation services at competitive prices. It is thus important to rehabilitate the infrastructure and reform its management and maintenance through better mobilization of local resources to secure the necessary funds. The capacities of the transportation fleet, both for freight and for passengers, are outmoded and ineffective; they will need to be modernized to satisfy transit trade demand. The revival of rail operations by a private concessionaire responsible for major rehabilitative work should provide a reliable alternative to road traffic along part of the northern corridor, although this possibility appears to be undermined by the awarding of the northern and western lines to another concessionaire.

4.7 The role of facilitation is to ease the constraints on transportation and transit. While there is a need to improve infrastructure, fleets, and their management, this is not sufficient in itself. The environment in which they operate must function normally, in accordance with a recognized framework of rules and regulations to which all parties adhere, including Government. There are a variety of constraints, resulting in poor performance and high costs, and thus undermining the profitability of sector investments.

4.8 Transport times are long because of lengthy stoppages when vehicles and sometimes trains are immobilized. This is the result of repeated, unwarranted administrative formalities: the road cargo allocation rule (queuing system),⁴⁷ regulatory controls required by customs and other services, and repeated document verification red tape, often to extort illegal payments. Thus, the round-trip travel time for heavy trucks averages 30 to 40 days on the longest routes, which could be cut in half, or reduced even more under optimal conditions, by eliminating these constraints (for example, in the case of hauling cargo to Ouagadougou from Lomé or to Bamako from Abidjan before the crisis).

4.9 Transit costs are high because of tariff barriers and additional, illegal levies. Such practices hinder the fluidity of trade. Transportation operators and shippers are poorly organized, and they are subject to pressure and extortion from all sorts of government agencies, their own agents, and unions. The regulatory framework for transportation, although liberalized in principle, tends to be circumvented by the informal sector, which accounts for more than half of the country's economic activity and which remains a political impediment to reform. In

⁴⁷ The system of quotas for cargo transiting the country by road, whereby 2/3 of the tonnage is allocated to trucks from countries of the Sahel and 1/3 to trucks from Togo, undermines healthy competition. Moreover, the queuing arrangement forces shippers to accept the trucks proposed by the unions, based on the order in which they queue up, even if a specific truck is inappropriate.

addition to the delays resulting from road travel times, compulsory stops for controls,⁴⁸ and various levies, there are finance charges on the value of the immobilized imports and exports, which further increase their cost price.

4.10 The result is that consumers pay much more than they should, and processing industries are burdened with extra, unnecessary costs that make their products less competitive. In this quite hostile context for community-wide economic integration, how can one continue to sell the cement, livestock, rice, and fabrics that are prime exportable products within the region? Potential exports to other countries around the world—cotton, cocoa, coffee, vegetables, and tropical fruits—are very heavily penalized by these practices and constraints, which urgently need to be lifted in order to support growth in Togo as well as in neighboring landlocked countries.

4.11 It is necessary to reduce the costs and time of transport to expand transportation supply. The challenge for Togo is to understand how badly compromised the economy of the transportation system actually is as a result of the current practices. The conditions of normal profitability need to be restored. The diagnosis, all along the transport chain, shows abuses that generate extra costs. Through these practices, the country jeopardizes its ability to control its economic development.

4.12 The lengthy travel times for trucks and freight cars and the time wasted while waiting needlessly at warehouses result in underutilization of the equipment, which then requires increasing the fleets. If transport times were cut in half, the number of annual round trips could be doubled and storage requirements significantly reduced. Better use of the heavy truck fleet would make it possible to reduce the fleet to its economic size by substantially lowering the value of the investments needed for transport operations. This would reduce fixed costs and boost profit margins for paying off new investments. Newer trucks would result in more reliable service and fewer accidents.

4.13 The globalization of trade makes it necessary to reduce all unnecessary costs in the transport chain related to handling and warehousing and also transshipment. The success of containerization for maritime cargo should be extended from one end to the other as part of a combined, multimodal transport system. In particular, reducing stock levels and inventories in factories and warehouses is a way to reduce a company's finance charges and working capital. This means looking for "just-in-time" transport solutions, where stoppages and periods of immobilization are systematically avoided so as to ensure the quickest possible service, which is the principal objective underlying door-to-door transportation service contracts.

4.14 The institutional and organizational framework for the provision of transportation infrastructure should be strengthened and simplified, especially port regulations and management, on the one hand, and road maintenance organization and capacity, on the other. The ECOWAS conventions and treaties should be implemented, with priority given to the Inter-State Road Transport (ISRT) Convention. The role of haulers and how they are organized should be clarified and unburdened so as to free the market from its current impediments. The port and customs interface and the flow of cargo should be accelerated by reducing tariffs, as well as red tape associated with controls, and by eliminating abnormal practices.

⁴⁸ WAEMU has counted an average of 48 controls per corridor and levies totaling US\$240 per truck for each trip.

4.15 **In recent years, Togo has implemented a number of measures in the transportation sector that have begun to reverse the decline in performance**, but the effects are slow and sometimes questionable. Such measures include: (i) improving the operating conditions at the Port of Lomé by establishing a port authority that delegates handling operations to concessionaires; (ii) adopting a system of road maintenance by private companies and instituting road fees to raise funds for maintaining the road network; and (iii) privatizing management of the rail system, which has resulted in revitalization of rail traffic and rehabilitation of part of the system.

B. Status of Transportation and Transit in Togo

4.16 **Foreign trade is exhibiting strong growth but is greatly out of balance in terms of volume and value.** Between 2003 and 2008, growth in port traffic was very high, rising from 4.5 million to 7.3 million metric tons. This is mainly due to average annual growth in container traffic of some 28 percent, an exceptionally high growth rate for West Africa. But this foreign trade is greatly unbalanced because exports are so weak. In 2008, imports accounted for 69 percent of foreign trade (5 million metric tons), while exports accounted for just 23 percent (1.7 million metric tons) and transshipments stood at 8 percent (0.6 million metric tons). Also in 2008, of the 5 million metric tons of imports, 3 million metric tons, or 60 percent, went to Togo, and 2 million metric tons, or 40 percent, went into transit. Of the 1.7 million metric tons of exports, 1.6 million metric tons came from Togo, largely in the form of re-exported goods, while goods in transit accounted for 0.1 million metric tons. By way of illustration, the majority of cocoa exports come from Côte-d'Ivoire and Ghana but are counted as coming from Togo, although this is of course a case of re-exportation (see Table 4.1).

Table 4.1: Port of Lomé, Growth in Import-Export Trade, by Product, 2003-2008

Tonnage (metric tons)	2003	2004	2005	2006	2007	2008	2003 - 08 period	2008/03 per year	Ratio in 2008
Imports + exports	4,567,404	4,429,345	5,080,033	5,349,195	6,183,771	7,280,810	59%	12%	100%
annual growth		-3%	13%	5%	13%	15%			
Togo imports	2,551,981	2,548,525	2,863,822	2,943,809	3,042,586	3,027,405	19%	4%	42%
Hydrocarbons	811,595	729,641	760,966	834,278	722,130	601,820	-26%	-5%	
annual growth		-11%	4%	9%	-16%	-20%			
Clinker/Gypsum	706,535	632,712	721,673	827,558	788,851	862,086	22%	4%	
annual growth		-12%	12%	13%	-5%	8%			
Building materials	122,969	113,628	93,357	117,626	130,437	134,283	9%	2%	
Fertilizer	64,819	37,731	29,185	33,372	30,961	101,353	56%	11%	
Bulk wheat	87,541	70,569	107,346	89,716	91,100	45,500	-48%	-10%	
Rice	148,005	227,589	319,139	183,466	193,330	193,923	31%	6%	
Sugar	73,403	112,440	136,249	101,473	148,785	122,363	67%	13%	
Food products	134,459	166,618	187,430	206,068	168,770	168,735	25%	5%	
Textiles	44,426	62,244	72,804	100,753	121,977	148,569	234%	47%	
Vehicles	76,220	72,336	66,484	64,020	85,702	89,775	18%	4%	
Other goods	282,009	332,017	369,189	385,479	560,543	558,998	98%	20%	
Togo exports	581,550	658,293	856,042	978,043	1,131,465	1,595,198	174%	35%	22%
Cocoa	7,046	36,452	75,580	82,342	76,558	122,569	1640%	328%	
Coffee	4,165	9,359	11,986	7,576	16,274	11,465	175%	35%	
Teak	19,190	16,007	55,607	97,487	74,916	61,766	222%	44%	
Cotton (lint and seed)	120,852	127,645	116,806	34,702	30,735	22,753	-81%	-16%	
Other agricultural products	40,578	31,762	39,741	51,959	31,140	89,327	120%	24%	
Hydrocarbons (re-exported)	126,643	42,126	64,081	227,188	226,703	193,813	53%	11%	
Empty container tare weight	102,647	144,552	163,225	172,104	197,743	296,192	189%	38%	
Misc. re-exported goods	61,296	99,045	160,538	171,749	235,046	496,404	710%	142%	
Scrap iron	9,058	63,669	74,417	74,045	129,864	182,741	1917%	383%	
Other goods	90,075	87,676	94,061	58,891	112,486	118,168	31%	6%	
Togo total	3,133,531	3,206,818	3,719,864	3,921,852	4,174,051	4,622,603	48%	10%	
Transit-import	964,394	772,859	784,991	889,927	1,381,768	1,972,739	105%	21%	27%
annual growth		-25%	2%	12%	36%	30%			
Transit-export	248,521	262,776	347,141	266,019	283,200	88,556	-64%	-13%	1%
annual growth		5%	24%	-30%	6%	-220%			
Transshipment	220,958	186,892	228,037	251,397	344,752	596,912	170%	34%	8%
annual growth		-18%	18%	9%	27%	42%			

Source: Lomé Port Authority statistics and World Bank calculations

4.17 **The imbalance of international trade at the port is reflected in transit traffic, with trucks very often making the return trip empty because of the small volume of exports.** Since haulers have so little return freight, they need to cover their round-trip costs with just the income from the one-way trip. They therefore tend to overload trucks as a way to boost their

income and make up for the losses of the return trip, causing very serious damage to roadways because of excessive axle weight. The breakdown among modes of transport is also way out of balance, with more than 85 percent of total tonnage going by road, and less than 15 percent by rail, mainly along the line between Lomé and Tabligbo where the clinker and cement factories are located.

4.18 **With strong growth in trade, traffic composition evolved from 2003 to 2008**, moving from an ore carrier port (bulk) representing 46 percent of total trade, toward a 48 percent container port, with conventional shipping falling from 22 to 15 percent. Growth in trade was strong during this period, averaging 12 percent per year (see Table 4.2).

Table 4.2: Port of Lomé, Trade Growth and Evolution, by Type of Traffic, 2003-2008

Tonnage (metric tons)	Ratio in 2003	2003	2004	2005	2006	2007	2008	2003 - 08 period	2008/03 average per year	Ratio in 2008
Containerized traffic	32%	1,447,235	1,991,183	2,309,683	1,978,986	2,825,071	3,482,664	141%	28%	48%
annual growth			27%	14%	-17%	30%	19%			
Bulk traffic	46%	2,116,660	1,630,733	1,746,298	2,125,140	2,375,769	2,682,609	27%	5%	37%
annual growth			-30%	7%	18%	11%	11%			
Conventional traffic	22%	1,003,509	807,429	1,024,052	1,245,069	982,931	1,115,537	11%	2%	15%
annual growth			-24%	21%	18%	-27%	12%			
Imports + exports	100%	4,567,404	4,429,345	5,080,033	5,349,195	6,183,771	7,280,810	59%	12%	100%
annual growth			-3%	13%	5%	13%	15%			

Source: Lomé Port Authority statistics and World Bank calculations

4.19 **Growth in imports, expressed in metric tons, averaged 4 per cent annually between 2003 and 2008**, well below the 12 percent increase in total trade. The principal imports are bulk shipments of clinker, hydrocarbons, and wheat (with the latter two showing negative growth over the period). Other imports include building materials, fertilizer, and food products (rice, sugar). Textile imports grew at a strong rate (annual growth of 47 percent), along with used vehicles.

4.20 **Growth in exports from Togo was strong, averaging 35 percent annually over the same period**. This reflects the development of commerce, free zone industrial production, and agriculture. Re-exported products, amounting to nearly 500,000 metric tons in 2008, i.e. 1/6 of total imports, showed average annual growth of 140 percent. Hydrocarbons re-exported in 2008 by the port came to nearly 200,000 metric tons, and by road 170,000 metric tons, in addition to transit shipments of 120,000 metric tons also by road. Cocoa exports increased by an average of more than 300 percent per year (with a portion coming from other countries including Côte-d'Ivoire), teak by 44 percent, and coffee by 35 percent. In contrast, cotton, the only important export in terms of volume, fell from 120,000 metric tons in 2003 to 22,000 metric tons in 2008, i.e. an 80 percent drop-off, reflecting the difficulties in the cotton industry. The volume of

exported scrap iron grew by 380 percent annually, climbing to nearly 200,000 metric tons in 2008 and reflecting the rise in steel prices. Transshipment of full containers and the repositioning of empty ones grew strongly, by an average of 34 percent per year, over this period. This traffic is still limited, standing at 500,000 metric tons in 2008 (i.e. 8 percent of total trade), but could signal a new function for the port, namely that of a hub port, based on its capacity to accommodate third-generation, deep-draft ships.

4.21 The accelerated growth in port traffic is due not just to demand in Togo, but also transit traffic to other coastal countries and the countries of the Sahel, accounting for 63 percent and 37 percent respectively in 2008 (see Table 4.3). The coastal countries, accounting for more than 1.3 million metric tons, include Ghana (1 million metric tons), Benin (122,000 metric tons), Nigeria (115,000 metric tons), and Côte-d'Ivoire (31,000 metric tons). Growth in import trade over the period from 2003 to 2008 was strong for Nigeria (x5) and Benin (x3), but minimal for Côte-d'Ivoire. Of particular note, clinker imported for Ghana showed extraordinary growth, increasing 18-fold between 2004 and 2008 and reaching nearly 1 million metric tons, i.e. half of all transit trade.⁴⁹ But this trade should decline sharply beginning in 2010 once WACEM⁵⁰ has expanded its local production capacity at Tabligbo.

4.22 Among the countries of the Sahel, Burkina Faso makes the greatest use of the Port of Lomé, accounting for nearly 500,000 metric tons (400,000 metric tons of imports and 90,000 metric tons of exports) in 2008. It remains the sole transit exporter, but export trade was in sharp decline in 2008, probably due to the restoration of peace in Côte-d'Ivoire. *Niger ranks second* at 195,000 metric tons, mainly imports, with average growth of close to 10 percent, most notably due to increased imports of textiles (+38 percent) and building materials (+26 percent) over the period 2003-08, while other imports registered declines, particularly hydrocarbons (-58 percent), vehicles (-47 percent), and rice (-30 percent). Niger's exports are minimal. *Mali ranks third* with 83,000 metric tons of imports, but showed an average annual decline of -7 percent over the same period. The declines were most pronounced for vehicles (-70 percent) and petroleum products (-58 percent), with only rice and sugar showing increases of small volume. Cotton was no longer being exported through Lomé in 2008; this Malian export fell from 80,000 metric tons to zero over the same period.

4.23 The reasons for growth in traffic at the Port of Lomé are varied and partly reflect the crisis in Côte-d'Ivoire:

- diversion of transit trade from landlocked countries using the Abidjan port
- transfer of Côte-d'Ivoire industrial and commercial activities to the Togo Free Zone
- congestion of other nearby ports such as Cotonou in Benin and Tema in Ghana
- development of commercial and economic activity in Togo due to the free port and free zone facilitating transit and re-exportation operations
- concessions awarded for port handling operations, fairly effective port management with minimum waiting times, allowing ships to be accommodated without too great a delay

⁴⁹ This clinker supplies the Aflao cement works located just across the border, only a few kilometers from Lomé.

⁵⁰ WACEM: West African Cement, which operates a limestone and clay concession at Tabligbo for the production of clinker and cement under the name of Diamond Cement in Togo, Ghana, and Burkina Faso.

- relative effectiveness of customs, despite the fact that transit trade is obliged to take roads in quite poor condition
- relative improvement in facilitating road transport due to a reduction in checkpoints in Togo, although the Inter-State Road Transport (ISRT) Convention has not yet been put into effect

4.24 Competition between African ports in the region is fierce, and it is interesting to compare the competitiveness of the Port of Lomé (see Table 4.4). With a return to normalcy in Côte-d'Ivoire and new investments in the ports of neighboring countries (e.g. Ghana), there is a risk of reduced demand for transportation and transit in Togo. To continue to attract traffic and trade, there is an urgent need for the Lomé Port Authority to improve the quality and competitiveness of infrastructure and services. In terms of container crane capacity and cargo handling speed, the Lomé Port Authority is still a small port in comparison to West African ports in general. It is clear that the declines in traffic in Abidjan and Cotonou have provided a boost in demand, which could disappear if the quality of services for ships and cargo is not further improved.

4.25 The container loading rates of 18 movements per hour are quite good for the mobile cranes at the Port of Lomé, but far from approaching the standard expected of a major container port, which is more than 30 movements per hour with container gantry cranes such as those installed in Abidjan. This is the minimum required to create a hub port, and it will necessitate major investments with new wharves, gantry cranes, and handling equipment.

4.26 Major constraints remain that affect the performance and costs of the transportation sector and reduce the potential to accelerate economic growth. These service inefficiencies take a toll in terms of the length of time for a truck or train to make a round trip along the Togo corridor connecting Lomé and Bamako, for example, or other neighboring ports and corridors. Estimates of the number of days lost for administrative controls and procedures suggest that, on average, it takes a truck two weeks to make a round trip from Lomé to Burkina Faso, three weeks for Niger, and a full month for Mali. This slowness is a result of the time spent waiting at loading points (due to implementation of the cargo allocation queuing system) and time spent on the road, which hinges on road conditions and the rather numerous roadblocks. The time needed to make a round trip may be shorter depending on the type of cargo (fuels-Cotonou) and itinerary (for example, on the Dakar-Bamako railway). Average truck speed is slow, and the distance covered in a day is rarely more than 280 km because the vehicles are old and in poor condition, the road surfaces are uneven, and security conditions are not good. At night, there is no traffic, because obstacles on the road may not be visible, and attacks are frequent. Port and loading waiting times are close to five days, formalities at borders and roadblocks take three to five days, and one-way transit times are five to seven days. This is much more time than necessary and it increases transportation costs, and thus the prices paid by clients. As the saying goes, “time is money.”

4.27 The Lomé Port Authority's rates and port fees for containers are quite high. They have been the subject of complaints from operators, and transit traffic with Burkina Faso and Niger reportedly tends to prefer passing through the Port of Tema and Ghana, where the roads are said to be in much better condition than in Togo. Nevertheless, the Lomé Port Authority is

trying to hold onto this transit trade by setting more favorable rates than for national trade.⁵¹ For conventional traffic, the rates are variable. For cement in bags, handling charges are around CFAF 1,500 per metric ton, but twice as high in Cotonou. For wheat, the port charges an ex ship handling fee of CFAF 400 per metric ton and an on-the-ground handling fee of CFAF 900 per metric ton; this seems somewhat exaggerated because the unloading of bulk cargo is done entirely by the importer's employees and equipment (capacity of 1,800 to 2,500 metric tons/day).

4.28 Truck rates for cargo are not fixed, but they are expensive for the quality provided.

Shippers or the forwarding agents who represent them negotiate the rates with the haulers who, even though there are too many of them and their trucks are old and unreliable, obtain quite high rates for the low quality of service provided (see Table 4.3). Haulers are in fact protected by the interstate quota arrangement for the allocation of cargo and its queuing system, and they manage to improve their profit margins, which would otherwise be very low. To offset the effects of an empty return-trip, in 80 percent of cases haulers are accustomed to adding to their loads, often to the point of exceeding the axle weight of 11.5 metric tons authorized by WAEMU.

Table 4.3: Standard Rates for Road Transport in Togo 2009

International route on paved road	Load metric tons	Kms	CFAF/MT/km or m3	CFAF/MT or m3	Cost of Transport
Lomé - Ougadougou or Niamey		1,250			
Cargo (conventional)	36		36	45,000	1,620,000
40-foot container	25		48	60,000	1,500,000
Hydrocarbons	45		32	40,000	1,800,000

Source: Transport Association.

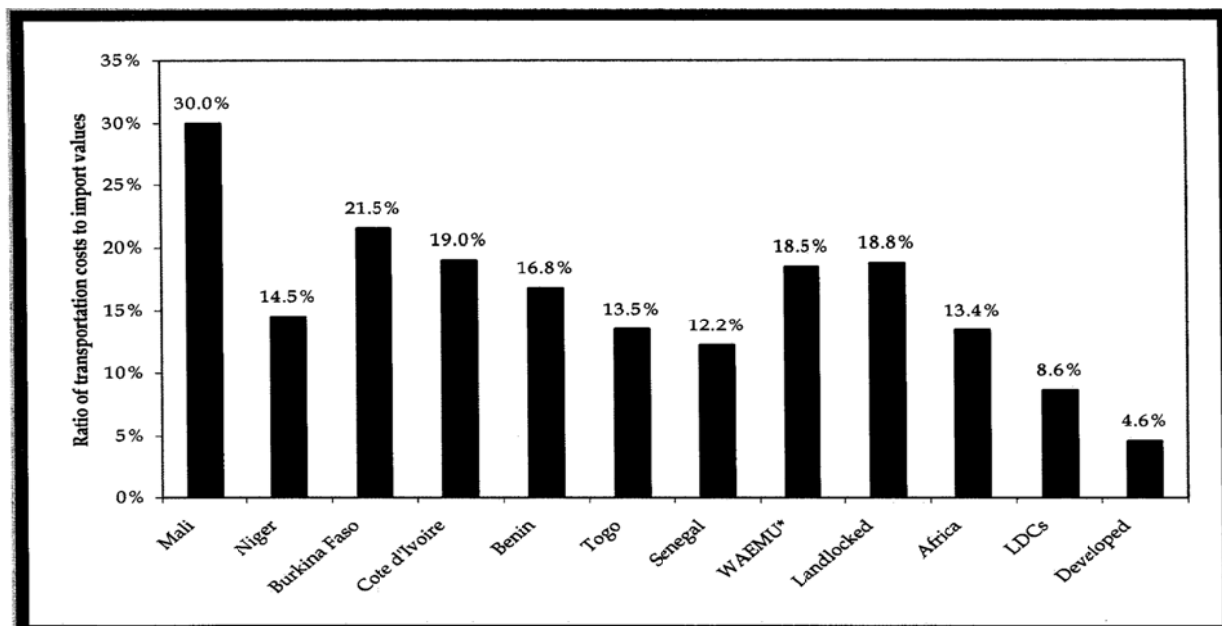
4.29 Cargo intended for consumption in Togo or in transit is hit with a large number of other fees which add substantially to business costs, on top of port fees and transportation costs. The list of such expenses is long, and cost differences are found between different corridors. For example, in the case of Burkina Faso's transit trade, movement through Tema is less expensive than through Lomé, where it is very expensive for cargo to remain at the port. In addition to the forwarding agent's fees, there are expenses related to documentation (manifest control, ISRT declaration, insurance, notice to COTECNA), customs filings (in addition to duty), the National Council of Togolese Shippers, the haulers' unions administering the cargo allocation system, the ISRT guarantee funds, the statistics fee, customs escorts, warehousing in the countries of the Sahel, use of the Sahel Terminal, road expenses, and miscellaneous legal and illegal fees at roadblocks.

4.30 Transportation and transit costs in Togo, although rather expensive, are lower than those in many other countries of West Africa. The study by N'Guessan on IMF/UNCTAD data from 2002 shows the wide variation in transportation costs in relation to the value of imports that year. With a ratio of 30 percent, Mali is of course greatly penalized by these various practices and extra costs, in addition to its distance from ports, as in the case of other landlocked countries, such as Burkina Faso or Chad. It should be noted that this ratio is normally very low, around 5 percent, in the developed countries, and that coastal countries such as Togo and

⁵¹ The loading and handling rate billed by SE2M for a full 40-foot container is around CFAF 146,000.

Senegal are situated at an intermediate cost level on the order of 12 to 14 percent. The norm for developing countries is around 9 percent.

Figure 4.1: Ratio of Transportation Costs to Import Values in Togo and in Africa



Source: N'Guessan (2003) based on IMF/UNCTAD data.

C. Port Constraints: Management and Infrastructure

4.31 The port has the potential to position itself in the region as a hub port for containers. The port is very well situated at the junction of two road corridors: East-West between Côte-d'Ivoire and Ghana, in one direction, and Benin and Nigeria, in the other; and South-North between the Atlantic Ocean and the neighboring landlocked countries of Burkina Faso, Mali, and Niger. This is the only deep-water port in the region and requires little dredging, thus it can accommodate the class of large ships that draw as much as 14 meters of water. It could play an important strategic role at the crossroads of transportation and trade in the sub-region.

4.32 Created in 1967, the port enjoys financial autonomy and autonomous management. In 2001, the Government decided to turn over to the private sector responsibility for the handling of conventional traffic at the port, with four berths, and at the container terminal, with two berths. The port authority is in charge of the sovereign functions of inspection, security, and the development of port areas. It runs the facilities, the warehouses, and the oil carrier port, sees to the captaining, piloting, and towing of ships, and manages the port and maritime property. The latter includes an 81-hectare harbor, a petroleum wharf, and a fishing port. Warehouses cover 11 hectares at the port and just as many hectares outside the port, aprons cover another 20 hectares, and there are some 60 hectares for used vehicles, plus four hectares to the north of Lomé for the Sahel Terminal where road convoys pass in transit. The export processing zone on port property spreads across 900 hectares.

4.33 The type of management is that of a port that is part-operator (service port) and part-owner (landlord): the port is the operator for all captain functions (assisting ships with three tugboats, piloting, and mooring), the oil carrier wharf, and the petroleum wharf. Cargo is handled by private concessionaires in the case of containerized⁵² and conventional traffic,⁵³ based on government-negotiated contracts. The port's new role is that of a landlord port, relieved of handling operations. This role should be strengthened to supervise the contractual terms of concessions, with regular reports on the productivity of handling operations in order to verify contract compliance. But in fact, the port, which did not negotiate these contracts, has no sway over the concessionaires. There is no synergy between the actions of the port and the concessionaires and, in these conditions, it is difficult to have a harmonious policy that meets client demand. The marketing and promotional activities are insufficient and customer service is disappointing. This is why transit country shippers seek better conditions elsewhere, which is harmful to the port and the country. Institutional strengthening is needed to build the port's authority.

4.34 The port's productivity is relatively good, but should be better. Ship waiting times range from 24 to 48 hours, depending on type of cargo. The waiting time is less for container ships (about 24 hours), but it is sometimes much longer for bulk carriers (consider the situation of wheat that had to be unloaded in Ghana and the clinker case). These delays may be due to wharf or conveyor equipment breakdowns, inadequate equipment handling capacities, or inexperienced personnel.⁵⁴ The container unloading rate of 18 movements per hour is just barely acceptable.

4.35 Containerization and competitiveness at the Port of Lomé. Economic growth in Togo, as in many other African countries, has sped up in part because of progress due to containerization and cost reduction in maritime transport. From 2004 to 2008, annual growth in import container traffic averaged close to 16 percent, reflecting increased import trade from the countries of Asia, more than Europe. As of 2009, the majority of Togo's sea trade is with China. However, this container traffic is greatly unbalanced: of those arriving full, many must leave empty. An increase in full containers is a reflection of a profitable activity, but for them to return empty is very expensive. The number of ships remained stable over the period 2004-2008, and barely a tenth are container carriers, roughly 100 to 120 per year or a dozen or so per month. In terms of total load, these 100-120 ships account for nearly half of the annual traffic at the Port of Lomé. The number of container shipping lines has dropped, and substantial concentration is taking place with business acquisitions and mergers. They are increasingly interested in port management for the purpose of better controlling ship travel times and avoiding very costly delays.⁵⁵

4.36 The underlying issue of the management and repositioning of empty containers has been resolved because the surplus in Togo can be absorbed by exporters in neighboring countries

⁵² Société d'Entreprise de Manutentions Maritimes (SE2M/Progossa) and, since November 2008, Manuport (GETMA), which handle containers between ships and wharves with two mobile 400-metric ton cranes on Pier 2, with two berths, and which operate handling equipment between the wharves and the storage areas.

⁵³ Société d'Entreprise de Manutentions Maritimes (SE3M/Progossa) and Manuport (GETMA), which serve ships on Pier 1, with four wharves for a range of cargo, bagged goods, and used cars.

⁵⁴ When the second concessionaire, Manuport, began container operations in late 2008, rates were as slow as 6 to 8 boxes per hour, causing delays for other ships due to excessively long periods of wharf-side immobilization. Shipping companies have complained about this, but the situation has reportedly improved.

⁵⁵ Immobilization of a 2,500-box container carrier costs about US\$30,000 per day.

where there is a demand for empties, for example in Côte-d'Ivoire and Ghana (food products, cotton, etc.). The Port of Lomé has the advantage of having available space for storing the empties and, as an incentive, it offers very generous tax exemption conditions for transit container storage, for which rates are extremely low.⁵⁶ The port passage duty on empty containers is just five euros. Thus, this function has recently been added to other services offered by the port. The economic justification for this trade policy still needs to be verified, but the port sees an opportunity for growth, the goal of which is to attract such traffic from landlocked and coastal third countries. This is how transshipment trade has begun to develop, typical of a hub port. Lomé's harbor can accommodate ships that draw 16 meters of water and thus allows large ships to dock there, where their load can be lightened so they can then proceed to other ports in the region limited to 11.5 meters.⁵⁷ The containers are taken by feeder boats along with the empties, which may be stored for up to 43 days at no charge, a boon to shipping lines. Does this policy further the long-term interests of the port? Are there not better ways to develop the use of these spaces?

4.37 The productivity of container handling by private concessionaires improved considerably between 2001 and 2006, but the rates went up. At 18 boxes per hour, maximum capacity has been reached at this narrow terminal with two berths, unsuited for the installation of gantry cranes. It will be impossible to satisfy additional demand resulting from gradual containerization of conventional cargo without a port expansion. Container traffic currently accounts for 48 percent of total trade and should climb to roughly 60 or 70 percent. The concessionaires collect fees for unloading and loading ship containers, along with on-the-ground handling fees (stevedoring charges), separate from the port fees collected directly by the port. The rates actually charged by the concessionaires are confidential and the subject of negotiations, based on guaranteed volume. Moreover, they vary according to demand which, in the current crisis,⁵⁸ is visibly in decline and affects all maritime activity. However, it was possible to obtain standard rates which have, in general, risen since the concessions were instituted, although they have fallen for transit trade.

4.38 In general, operators complain that the Lomé Port Authority's rates are too high, and Burkina Faso and Niger clients prefer to move their imports through the Port of Tema and Ghana where roads are said to be in much better condition than in Togo. It is very expensive for cargo to remain at the Port of Lomé, in comparison to the Port of Tema. On the other hand, the Port of Lomé stresses the fact that leasing port property costs just CFAF 400 per m².⁵⁹ Nevertheless, the Lomé Port Authority is trying to attract transit trade by offering more favorable rates than for national trade. The port's commercial and rate policy should therefore be reviewed to offer better services and ensure that rates become once again competitive, particularly for non-captive traffic, which transit traffic clearly is. The Lomé Port Authority should also orient its

⁵⁶ The tax exemption lasts 25 days for sea transit or transshipment and land transit containers, and 43 days for empty containers for their repositioning.

⁵⁷ The deep-water advantage enjoyed by the Lomé Port Authority may be short-lived because the shipping lines have placed orders for new container carriers, to be delivered in 2011, that are specially designed for African ports with 11.5 meters draft. These wider ships have a capacity of 3,000 boxes.

⁵⁸ In May 2008, Lloyd's Register Fairplay reported that 735 ships were awaiting cargo in the Strait of Malacca near Singapore. Freight charges for sending a 40-foot container from South Asia to Northern Europe had reportedly fallen from US\$1,400 to US\$300, below the real cost of providing this service according to Drewry Shipping Consultants in London.

⁵⁹ Leasing rates at other ports for warehouses and other uses are about CFAF 8,000 in Benin and the equivalent of CFAF 2,000 in Ghana.

policy to ensure that Togo improves its appeal, both in terms of passage through customs and in terms of road and passage conditions on the north and coastal corridors.

4.39 Inside the port, traffic is very congested. This is due to insufficient parking space, narrow roads, and the narrow, one-way entrance/exit gate. Furthermore, all the access roads outside the port are congested, creating very long waits for truckers. In addition, the customs formalities are still lengthy, causing major delays, despite implementation of the computerized declaration and tracking system (SYDONIA) and use of a scanner for all containers, except those in transit, before leaving the port. The length of time that cargo remains at the port should not in principle exceed 48 hours, but many importers complain that the real time is much longer, averaging as long as a week. Moreover, customer service provided by the port is reportedly inattentive.⁶⁰

4.40 Development needs and Port Master Plan. Since the port's capacity will soon be reached, for ore bulk and containers in particular, the port needs to prepare for future development and update the Port Master Plan.⁶¹ Traffic projections are outdated, and even the Plan's high-end hypothesis of 4.9 million fell well short of the reality of 7.2 million achieved in 2008. A thorough study is necessary to help the port choose a new port development strategy, laying out options for how the space is to be utilized and flexible development phases that take into account the uncertainty of traffic projections. The future approach will need to avoid certain errors of the past and ensure that the procedure followed in analyzing all port expansion project bids submitted by private groups determines accurately whether their objectives are consistent with the Master Plan. There are many development projects in Togo that are of national interest and that should become possible as a result of future Lomé Port Authority expansions, for example exports of clinker, cement, and iron ore, as well as agricultural products (cotton, coffee, tropical fruits, etc.), and imports for major projects such as the AREVA project in Niger,⁶² etc., and the needs of all the countries of the Sahel.

4.41 How to protect the national interest in port projects? In this regard, it is not clear that it is in Togo's interest to move forward, for example, with the MSC project for a new container terminal, the objective of which is to develop the repositioning of empty containers and transshipment of full containers. While the investors' decision appears to be motivated by the low port passage duty of five euros per box and the virtually free storage of empties, this obviously brings little added value to Togo for a port space that is unique in the region. This major project includes BOT⁶³ construction of a dock with five berths, for which a 30-year concession authorization was signed by the Government with MSC/GETMA in late 2008.⁶⁴ It is surprising to learn that the operational and financial terms were not evaluated by the port.

⁶⁰ According to *Etude sur la Compétitivité du Port de Lomé*, July 2007, by Intrans Conseils et Services, SARL, Lomé.

⁶¹ The current Master Plan for the Port of Lomé dates back to November 1999 (study by consultants Prof. Dr. Lackner & Partner, Germany).

⁶² The AREVA project calls for doubling uranium mining production in Niger and would entail demand for imported inputs totaling some 450,000 metric tons annually, which would have to pass in transit through the ports of the region.

⁶³ BOT: Build, Operate, Transfer, a type of concession where the port operator undertakes to finance an entire project, including the civil engineering and equipment, which the operator must then pay off over the life of the project while providing royalties to the port, to which all the facilities will be turned over at the end of the concession contract.

⁶⁴ However, the size of the investment—some 200 million euros—creates the need to raise funds in addition to those of this group, a particularly difficult task in the current recession.

4.42 **Another major BOT project proposed by Maersk and now under discussion involves the construction of a third wharf**, which is to be 250 meters in length, to accommodate a new container terminal with storage aprons and new, independent access to the coastal road bordering the port. This project would have a great impact on land use within the port area and could very well prevent any future development at the rear of the port space. The most rational approach, strongly recommended, is to hold off on any agreement until completion of the Master Plan study, which should assess medium- and long-term development alternatives.

4.43 **Furthermore, logic dictates that the port itself should be the party requesting investments for projects that support national development.** Competitive bidding should be instituted on the basis of specifications, and the specifications should lay out the terms of these BOT concessions. This would guarantee that the characteristics of the public port are protected, and that it will remain accessible to all ships, with no preference bestowed on those of the private group developing the project. In addition, these concessions should be awarded on the condition that urgent improvements are included in the scope of work, for example doubling or tripling the traffic lanes inside the port, developing parking areas for heavy trucks, and integrating port entrances and exits with interchanges that connect to traffic lanes outside the port in order to reduce bottlenecks in the surrounding area.

D. Road Infrastructure and Road Maintenance Constraints

4.44 **Effects of weak transportation infrastructure in Togo.** Despite the many improvements made between 1968 and 2000, including road construction and port development, to meet demand during that period, the infrastructure is far from satisfactory today. Its limited capacity and poor maintenance tend to slow down the traffic and raise the operating costs. Road maintenance has been insufficient for lack of resources over the last decade, even as traffic has greatly increased since 2002 as a result of the crisis in Côte-d'Ivoire, causing transit trade from landlocked countries using the Abidjan port to be diverted to other ports, including Lomé. This heavy traffic has resulted in port congestion and road damage. Thus, for example, more than half of the 56-km coastal corridor between Ghana and Benin, which runs along the coast and passes through Lomé, is in poor condition. And more than two-thirds of the 650-km trunk road leading northward toward the border and the landlocked countries is in poor condition as well. The railroad runs along 260 km of this route, as far as Blitta, but it too is in poor condition.

4.45 **Condition of road network.** The road network comprises close to 4,400 km of main roads, urban roads, and classified rural roads, of which 1,720 km (39 percent) are paved. Most urban roads are not paved and their condition is poor. In addition, there are some 6,000 km of unclassified rural roads that are in very poor condition. Only 14 percent of the roads of the national network are in good condition, and 16 percent in fair condition. Just 32 percent of paved roads are considered in good condition, i.e. a total of 545 km. Overall, 70 percent of the road network is in poor condition. Priority thus needs to be placed on maintaining this road network, which has to be saved if onerous rehabilitation and reconstruction costs are to be avoided in the future. The network's sustainability is threatened both by lack of maintenance and by abuse from overloaded trucks that exceed axle weight limits. The poor condition of the roads also means that users have very high vehicle operating costs, with more frequent repairs and longer travel times undermining the profitability of the road fleet.

4.46 Rehabilitation and improvement of road infrastructure in Togo is one of the Government's priorities that should be supported by donors. The road network has benefitted in the past from numerous investments made possible by such financing, including from the World Bank. The Transport Rehabilitation Project (PRT) of 1995-2000 laid out a reform framework and moved forward with implementation, including establishment of the Road Maintenance Fund. The general orientation of this policy, set forth in the Transport Sector Policy Letter, still holds today, but many initiatives came to nothing after multilateral aid was suspended in 1998. It is recommended that these reforms be reactivated in a number of departments of the Ministry of Public Works and Transportation (MTPT) including the Directorate General of Public Works (DGTP) in charge of roads, along with: (a) the Directorate of Road Construction and Reconstruction (DCR); (b) the Directorate of Planning, Studies, and Monitoring and Evaluation (DPESE); (c) the Road Maintenance Directorate (DRE); and (d) the Rural Roads Directorate (DPR). Project ownership of new construction, reconstruction, and rehabilitation is handled by DCR. An urban works implementing agency, AGETUR, has signed an agreement with DGTP to see to the execution of urban road maintenance and sanitation projects by private enterprises selected in accordance with government procurement rules. In addition, it is recommended that the new organizational arrangement for road maintenance be buttressed by the creation of a private, autonomous implementing agency charged with execution of regular and periodic road maintenance in accordance with similar rules.

4.47 The DGTP road improvement program has resumed after an interruption of nearly 10 years. The goal of the program is to: (a) link cities together more effectively by completing the work of paving the entire network of roads leading to corridors; (b) boost corridor capacities in order to retain transit traffic; (c) improve rural roads; and (d) improve city roads. Major projects are now in progress or about to get underway, including, in particular, reconstruction of the coastal section of the Abidjan-Lagos corridor in three parts,⁶⁵ reconstruction of the 77-km Tanjouaré-Cinkassé section of the northern corridor, reconstruction of eight bridges, and rehabilitation of 1500 km of rural roads.

4.48 These very substantial undertakings will provide attractive strategic alternatives for shippers and haulers who will gravitate toward the most advantageous corridors in terms of transportation flow, facility of port transit, and tariffs. A decline in vehicle operating costs, made possible on all the main roads by improved road quality and shorter travel times due to higher speeds, will boost Togo's competitiveness. In addition, to ensure the sustainability of the restored road network, it will be of fundamental importance to ensure that these paved roads are regularly maintained and that they are protected by enforcing the axle weight limit, set at 11.5 metric tons.⁶⁶

4.49 Solutions need to be found to reduce traffic congestion in greater Lomé. Heavy trucks are banned from the city center during the day and must be parked on the outskirts, either at the port or at Sahel Terminal to the north of the city, unless they bypass the city center altogether by taking a very narrow road between the port and Sahel Terminal. In contrast, heavy traffic is not prohibited on the coastal road that crosses the city between the port and the nearby border with Ghana to the west. Growth of the city is rapid, with very large developments to the north, so there is a need to plan the construction of a beltway bypassing the city that will connect

⁶⁵ One part is being financed with IDA funds as a component of the regional project on this corridor.

⁶⁶ The regulations adopted by the countries of the Economic Community of West African States (ECOWAS) require haulers to adapt and load their vehicles in compliance with these standards - Decision C/DEC 7/7/9.

the export processing zones and the free zone to the southeast, near the port, with Sahel Terminal and the Lomé railroad station to the north. This would avoid having trucks filled with clinker on the coastal road, as well as trucks coming from the STE⁶⁷ and STSL⁶⁸ oil depots.

4.50 Traffic is very congested around the port and the nearby industrial zones where the majority of heavy trucks converge. Traffic flows associated with port activities are mixed with passing traffic that has nothing to do with the port, and this necessitates separating the two types of traffic to avoid congestion. However, in the southern part of the beltway envisioned for bypassing Lomé to the north, it appears that the alignment is not optimally integrated with the evolving needs of port traffic and its expansion. The project needs to be adapted and improved; the number of access points at the port should be increased and the two types of traffic should be separated with appropriate interchanges. This would allow heavy trucks to serve the port and other road terminals to be created, as well as a railroad terminal to target heavy transport, with a priority on oil and ore. Bypassing the city would avoid the present congestion and lost time, while improving the productivity of these trucks. Studies should be carried out following up on the preliminary studies funded by the EU to assess the feasibility of these improvements, in connection with the impending updating of the port's Master Plan.

4.51 Adoption of a system for having the roads maintained by private companies and mobilization of local funding based on a road user fee. Togo adopted this excellent system in 1997 and created both the Road Maintenance Fund (FER) and a National Council on Roads (CNR) that operated until November 2008. There was regular funding thanks to the fee of CFAF 35 paid by all road users as part of the pump price for fuel (CFAF 445 per liter). The timely availability of this funding made it possible to have the roads maintained, outside the national budget, by private companies to which contracts were awarded, based on competitive bidding, by the Roads Directorate. This system had the dual advantage of being simple in terms of resource mobilization and avoiding the budget cycle, which too often results in funds not being available when the work needs to be done before the rainy season.

4.52 However, this arrangement for executing and funding road maintenance, created by Law 97-02, was suspended then dissolved by the National Assembly, which adopted a new Law 2008-016 promulgated on December 19 by the President of the Republic. This decision was reportedly due to flaws in the awarding of contracts and embezzlement, sparking discontent on the part of users and civil society, who felt that the maintenance performed did not match up to the spending incurred.

4.53 The new law set in place a new system comprising two new entities: the Road Fund (FR) and Compagnie Autonome des Péages de l'Entretien Routier (CAPER), under the supervision of the National Council on Roads (CNR), a restructured, preexisting body. The implementing decrees were not signed for more than a year, interrupting road maintenance and leading to further deterioration, even though funds were building up through the road user fee. The draft decrees were submitted, for its opinion, to the World Bank, which in 1996-1997 had funded, under the Transport Rehabilitation Project (PRT), strategic studies that led the Council of Ministers of that period to create the Road Maintenance Fund (FER). The founding

⁶⁷ Société Togolaise d'Entreposage (STE) has 12,000 metric tons of storage capacity and provides fuels to all distributors in Togo, receiving the fuel by pipeline from STSL and moving it out at a rate of 80 trucks daily.

⁶⁸ Société Togolaise de Stockage de Lomé (STSL) has a capacity of 260,000 metric tons. It receives all fuels destined (i) for Togo and (ii) for transit, by pipeline from the port. For transit countries, some 250 trucks are loaded daily at STSL.

principle, in consultations with donors, was that the latter would assist Togo by taking care of heavy maintenance involving rehabilitation and major repairs, while regular, periodic maintenance would be covered by users, thanks to the funding mobilized by the FER.

4.54 **A review of these draft decrees reveals that the reform alters the system in three important ways**, as follows:

- ***The road user fee collected on fuel prices is maintained under the Road Fund (FR)*** but would be earmarked for new projects involving the planning and construction of new roads and no longer for road maintenance, which would be funded through tolls, weigh stations, and axle weight charges.
- ***Regular, periodic maintenance of the road network, which was already insufficient due to FER resource shortfalls, is likely to be even less well performed*** for lack of resources since it can be expected that tolls, weigh stations, and axle weight fees will yield far less than the amounts collected by the FER (CFAF 10 billion, equivalent to 15.3 million euros, of which just 15 percent came from tolls in 2007). To be realistic, the budget should be increased by 70 to 100 percent.
- ***The proposed system of spending controls involves administration and accounting, whereas the problem appears to lie more at the technical level and at worksites where the misappropriation of public funds takes place.*** Inadequate maintenance, in terms of both quality and quantity, is mainly the result of flawed controls and connivance between enterprises, agencies charged with supervising road projects, and some employees of the Directorate General of Public Works (DGTP).
- ***The objective of this reform will nevertheless be achieved if the necessary adjustments indicated in the three preceding points are made.*** In general, all measures taken to reduce, on a priority basis, defects in good governance will be highly useful,⁶⁹ particularly the requirements concerning work specifications, procurement, and road project supervision. It will be important to make sure that revenues for regular maintenance from tollgates and weigh stations are very quickly augmented by CAPER so as to surpass the funding levels reached by the former FER. If necessary, the FR will have to be dipped into, and priority given to regular maintenance instead of new projects.

4.55 **The toll-weigh station option is no doubt well-founded and necessary because traffic volume is high,**⁷⁰ especially along the North-South corridor serving landlocked countries and the East-West corridor toward neighboring coastal countries. Since there is no axle tax, a compulsory toll based on vehicle weight is justified for all local and foreign vehicles. In fact, two categories of fees will be collected for: (a) properly loaded trucks, which will now be required to help with the intense wear and tear on roadways caused by heavy loads; and (b) overloaded trucks, based on total weight and/or exceeding the axle weight limit of 11.5 metric tons, which will now be penalized and have to pay, on top of the toll for the given category of heavy truck, a surcharge due to the fact that they cause major and unacceptable damage.⁷¹ Weigh stations adjacent to tollgates should therefore be developed very rapidly, and the fees should be set on the basis of vehicle size.

⁶⁹ The Parliament deemed that FER funds were mismanaged, with many unjustified mini-contracts.

⁷⁰ Traffic volume is in the range of 8,000 to 15,000 vehicles per day on the most highly traveled sections.

⁷¹ In Burkina Faso, a 2008 study estimated the extra cost caused by the overloading of heavy trucks at more than CFAF 30 billion in 2007 on the 1,450 km of paved roads covered by the study.

E. Privatization of the Rail System

4.56 The example of rail functions being taken over by a private group that is now engaged in rehabilitating the system is a positive one. This has served to boost freight volumes and improve the quality of services for heavy freight. In December 2002, Togo Rail became a concessionaire in the form of an independent company, for WACEM the main user and successful bidder,⁷² which holds the concession contract. The 513-km, meter-gauge system comprises four sections running 276 km from Lomé northward toward Blitta, 71 km eastward toward Tabligbo, 119 km westward toward Kpalimé, and the 47-km Aného section along the coast toward Benin. The first two sections are in use, the third is out of use, and the fourth has been abandoned. The rolling stock includes 12 locomotives, nine of which were acquired by Togo Rail in 2004, as well as 29 special cars added to the fleet the same year, bringing the total fleet to 204 cars. Between 2003 and 2008, Togo Rail invested US\$6.43 million, above and beyond the US\$4.73 million planned for this period in the 25-year concession contract. The workforce includes 76 permanent employees and 22 temporary ones. In addition, there are 140 contract workers.

4.57 The cargo carried by Togo Rail includes the needs of WACEM (clinker, coal, gypsum, limestone, and heavy fuel oil) and those of other clients (cotton, cement, fertilizer, teak, and charcoal). Volume increased from 300,000 metric tons in 2002, before the concession was awarded, to 1.1 million metric tons in 2004, but fell to 586,000 metric tons in 2008 because of lower clinker output while the Tabligbo factory was being expanded, with an eye to doubling output in 2010 (Table 12). This decline in shipments of clinker to the Aflao cement works in Ghana was offset by imports, which showed strong growth at the Lomé Port Authority.

4.58 Rates are competitive in relation to road fees. For clinker, coal, and gypsum, they stand at CFAF 21 per metric ton per kilometer; for cotton, the rate is CFAF 42; and for cement it is CFAF 23.25. With a total business volume of CFAF 1,500 million in 2008, Togo Rail paid CFAF 200 million in royalties to the Government of Togo, CFAF 22.4 million in taxes, and CFAF 278 million in wages.

4.59 Major rehabilitation projects have been carried out on the Blitta line and in the Lomé area where steel ties were corroded and rails broken. Ballast has been placed and new ties and rails laid. Bridges have been strengthened and stations rehabilitated. A factory was set up to produce concrete ties, and the program now underway will renovate more than 20 km of track.

4.60 The project to build a new track between Lomé and Aflao in Ghana to transport 1.5 million tons of clinker by rail, already studied and submitted to the Government, would remove this heavy traffic from the road. Financed by Togo Rail, construction of this 6.5-km track can be completed in one year, after the Government gives its approval and acquires the necessary land. However, falling under Togo Rail's 25-year concession, 15 years of which are non-prescriptible, this project clashes with the awarding of a second concession⁷³ that divides this network and makes it necessary to use 2 km from the new concession to build this line. The decree cutting

⁷² However, Decree 2008-145/PR of November 28, 2008 has unilaterally and retroactively modified the framework of this concession signed with WACEM.

⁷³ The November 2008 decree calls into question the concession signed in May 2002 with WACEM awarding it the entire system, and the split-up into two concessions, one to WACEM for the Lomé-Tabligbo segment, with the expectation of completing the Lomé-Aflao branch track in one year, and the other to the firm MM Mining S.A. concerning the Lomé-Blitta and Lomé-Kpalomé lines for non-exclusive transport of its products.

back Togo Rail's concession poses a legal problem that the Government should quickly resolve. Otherwise, the Government may well deprive itself of a very useful investment that could help avoid destruction of the planned new coastal road by trucks carrying clinker to Ghana. There is an urgent need to find a solution that will allow Togo Rail to maintain some rights over the first two kilometers of the Lomé-Kpalimé section, where the branch track of the new Lomé-Aflao line needs to be built. It will be important to integrate into the rail system the new line that should be built for the SCANCEM project in Tabligbo, and to ensure its access to the new line proposed for Aflao, because the SCANCEM project also calls for exports to Ghana.

F. Transit Obstacles and the Need to Improve Trade Facilitation

4.61 **The reasons for excessive transit costs are many:** (a) first and foremost, failure to implement community treaties designed to facilitate trade in goods and services between member countries; (b) delays and expenses caused by customs and escorts; (c) interstate cargo allocation quotas; (d) unjustified levies by certain entities such as CNCT; and (e) roadblocks that hold up transit operations with multiple interferences, controls, and often illicit levies, imposed by national or local government or security services that are supposed to verify the vehicle's load or its safety. It is essential that a more aggressive trade facilitation policy be set in place to reduce these practices that run counter to the public interest.

4.62 **Poor implementation of West African regional trade facilitation treaties and the rules of interstate road transport.** To facilitate transit, ECOWAS and WAEMU member countries have signed many regional conventions in the past (more than two dozen). One of them, the Lomé Convention of 1982 on Inter-State Road Transport (ISRT), permits the movement of freight "in transit," with customs duty and taxes suspended, between these countries without the trucks stopping. This is permitted by means of a single, standard ECOWAS transit carnet that lists the cargo being hauled and all related data, and single insurance guaranteeing all customs duties to be collected in the event that duty is not paid on the cargo at its destination. Other conventions have enriched this institutional framework for transit operations:⁷⁴ (a) trucks meeting official standards required for international transport; (b) axle weight limit of 11.5 metric tons; (c) elimination of controls at roadblocks; and (d) creation of road activity watchdog agencies. All these conventions and treaties are supposed to facilitate economic integration and trade between member countries.

4.63 **Conventions not implemented and extra costs for operators.** It must be said that, to date, these conventions have not been effectively or properly implemented in any of the member countries, thereby resulting in obstacles to the free movement of goods on the region's road corridors, such as:

- absence of an effective guarantee system, since the deposit is not used, although paid
- extra cost for issuing ISRT carnets at each border, although a single carnet is the rule
- existence of many checkpoints, both licit and illicit
- absence of regional standards on vehicle sealing
- proliferation of expenses for customs escort services, paid but rarely performed

⁷⁴ Cotonou Convention of 1982, Banjul Convention of 1990, Dakar Conference of Heads of State of January 2003.

4.64 **The Dakar Conference of ECOWAS Heads of State and Government** of January 2003 convened in a climate of insufficient progress and incompetence in this area, feeding protests by haulers and shippers who bore the expenses of these predatory practices. The Conference adopted Decision A/DEC/13/01/03 to establish a Regional Road Transport and Trade Facilitation Program to assist intercommunity trade and border movements. In addition to setting up monitoring committees and road security units, this program calls for concentrating activities along two key trans-African corridors (the Lagos-Nouakchott coastal corridor and the Dakar-N'Djamena trans-Saharan corridor). It also calls for:

- common border posts between two countries (juxtaposed posts⁷⁵)
- watchdog agencies to identify abnormal practices
- an informational campaign so all will implement the ISRT Convention

4.65 **Since then, activities carried out within both WAEMU and ECOWAS have resulted in more intense contacts and preparation of an implementation program.** Togo makes a substantial contribution to the budgets of these organizations and should benefit from this dynamic, provided that it plays by the rules and fulfills its responsibilities by injecting greater rigor in government action. This would be a sign of political will and good governance in refusing to tolerate the abuses suffered by economic operators. However, Togo's Trade Facilitation Committee is inactive, according to the Directorate General of Transportation.

4.66 **Weaknesses of customs service institutional framework and governance.** Despite important innovations such as the introduction of SYDONIA++, which enables customs agents to file *declarations* by Internet, the customs service has a lot of work to do to reduce the delays and expenses it inflicts. It is quite clear that customs has not yet accepted that its mission should be to facilitate and help develop trade, rather than slow it down and extract a few benefits along the way. For example, automatic validation of declarations, along with the issuing of a registration number and assignment to a control channel and regime, is not performed until all the following documents have been received, with processing held up if just one is missing:

- manifest with data on the merchandise, importer, ship, origin, and destination
- delivery order from the ship's agent, allowing the forwarding agent to take the merchandise
- invoice with description of the merchandise and the harmonized system (HS) code
- notice of verification from COTECNA
- cargo tracking slip (BESC) and commissions paid to CNCT
- sea freight invoice
- insurance invoice for the merchandise from a national company
- Incoterms and BCEAO allotment of foreign exchange

4.67 **The customs clearance procedure is lengthy and involves several steps,** even though the SYDONIA system was designed to simplify and systematize the procedures. The various customs regimes (consumption, temporary admission, re-export, private bonded warehouses,

⁷⁵ In customs terminology, these posts are called BCNJs, the French acronym for Juxtaposed National Border Control Stations.

duty-free, and in transit) are classified in four channels (green, yellow, red, and blue) based on risk management. The procedure is nevertheless long and the declaration file is processed manually, even though the system is computerized. This makes it possible to inspect the documentary evidence and the merchandise at any time, whatever the channel, as soon as suspicions about a file arise. Why, for example, require the BESC and the receipt of commissions paid to the National Council of Togolese Shippers (CNCT), the usefulness of which is moreover disputed? In fact, registered customs commissioners (CADs) are required to run a true obstacle course in order to complete the customs clearance process (see Table 4.4). Of particular note are the levies required, with and without receipts, to ensure that the declaration will not be blocked.

Table 4.4: Procedure for Processing Customs Declarations at the Port and Payments Collected

Level	Action	Payment	Amount in CFAF
Secretariat of Bureau Chief	Establish admissibility of the declaration	Extralegal time (TEL) Payment w/ receipt	4,000 for consumption 4,000 for transit 8,000 for change
Bureau Chief	Sign authorization to channel the declaration	Payment w/o receipt	2,000
Chief Inspection Bureau	Assign a verification agent	Payment w/o receipt	2,000
Verification Agent	Verify documents attached to declaration If okay, issue settlement certificate	Payment w/o receipt	15,000
Cashier's Office	Deposit importer's check or cash Issue receipt	Payment w/o receipt	5,000 for consumption 2,000 for transit
Verification Inspector	Return to verification agent Issue delivery order		
Manifest Processing Bureau	Processing/settlement not done by SYDONIA	Payment w/o receipt	2,000
Secretariat of Brigade Chief	Record receipt and delivery order, in writing	Extralegal time (TEL) again Payment w/ receipt	4,000 for consumption 4,000 for transit 8,000 for change
	Issue notice to proceed	Payment w/o receipt	4,000
Brigade Chief	Sign notice to proceed Sign receipt	Payment w/o receipt	2,000 or more
Legal Department	Cases of rectification and payment to the Brigade Cashier	Payment w/o receipt	sometimes very expensive 50,000 or more
Officer of the Watch	File sent for active inspection of quantities stored in warehouses Verification of container number	Payment w/o receipt	2,000 or more
Scanner	Scanning of all consumer containers	Payment to COTECNA w/ receipt	50,000 per container

Source: CAD forwarding agents and World Bank observations.

4.68 **Duty collected at the border** includes, for goods to be consumed in Togo, customs duty ranging from 0 to 20 percent of the value of the imported product plus freightage, the value-added tax of 18 percent, community taxes (1 percent PCS and 1 percent PC), the statistics tax (1 percent RS), and the toll charge for urban infrastructure (TPI) of CFAF 2,000 per metric ton. For transit countries, the RS and the Guarantee Fund (0.25 percent FDG) are collected, except for landlocked countries, which are exempt from the RS. Contingent expenses for passing through customs, with no receipts given, apply in all cases and come to a minimum of CFAF 30,000.

4.69 **The port facilities of the customs service are outdated and labyrinthine, hardly suggestive of a modern administration.** It would be useful to reconstruct the buildings in a functional way. In addition, the office hours should be modified to remain open through the midday hours. Extra hours (so-called extralegal work) should not be charged unless services are provided outside the normal hours. The customs service, like the port itself, should pay greater attention to the fact that clients do have other choices.

4.70 **Scanning is the final stage of customs inspection at the port.** It is used on 100 percent of containers imported for consumption in Togo. This arrangement is highly debatable because it is expensive and of very limited usefulness. The results indicate that 2 to 3 percent of containers are declared suspicious and require often minimal adjustments. Screening on the basis of selection criteria used for assignment to specific channels should be adequate to identify the small percentage of potentially suspicious containers, which are the only ones that should be scanned. This selective use of the scanner, better suited to real risks, should also be reserved in certain cases for scanning export cargo in conjunction with the fight against terrorism. Security regulations are becoming more and more demanding, and the Lomé Port Authority should prepare itself accordingly if it wants to be accepted among major accredited ports.

4.71 **Costly and pointless customs escorts and the Sahel Terminal.** The convoy escort system, which is not free, was organized at customs' request. Fearing that trucks will disappear and cargo be resold in Togo, the customs service does not give trucks their cargo documents (ISRT carnets) at the port exit, but instead escorts them, in a customs vehicle that must accompany the convoy, all the way to the border. For this purpose, the port developed the Sahel Terminal on the northern edge of Lomé⁷⁶ so that trucks can be grouped together in the parking area and convoys formed, which depart three times a week with a customs escort across the country. These convoys of fifty or so trucks were supposed to benefit from greater security, avoiding being cut off and also avoiding harassment from the police and other government officials at roadblock checkpoints. However, this escort arrangement, while it may have worked in the beginning, has not produced the anticipated benefits and appears to be an extra complication impeding the free flow of transit traffic:⁷⁷

- ***Not giving trucks their ISRT document***, which is supposed to accompany all cargo, violates ECOWAS regulations and makes the guarantee issued by the Chamber of Commerce meaningless.
- ***Trucks must wait several days in the parking area and bear this expense***, along with escort fees; this also results in longer travel times and fewer round trips.
- ***Trucks are often held up at the border, waiting for the ISRT carnet to be provided*** from a customs vehicle that failed to accompany the convoy.
- ***In practice, convoys escorted by security forces disperse rapidly or are not even organized***, and all the objectives (to improve flow, eliminate contingent expenses, and provide security) are not reached, yet the escort fees must be paid.

4.72 **When all is said and done, the remedy appears to be worse than the ailment.** It is therefore recommended that the escort system be terminated because it undermines efficient road

⁷⁶ The terminal is located about ten kilometers from the port.

⁷⁷ Sealed containers are subject to the same escort requirements as covered trucks.

transport. Customs should return ISRT carnets to haulers so they can leave the port promptly and not be forced to lose time at the Sahel Terminal.

4.73 **Use of the Sahel Terminal should not be mandatory**, but open to those who need it. The parking area is useful and well located for heavy trucks looking to take on freight, lying as it does at the intersection of the road to the north and the beltway that skirts around Lomé. The Terminal could be organized as a freight market space where charterers and haulers would freely make freight arrangements based on the best bid.

4.74 **Impediments to the free flow of transport: the interstate cargo allocation quotas for freight transiting the country and the Freight Bureau.** At the landlocked countries' request, bilateral agreements were reached between WAEMU countries to establish a road freight breakdown of 1/3 for Togo and 2/3 for the landlocked countries, based on a protectionist principle formerly recommended by UNCTAD. This system is administered under the supervision of the Transportation Directorate, by the Freight Bureau at the Port of Lomé. In the same spirit and to promote the transit port function, the Lomé Port Authority instituted the "Solidarity on the Seas" operation in the years around 1995, when various agreements were struck with governments of the countries of the Sahel, who then obtained land and built their transit warehouses within the port area, and preferential port fees were set for Sahelian operators.

4.75 **Breakdown of cargo quotas and rigidities of the arrangement.** When cargo arrives in port, charterers submit road freight requests to the Freight Bureau, which are filled at the suggestion of the trade unions and the shippers' councils in accordance with the quotas set between Togo and the countries of destination. To enter the port, trucks that have waited in line to obtain freight must visit the Freight Bureau, which verifies that they are in compliance and issues a loading order authorizing them to enter the port and pick up the cargo. This regulation, also referred to as a queuing system, is disadvantageous to all countries involved:

- *Transport efficiency and quality improvements are not encouraged* by this type of cartel, which protects the use of inexpensive trucks that are dilapidated and perform poorly.
- *Rates are high for shippers who do not really have any choice* to reject the trucks assigned to them.
- *The system encourages the practice of overloading trucks* to offset the low number of round trips possible, and this is the main cause of structural damage to roadways.⁷⁸

4.76 **Although the Freight Bureau is a free service, its action perpetuates the queuing system and unjustified levies by shippers' councils and haulers' unions that exploit their members.**⁷⁹ It is time to rid the country of this quasi-compulsory system so that economic operators can work in an environment that encourages modernization, productivity, and lower transport prices.

⁷⁸ This practice enables drivers to boost their income by taking on additional freight on their own behalf, which is tolerated by truck owners who provide low wages, while retaining sizable profits for themselves.

⁷⁹ A World Bank study published in July 2009 under the title "Transport Prices and Costs in Africa: A Review of the Main International Corridors," by S. Teravaninthorn and G. Raballand, is particularly interesting in demonstrating the perverse side of queuing systems, long since abandoned in Europe as economic nonsense, and penalizing countries where such systems persist.

4.77 Unjustified levies by certain organizations such as the National Council of Togolese Shippers (CNCT) penalize economic operators. In its current form, CNCT is a new creation,⁸⁰ following abolition of the maritime navigation cargo allocation system in 1997.⁸¹ Once that role was eliminated, CNCT, like all the shippers' councils of neighboring countries also represented in Togo,⁸² had to redefine its mission. CNCT is an independent organization of the "professional public institution" or "privately managed public corporation" type and it is tax-exempt. It does receive some requests from the Ministry of Transportation and Public Works, but there is no hierarchical connection. Its principal functions are to: (i) organize and represent Togolese shippers; (ii) assist haulers on the road; and (iii) track maritime transport in Togo and produce statistics, for which the title of "National Transportation Watchdog" was recently added.

4.78 Professional representation of shippers is only a façade because shippers themselves do not recognize the role of CNCT as their representative, nor as their spokesperson, although a list of shippers registered at the Ministry of Trade and the Chamber of Commerce does exist, with a distinct card and dues. The few annual training seminars on maritime legislation that CNCT organizes are not free, and few shippers send their employees to attend them. As for the function of providing assistance (or breakdown service) to road haulers,⁸³ which has reportedly eaten up a good portion of its income from maritime traffic, there is no clear justification for why shippers should contribute to haulers' needs or to financing the current construction of eight rest areas along the northern corridor or the detour created after the bridge collapse on RN1 during the flooding.

4.79 For shippers, the tracking of maritime transport seems like a very costly and pointless task and they view it as a service imposed on them that they did not ask for. Deprived of its role in allocating cargo, CNCT has refocused its mission, without the backing of shippers, on the production of statistics and a Maritime Statistics Bulletin. It turns out, however, that this publication is useless because it duplicates statistics produced by the Port of Lomé, ships' forwarding agents, and BCEAO concerning Togo's foreign trade and because, in addition, it is produced rather late.⁸⁴ These statistics on the tonnage, nature, origin, and destination of Togolese and transit freight are more or less silent on maritime transport costs and provide little usable information such as tariff data that would be of particular interest to shippers and charterers.

4.80 The cost of CNCT's cargo tracking system is particularly expensive for economic operators. To file customs declarations, importers must obtain a *cargo tracking slip* and register online at the site CNCT.tg. An information form must be filled out indicating the importer's identity, the merchandise, its destination, its value, the quantity, the weight, the freight rates, and the Incoterms used. Once the form has been completed, payment must be made to obtain the slip, in currency in the importing country, through an account at Société Phoenix or any of its correspondents worldwide. In addition to the fee for the electronic cargo tracking slip (BESC), a compensatory commission (CR) must also be paid in Togo. Rates are high.

⁸⁰ Presidential Decree 2001-066/PR of March 9, 2001.

⁸¹ The UNCTAD 40/40/20 rule laid out a ratio for allocating cargo to ships sailing under the national flag (40 percent), the flag of the merchandise's country of origin (40 percent), and flags of third countries (20 percent).

⁸² Niger Council of Transport Users (CNUT), Burkina Faso Shippers' Council (CBC), and Mali Shippers' Council (CMC) represented by EMATO (Entrepôts Maliens du Togo).

⁸³ With two aging heavy vehicles, including a boom truck, CNCT has assisted trucks that have broken down or been in accidents on the incline of the Alédjo Fault, as well as vehicles that got stuck in mud during the major flooding of 2008.

⁸⁴ The Maritime Statistics Bulletin of 2007 was the only one available as of July 15, 2006.

4.81 **CNCT's income derived from all traffic passing through the Port of Lomé is very substantial.** These costs place all of Togo's economic activity involving imports and exports at a disadvantage. CNCT's balance sheet and operating account could not be obtained. The national interest of its services rendered is not evident. On the other hand, the predatory nature of these levies should be noted because this income is not taxed, nor does it bear any relationship to the cost of data collection services, which has been minimal since the system was computerized. This cost, borne by those filing declarations, is not justified. Data processing and the statistics publication cost far less than the amounts drained from the economy, and the Government receives nothing. These levies should therefore be eliminated.⁸⁵ In practice, the copy of the BESC that used to be part of the customs declaration, proving that the fee had been paid, is no longer required for a declaration to be admissible. The compensatory commission (CR) should also be eliminated.

4.82 **In fact, the same problem affects all the shippers' councils in Africa** that were created to defend the trade rights of national shipping lines and that have now become useless because of the latter's disappearance. These organizations have a poor reputation among shippers themselves because they have confiscated their right to choose their own haulers and their own shipping lines. The queuing arrangements that endure for road transport have guaranteed neither quality of service nor competitive rates, as the latter are imposed and generally high. The role of the National Council of Togolese Shippers in its current form, although it has been modified, does not serve the interests of shippers but rather its own interests. It is recommended that, to be useful, CNCT should organize a freight market to help shippers consolidate transport demand and obtain better services from haulers.

4.83 **Nuisances and added costs of roadblocks and delays at border posts.** Road haulers are subjected to all sorts of harassment, greatly extending the travel time to their destination. Such practices are denounced by haulers themselves, who fall victim to agents of the various agencies that stop vehicles at roadblocks. Between the borders of each of the countries crossed, such roadblocks are encountered every 30 to 40 km on average. A variety of agencies (police, gendarmerie, security, water and forests, health, DNT) performs all sorts of inspections and illicitly collect taxes and duty on haulers and on merchandise. But rarely are any real sanctions imposed to try to stop certain abuses committed by many truckers, such as the practice of greatly overloading heavy trucks or driving dangerous vehicles.

4.84 **UNATROT, the Togolese road haulers' trade union, has provided a number of reports on licit and illicit levies along the Lomé-Ouagadougou and Lomé-Niamey roads.** The results are edifying, although the problem appears less acute in Togo than elsewhere in the region. In the case of the Lomé-Cinkassé-Ouagadougou corridor, levies are less numerous in Togo (8 posts) than in Burkina Faso (14 posts); in total, there are 22 posts where levies are collected. In addition, the levies are substantially lower in Togo, totaling CFAF 25,000 with receipts and CFAF 15,000 without receipts. These amounts are much lower than those collected along the road in Burkina Faso, which come to CFAF 28,130 and CFAF 34,500 respectively over a distance just half as long as the distance in Togo.

⁸⁵ They could be replaced by a fixed charge, to be calculated on the basis of the cost of producing these statistics, which would be their selling price, payable by users. In any event, it should not be based on tonnages passing through the Port of Lomé.

4.85 **With total contingent road expenses of CFAF 103,130 for a 2,100-km round trip, the Ouagadougou corridor is “cheap” when compared to the road to Niamey.** Still, these expenses total roughly 8 to 10 percent of transport costs, although the real added costs are much greater when the amount of time spent stopped at the border is factored in. Stopped time may last a day or more, especially when the ISRT carnets held by Togolese Customs do not arrive. Such hold-ups caused by Customs are unacceptable and must cease. The carnets should simply be handed over to truckers as they depart Lomé, and Customs should accept the Chamber of Commerce guarantee (FDG-Guarantee Fund) or else some other form of guarantee that it deems more credible.

4.86 **These demands imposed in disregard of the law appear to be motivated by the opportunity to pick up some money** and they are thriving in the absence of sanctions against wrongdoers; they can also be explained by the low wages and dim career prospects of customs agents (including registered customs commissioners).⁸⁶ Linguistic diversity makes the situation even worse along the transit route to Ghana, sometimes leading to reissuing of English-language documents (or vice versa) and payment of a new issuing fee.

G. Strengths and Weaknesses of Truckers

4.87 **The Togolese fleet is in dilapidated condition and operating costs are high.** The estimated size of the truck fleet is just 4,500 vehicles. The number of trucks grows by 7 to 9 percent each year. The Road Transport Directorate, which is not computerized, has no statistics on the number of vehicles in the fleet, because there is no record of when they are destroyed, out of use, or registered in Togo but used in neighboring countries. The entire fleet is estimated at roughly 80,000 vehicles, based on the technical inspections required for any new registration, at which agents verify that customs duty has been paid and the vehicle is insured. The average age of heavy trucks, between 10 and 20 years, is very high, and all are imported used. Eighty-five percent of trucks are older than 10 years, and 15 percent of those purchased are older than 20 years. The number of vehicles actually operational (or available) was reportedly 50 percent in 2008, i.e. about 2,100, including some 600 container trucks, 1,300 conventional trucks, and 250 tank trucks.

4.88 **The productivity of the truck fleet for transit trade is low.** The fleet includes 500 container trucks and 900 conventional trucks that could make roughly 25 round trips per year, i.e. two a month. The average distance traveled each year is estimated at 60,000 km, but the most dilapidated vehicles, which are in the majority, travel just 15,000 to 30,000 km annually, i.e. one round trip per month. In comparison, European distance standards for heavy trucks are in the range of 180,000 km per year. Also, with more dump trucks and stake and rack trucks than flat deck trucks, the fleet's solid freight transport capacity is unsuited to road transport of containers to the landlocked countries, still little containerized although more than half the imports at the Port Authority of Lomé, in terms of tonnage, arrive by container. The fleet is more in tune with domestic demand, which is oriented toward picking up seed cotton and transporting baled cotton lint. For Togo's foreign traffic, the estimated loading capacity is 22,500 metric tons for trucks (900 x 25 mt) and 20,000 metric tons for semitrailers (500 x 40 mt), i.e. a total of 42,500 metric tons, or more than 500,000 metric tons per year. However,

⁸⁶ Registered customs commissioners benefit from the extraneous work of reissuing these papers at each border crossing, for which payment is required, in addition to collecting a new insurance premium for waiver of customs duty.

while transit trade tonnage is on this order of magnitude, Togo has the right to transport just one third of this trade according to the bilateral agreements signed with Burkina Faso, Niger, and Mali. Thus, there is an overcapacity of worn-out, inefficient trucks.

4.89 The productivity of the heavy truck fleet needs to be improved by instituting a facilitation policy. This policy should abolish the cargo allocation system, which would usher in true regional competition, offering transport services of better quality at prices acceptable to shippers. Operating costs could be lowered substantially by eliminating the queuing system to reduce waiting times and by prohibiting roadblocks. If international transport round trips could climb from one a month to one a week, productivity would be four times greater. With higher profits, haulers would replace dilapidated trucks with others that perform better and are more cost-effective. The impact would be a generalized decrease in transport costs, shorter convoy travel times, and lower financial expenses on inventories of merchandise. It would be very much in the interest of the countries of the Sahel to stop protecting their transport market, because they would gain from substantially reduced costs.

4.90 The regulations governing the truckers' profession are not conducive to improvements in productivity and lower rates. Togo's transport policy, said to be "liberal," in fact subjects professional haulers to market protection rules that apply to all transit trade with neighboring countries under bilateral cargo allocation agreements. This policy has resulted in a poorly adapted national road fleet that remains dilapidated and too great in number, with low productivity and an inability to face international competition on a truly competitive basis. These rules do not apply to transport by owners or shippers operating on their own behalf.

4.91 At the national level, regulations are focused on the professional framework, taxation, and rates. Taxes on the industry are quite heavy and should be reevaluated and reduced so that operators can generate income and reinvest in trucks better suited for container transport, for example. The road transport tax law has a different impact on (a) enterprises with three or more trucks, which have a higher tax burden based on business income (BIC) and value-added tax (VAT), and (b) other, so-called informal or artisanal operators with two vehicles or less, who make a single payment in full discharge: the road hauler income tax (IRTR) with no quarterly filing requirements. Thus, the industry remains in the hands of small operators who are taxed less heavily than formal operators, which prevents economies of scale at better structured enterprises. It would be good to reverse or neutralize the effect of this tax advantage as a way to promote development of the formal sector and impede development of the informal sector.

4.92 Taxes and fees are high and include vehicle import duty, duty on fuels, duty on vehicle ownership, and taxes on vehicle use. The total tax burden on transport and, by extension, on the merchandise that ends up shouldering this burden, is quite heavy. In relation to business income, the estimated total tax burden is in the range of 45 to 55 percent for structured enterprises, and 15 to 20 percent for informal enterprises.

4.93 Domestic transport rates are in principle unrestricted, but often are set by shippers in monopsonistic situations, e.g. SOTOCO for the cotton industry and WACEM for clinker. In 2008, these rates were set unilaterally at CFAF 30 per ton-kilometer for cotton, CFAF 27 for clinker, and CFAF 18 for cement. Prices are also set by following standard rates, under pressure from the cartel of trade unions, for products such as rice, sugar, and fertilizer, at a rate of CFAF 50 per ton-kilometer, as well as for the 33-percent share of transit cargo reserved for Togolese

haulers under bilateral agreements, and the 100-percent share of hydrocarbon transport reserved for domestic haulers for strategic reasons. Rates have not increased by more than 15 percent in 10 years despite the steep rise in fuel prices, suggesting very comfortable profit margins.⁸⁷

4.94 Enforcement of WAEMU's new axle weight limit of 11.5 metric tons will introduce weighing operations very quickly and change existing practices, which worries haulers. An agreement cosigned on April 23, 2009 between the WAEMU countries and Ghana calls for full implementation, after a period of one year on June 30, 2010, of the new regulations on harmonization of inspection standards and procedures regarding vehicle size and weight and axle weight.⁸⁸ Haulers will no longer be able to overload vehicles and thereby earn extra income. This provides an appropriate occasion for abolishing the cargo allocation system and introducing free competition, where better rates can be obtained for better service, and prices are destined to fall for mediocre services such as those provided today.

4.95 In conclusion, measures to be taken should include, as a priority, putting an end to all avoidable costs and reducing the variable share of required costs. This would serve on the one hand to cut transit costs nearly in half and, on the other, to boost transport productivity by saving a considerable amount of time, thus making it possible to complete at least 50 percent more round trips and bringing down costs even further. Steps should be taken to:

- Eliminate illicit checkpoints and reduce licit ones to a minimum, with one at the start (at the port), one at the border at the Juxtaposed National Border Control Station, and one on arrival, by using the single ISRT carnet.
- Accelerate efforts to bring trucks into compliance with safety standards and make use of the single ISRT carnet and GPS monitoring with road markers for remote tracking of itineraries and load integrity.
- Systematically eliminate all causes of wasted time due to port handling, at the transshipment point, and at delivery, which can be accomplished with containerization.
- Reduce loading and unloading waiting times caused by delays in document preparation and in manifest and customs declaration control.
- Abandon the cargo allocation quota system and queuing arrangements that require trucks to wait at loading points at the port and in warehouses of countries of the Sahel.
- Eliminate the convoy escort system that holds up trucks both at the port entrance, due to the area's congestion, and on the edge of Lomé at the Sahel Terminal.

⁸⁷ The recent World Bank study titled "Transport Prices and Costs in Africa: A Review of the Main International Corridors," by S. Teravaninthorn and G. Raballand, indicates comparable prices, but also shows great differences in pricing, which often remains much higher in Central Africa, yet much lower in Southern Africa due, in the latter case, to the absence of cartels managing cargo allocation.

⁸⁸ The following arrangements are to be set in place by the June 30, 2010 deadline: 11.5-metric ton axle weight verification at registration, at technical inspections, at port exits, and for activities generating at least 200,000 metric tons per year and along trunk roads, where truck scales are to be located for all heavy trucks. The maximum authorized total rolling weight for an articulated six-axle vehicle will be 51 metric tons.

- Create a freight market that allows shippers and haulers to make transport bids and requests at prices that reflect the quality of service to be provided, with the most competitive bids winning.
- Eliminate customs clearance waiting times by facilitating payment of duty (with clearance credit) and allow merchandise to leave every day, evenings and weekends included.

4.96 **Should this list be too ambitious in the short-term, it would be advisable to initiate the process by including first the modern operators**, which are more likely to observe the rules and regulations – for example, the sealed trucks, which observe the loading limit established by law and are equipped with a GPS.

5. ROLE OF TRANSIT AND RE-EXPORT TRADE : WHAT FUTURE?

A. Introduction

5.1 **Regional cross-border trade has long played a major role in Togo's economy.** Togo's deep-water port, proximity to the larger economies of Nigeria and Ghana, and gateway to land-locked Burkina Faso and Niger make the country a natural hub in West Africa. Togo's dynamic and varied trade with other African countries is a more pronounced version of a continent-wide phenomenon (Berg 1985). Intra-African trade statistics published by organizations such as the IMF or the UN indicate limited cross-border trade despite regional integration schemes which have in theory eliminated intra-regional trade barriers (Agbodji 2007). These trade statistics, however, fail to capture the importance of cross-border trade because of its unusual characteristics. Reported trade statistics are usually limited to recorded exports and imports of domestically-produced and -consumed goods.

5.2 **This seemingly reasonable definition leaves out some important dimensions of regional trade in Africa, including:**

Transshipment of imports and exports from other continents. Coastal countries such as Togo and Benin act as hubs for land-locked countries, or even for coastal countries whose ports are congested or which contain regions that are more easily reached from a foreign port. This applies particularly to Nigeria, which has both inefficient ports and some regions that are more accessible from Cotonou or Lomé than from Lagos.

Cross-border trade in traditional food grains and animals. Regional surpluses and shortages of staple foods can be mitigated by regional trade, thereby alleviating price fluctuations and hardship. This trade in traditional foods is generally unrestricted.

Smuggling of primary product exports and consumer goods imports. Where trade, exchange rate, and price-setting policies differ across countries, as they often do in Africa, large-scale smuggling can occur (Berg 1985, Bhagwati and Hansen 1973, Deardorff and Stolper 1990, Azam 2007, Golub and Mbaye 2009, Golub 2009). This is often the case for exports of primary commodities such as groundnuts, coffee or cocoa where marketing boards set artificially low producer prices, or export taxes have the same effect, providing an incentive to smuggle to countries where prices are higher. On the import side, some countries such as Nigeria and Senegal have engaged more aggressively than others in import-substitution industrialization, often leading to highly protected inefficient industries. Nearby countries such as The Gambia in the case of Senegal and Togo and Benin in the case of Nigeria have consciously maintained relatively low import barriers to facilitate the development of domestic trading firms and smuggling into their neighbors' protected markets. "Entrepôt states" such as The Gambia, Benin and Togo (Igué and Soule 1992) also tend to foster relatively efficient trade facilitation services to encourage use of their ports.

5.3 **In this chapter, Togo's cross-border trade will be analyzed in depth.** The chapter will begin with the geographical, historical and institutional context of Togo's trade. The characteristics and magnitude of Togo's regional trade will then be discussed, focusing on the first and third types of trade discussed above. The second type (regional trade in locally-produced food) is also prevalent, but is not the focus here. Togo's trade policies will be

contrasted with those of Benin and Nigeria as these provide the most important determinant of trade patterns along with geographical considerations. Competition with Benin for access to the Nigerian market will be shown to be a key determinant of Togo's policies. Then, the effects of this trade on Togo's economy will be assessed. The chapter will conclude with an assessment of the prospects for cross-border trade and policy implications.

B. Geographical, Historical and Institutional Context

5.4 **Geography.** Togo's coastal location with the only deep-water port of the region, access to the land-locked countries of the interior, and proximity to the important anglophone countries Nigeria and Ghana make Togo a natural trading hub. Benin's geographical situation is similar to Togo, making Togo and Benin competitors for these regional markets. Benin has the advantage of sharing a long border with Nigeria, by far the largest economy of the region, and the most distorted. Lomé's port, however, permits access to larger ships than Cotonou's, requires less frequent dredging, and has generally been better managed. The transport chapter explores the strengths and weaknesses of the port of Lomé in more detail.

5.5 **History.** Long-standing cultural affinities unite the people of the various countries in West Africa, transcending nationality. Togo, Benin, Nigeria and others in West Africa are characterized by North-South ethnic and religious divides, providing an impetus for East-West trade that crosses borders. The Yoruba are the largest of several ethnic groups scattered across Nigeria, Togo, and Benin, and heavily involved in commercial networks. Traditional trading routes, including trans-Saharan trade, were in use before the colonial era. A class of well-to-do coastal merchants continued to operate in Togo and Benin in the colonial era despite repression from the colonial authorities, and expanded their economic and political influence after independence (Heilbrunn 1995, Igué and Soule 1992). Women have played a very important role in Togo's commerce, particularly in the cloth trade (Box 5.1).

5.6 **In Africa in general and West Africa in particular, national borders established in the colonial era are artificial and porous** (Herbst 2000) and the sense of nationality is often secondary to belonging to clan or ethnic groups. Many villages straddle borders, providing a haven for smugglers. Weak nation states that are unable to police these borders nevertheless often adopt highly interventionist trade, exchange rate, and pricing policies, providing incentives for smuggling (Berg 1985). Poorly paid customs officials are easily persuaded to look the other way. Nigeria is one of the most extreme examples in Africa of this phenomenon, with a wide array of highly distorted prices, including artificially low petroleum prices, very high tariff peaks and outright import bans (Golub 2009, Raballand and Mjekiqi 2009).

5.7 **While Nigeria pursued import-substitution industrialization, creating a variety of manufacturing and agricultural sectors behind high import barriers,** Benin and Togo have little in the way of domestic industry and have instead oriented trade policies to maximize their entrepot functions (Igué and Soule 1992). Since the 1970s, Benin and Togo have sought to maintain low import barriers and well-functioning ports and customs administrations to encourage imports for re-export to Nigeria and the land-locked countries to the North.

Box 5.1: Nana Benz and Regional Trade in Printed Fabric

For decades Lomé was the center of West African trade in traditional printed fabric, called wax. A small group of women known as the “Nana-Benz” came to dominate the Lomé market in the 1980s (Heilbrunn 1997, Ayina 1987) through entrepreneurial talent and effort.

The appellation “Nana-Benz” originated from the habit of these women, or *nana* meaning girls, of using expensive Mercedes-Benz vehicles for personal transport as well as for their voluminous cloth deliveries to their shops and warehouses. Many of the women began as uneducated early teens selling cloth; others came from longtime trading families. The women designed the fashionable prints and imported high quality printed wax fabric from the Dutch company Vlisco, thus building substantial fortunes over time.

In the 1980s, Togo’s cloth imports and sales boomed, with a significant portion distributed throughout the region. The women developed close political ties to President Gnassingbe Eyadema’s regime. They formed an influential lobby group, *Association Professionnelle des Revendeuses de Tissu* (APRT), which obtained low import taxes on cloth and exemption from price controls. They lent a fleet of Mercedes to Eyadema with which to greet visiting heads of state while Eyadema provided them with a massive, ventilated market building when they complained of flooding and poor conditions in the historic Grand Marché.

The dominance of the Nana Benz waned in the mid-1990s for several reasons: the 1994 devaluation of the CFA franc raised the cost of imported European cloth; the increased availability of lower-cost Chinese copies of the famous wax designs; and the political turmoil of the 1990s and the Nana Benz’s identification with the discredited Eyadema regime. Nonetheless, the legacy of the Nana-Benz is significant for Togo. The women diversified into restaurants, nightclubs, and real estate, including apartments in Paris and Geneva. Many of them used their wealth to fund their daughters’ education enabling their descendants to pursue various professional careers, including fashion design. Moreover, the Nana Benz provide a vivid role model of successful participation of women in commerce and Togo remains an important, if diminished, center for fabric design and trade in West Africa.

5.8 **Regional Integration.** Togo and Benin are members of the West African Economic and Monetary Union (WAEMU), a group of mostly francophone countries, and of the larger Economic Community of West African States (ECOWAS) which encompasses both the francophone and anglophone countries of the region, including Nigeria. WAEMU is a full-fledged customs union whereas ECOWAS has until recently made little progress in reducing barriers to intra- and inter-regional trade, largely because of Nigeria’s reluctance to liberalize highly-protected industries. ECOWAS and WAEMU have agreements allowing free circulation of goods in transit within the region, but these provisions have never been applied in practice. Trucks line up for days or even weeks at Togo’s border crossing points, particularly on the Benin side. The infrastructural and administrative impediments to transit trade are addressed in the transport chapter and will not be discussed further here. Suffice it to say that Togo’s competitive advantage in transit could be greatly enhanced through improved port efficiency, eased border crossings, reduction of checkpoints, and more resources for road maintenance and investment.

5.9 **Trade Policies in Togo.** As already noted, Togo, like Benin, has deliberately maintained low import barriers to facilitate its entrepot role. With the implementation of the WAEMU Common External Tariff (CET) in 2000, Togo and Benin lost some of their competitive advantage vis-à-vis other WAEMU countries. The CET provides for 4 tariff bands:

1. Social Goods: zero percent of CIF value
2. Basic Raw Materials: 5 percent.

3. Intermediate inputs and products: 10 percent.
4. Consumer Goods: 20 percent.

5.10 In addition, imports for domestic use must also pay an 18 percent value added tax and several other taxes and fees:

1. Statistical levy (RS—*Redevance Statistique*): 1 percent of CIF value.
2. WAEMU levy (PCS—*Prélèvement Communautaire de Solidarité*): 1 percent of CIF value.
3. ECOWAS levy (PC—*Prélèvement Communautaire*): 0.5 percent of CIF value.
4. Industrial protection tax (TPI—*Taxe de Protection Industrielle*) of CFA franc 2000 per ton.
5. Computerization fee (RI—*Redevance Informatique*) CFA franc 5000 per customs declaration.
6. Inspection fee (RIV—*Redevance pour Inspection et Vérification*): 0.75 percent.
7. Value added tax (TVA—*Taxe sur la Valeur Ajoutée*): 18 percent of value after payment of customs duties including RD, PCS, and PC.
8. Business Income Tax (BIC—*Prélèvement sur Biens Industriels et Commerciaux*): 5 percent (informal firms) or 1 percent (formal) of value after payment of customs duties.⁸⁹

5.11 These various taxes cumulate to a maximum of about 50 percent for final consumer goods. While the CET appears to limit tax competition between Togo and Benin, customs officials in both countries have historically exercised considerable discretion in the valuation of goods to alter effective tax rates. Also, taxation of transit and re-exports is not harmonized in WAEMU. Togo's taxes and fees on goods in transit and re-export are very low, well below Benin's, as discussed further below, in an apparent effort to compensate for its geographical disadvantage in access to the Nigerian market.

Nigeria's Trade Policies and the Implications of the ECOWAS Common External Tariff.

5.12 Despite long-standing ECOWAS plans for a customs union, little progress has been made until recently, largely because of Nigeria's unwillingness to participate. Nigeria, by far the largest economy of the region, has maintained one of the most protectionist trade policies in the world, with very high tariff spikes and a large number of import bans (Golub 2009, Raballand and Mjekiqi 2009). Unlike Benin and Togo, Nigeria has relatively developed but often inefficient manufacturing and agricultural industries, with powerful interest groups favoring protection. Table 1 presents the evolution of Nigeria's trade policies through 2007 for some important products. The highly discretionary application of Nigeria's policies should also be noted, with exceptions often granted to favored importers.

5.13 Recently, however, some progress has been registered in ECOWAS's efforts to liberalize trade, with Nigeria participating in the negotiations. Nigeria had insisted on a fifth

⁸⁹The 5 percent BIC tax on informal importers serves in lieu of a business income tax. The 1 percent BIC tax on formal firms is refundable when business income taxes are paid.

tariff band of 50 percent but it now appears that a compromise has been reached for a fifth band to be set at 35 percent. Whether or not an agreement will be reached and if so, how many products will be included in the fifth band and the extent of Nigerian implementation will be crucial for the future of Togo's (and Benin's) transit/re-export trade. In October 2008 Nigeria removed 25 products from its list of prohibited imports, including some meat products, flowers, cassava, fresh and dried fruits, wheat, cocoa butter, biscuits, beer, some truck tires, selected textile products, and bicycle frames. In many of these cases, it eliminated import bans that had been introduced in the last few years, returning the situation to roughly what it was in 2004. The most important import bans remain in place, however (Table 5.1), including frozen poultry, textiles, clothing, footwear, and used cars, although the allowed age of allowable used car imports was extended from 8 to 10 years. For a number of other important goods such as rice, cigarettes, and sugar, the 50 percent tariff peak is still in effect, pending agreement in ECOWAS. In short, Nigeria's trade barriers for some important products are much more restrictive than those in Togo and Benin. Prospects for further liberalization in Nigeria are uncertain

Table 5.1: Selected Import Barriers in Nigeria, 1995-2007 (Tariff rates in percent or bans)

	1995	1997	1999	2001	2003	2005	2007
Edible oil	Banned	Banned	55	40	Banned	Banned	Banned
Poultry meat	Banned	Banned	55	75	Banned	Banned	Banned
Beer	Banned	Banned	100	100	100	Banned	Banned
Wine	100	100	100	100	100	20	20
Milk Products	55	55	50	50	100	20	20
Tomato preserves	45	45	45	45	45	20	20
Used Clothes	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Tires	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Wheat flour**	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Used Cars*	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Sugar	10	10	10	40	100	50	50
Cloth and Apparel	Banned	50	65	55	100	Banned	Banned
Tobacco and cigarettes	90	90	80	80	100	50	50
Rice	100	50	50	75	110	50	50

*Defined as more than 8 years old in 1994-2002, and more than 5 years in 2002-2004, 8 years since 2004-2008, 10 years since October 2008.

**Import ban removed in October 2008.

Source: LARES-IRAM (2004) and Nigerian customs data provided by the World Bank.

C. Modes of Cross-Border Trade in Togo

5.14 **Togo serves as an entry and exit point for imported goods destined to and exports coming from the land-locked countries of the interior**, especially Burkina Faso and Niger, and coastal countries, particularly Nigeria and Ghana, but also as far as Côte d'Ivoire and Liberia. Given the large trade deficits of almost all these countries, inward shipping of imports is much larger than exports, and many containers return empty to the port of Lomé. Thus, the focus of

this chapter will be mostly on imports. The large but distorted Nigerian market is the biggest prize for which Togo and Benin compete, although Togo's trade is more diversified than Benin's and Togo is less dependent on Nigeria, as will be seen in detail below.

5.15 Goods imported into Togo are rarely ordered by the final consumers of these goods. Instead, large importing companies, both domestic and foreign-owned, bring goods into Lomé to resell to domestic and regional buyers. When the goods enter the port of Lomé they are transferred to warehouses prior to customs declaration. If they are purchased directly at the port by local distributors, the goods may go into "entrepôts" owned by those distributors. More often the importers themselves store the goods in large MADs (*Magasins et Aires de Dédouanement*) which are privately-owned warehouses holding goods of all sorts awaiting sale and not yet declared under a specific customs regime. Only when the goods are purchased are they declared under one of three main customs regimes: a) Domestic use (*Mis à la consommation*), b) Transit, and c) Re-export.

5.16 If declared for domestic use, the purchaser must clear all import taxes, including customs duties, value added taxes, and several other smaller taxes, as previously described. In Benin, some goods declared for domestic use are quite often smuggled to Nigeria, because Nigerian trade protection is so high that it is still lucrative to smuggle even after paying import duties in Benin (Golub 2009). This occurs for products banned in Nigeria such as frozen chicken and cloth as well as goods facing high tariffs such as rice. In Togo, such re-exporting of goods which have paid duties upon entry also occurs, although to a lesser extent, given the greater cost of shipping from Togo to Nigeria. Some evidence is provided below

5.17 There are two main types of official transshipment of goods in Togo: transit and re-exports. The classification of goods into these two categories is complex with rather minor differences often determining whether transactions are classified as re-exports or transit. For example, cotton entering Togo from Burkina Faso and exiting through the port of Lomé is sometimes classified as transit and sometimes as re-exports. The distinction mainly involves two key dimensions: i) whether the good is initially placed in a domestic customs regime upon arrival into Togo and ii) whether transshipment is by land, sea or air.

5.18 Re-exports are primarily defined as goods initially entering Togo under a customs regime such as bonded warehouse or temporary admission and subsequently designated as re-exports to be shipped to another country. Goods transshipped by boat or air are also classified as re-exports. For example, petroleum products are considered re-exports when oil tankers with refined petroleum products destined for Nigeria arrive at the port of Lomé where they are unloaded and transferred into smaller boats which deliver to Nigeria.⁹⁰ Goods exiting the country by air, as is the case for cloth to Gabon, are also considered re-exports. Re-exports have been dominated by a few large items in recent years, mainly petroleum products, cotton, and cloth.

5.19 Transit. Unlike the conventional definition of transit, whereby goods are ordered in advance by clients in neighboring countries and enter in the port in pre-designated transit status, in Togo international transit is defined as any good brought into the country and then designated as in transit to a neighboring country. Transit differs from re-exports insofar as goods are not

⁹⁰ Although Nigeria is a major exporter of crude oil, it is unable to produce enough gasoline and other refined oil products for its domestic market and is therefore an importer as well as an exporter of petroleum products.

initially placed under a temporary domestic customs regime and are shipped by road. There is also conventional transit, i.e. goods with an assigned third-country destination prior to arriving in Togo, called “*transit à l’import*”, but it is very small, amounting to only 2 percent of all goods labeled in transit. In recent years, transit has been considerably larger than re-exports (Table 5.2).

5.20 These distinctions between re-exports and transit in Togo are difficult to define precisely and customs officials themselves sometimes struggle to explain why some goods are placed in one or the other regime.⁹¹ From an economic point of view, however, whether goods are classified as re-exports or transit does not matter much as the differences between the two regimes are quite small and their effects on the Togolese economy are similar. Both regimes are taxed very lightly, as explained below. What matters most is the extent to which there is value addition and employment creation from handling the goods when they are in Togo, not how the goods are classified. As discussed below, there is a very wide range of value addition in entrepôt activities, depending on the goods in question. So for the remainder of this chapter, the two modes of transshipment will often be lumped together and referred to as “entrepôt” trade.

5.21 Re-exports and transit face minimal taxes. Transit is subject to the Redevance Statistique (RD) of 1 percent but even this is waived if the goods are declared for the land-locked rather than coastal countries. Re-exports are also subject to RD, with shipments to land-locked countries again exempt. In addition re-exports must pay a 1 percent re-export tax, so re-exports are slightly more heavily taxed than transit. There are a few other much smaller levies and fees on re-exports and transit. In short, depending on whether they are manifested for the land-locked countries and how they are classified, transshipped goods are taxed at very low rates of 0-2 percent.

5.22 Goods in transit are usually not escorted by customs officials to the border, except if the border-crossing point is into Benin or Ghana, where the distances are relatively small. Customs cites the high cost and lack of resources to escort goods in transit to the Burkina border given the much larger distance. Clearance of the goods is instead done electronically, with “*apurement*” of the transit documents at the border in the customs software ASYCUDA++. There is controversy over the magnitude of abuses of goods in transit being diverted to the domestic market (the difference in taxes is huge). Some traders contend that many of the goods in transit are in fact sold in Togo, thus evading customs duties. Customs, however, claims to verify the clearance of the overwhelming majority of transit shipments.

5.23 Transshipped goods do not necessarily or even usually wind up in the stated destination country, as Togolese customs does not track the ultimate destination of the goods. Customs officials and traders profess ignorance of what happens to goods once they exit Togo. Whether or not goods are smuggled to Nigeria once they exit Togo’s territory, in any case, is not crucial from Togo’s point of view, but some discussion is provided below.

⁹¹ One former official went as far as to claim that it is fruitless to attempt to apply general principles to the procedures for classification of goods into transit or re-export status.

5.24 **Although usually imported legally**, entrepôt trade is dominated by informal or semi-formal operators, both foreign and domestic, once the goods are sold and exit the MAD storage depots. Women play an important part in unofficial shipments of goods across borders.⁹²

D. The Volume and Composition of Cross-Border Trade in Togo and Benin

5.25 **There appear to be no previous studies of the magnitude and significance of re-exports and transit for Togo.**⁹³ The following analysis is based on disaggregated trade statistics obtained from customs in Togo and Benin. Both countries have up to date data and time series on imports by customs regime (domestic use, transit and re-exports). As already indicated, customs regime declarations are sometimes misleading: some imports declared for domestic consumption are re-exported, while some goods declared in transit are sold on the domestic market. Nevertheless, careful inferences from the available data can shed considerable light on trade patterns.

5.26 **Overall volume of trade.** Table 5.2 shows Togo's imports by reported customs regime, as a share of GDP. Benin's imports are also shown for comparison in Table 5.3, also as a ratio of GDP.

Table 5.2: Togo's Imports for Domestic Use, Transit and Re-exports (Percent of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Domestic Use	25%	24%	23%	24%	24%	28%	32%	32%	34%
Transit	33%	31%	36%	61%	47%	43%	46%	49%	59%
Re-exports	9%	9%	14%	27%	19%	27%	27%	25%	16%
Total Imports	68%	64%	74%	112%	91%	98%	105%	105%	109%
Transit and Re-exports	43%	40%	51%	88%	66%	70%	72%	74%	75%

Source: Togo customs and author's calculations.

Table 5.3: Benin's Imports for Domestic Use, Transit and Re-exports (percent of GDP)

	2002	2003	2004	2005	2006	2007	2008
Domestic Use	23%	23%	24%	21%	20%	20%	26%
Transit	58%	22%	26%	31%	45%	49%	61%
Re-exports	5.0%	2.3%	0.3%	0.3%	0.5%	0.6%	0.9%
Total Imports	86%	48%	50%	53%	65%	70%	88%
Transit and Re-exports	63%	25%	26%	32%	46%	49%	62%

Source: Benin customs and author's calculations.

5.27 **Table 5.2 indicates that Togo's entrepôt trade (transit and re-export combined) is larger than imports for domestic use by a substantial margin.** Entrepôt trade reached a peak of 88 percent of GDP in 2003, more than double the 2000 level of 43 percent, and after a decline in 2004 to 66 percent of GDP, increased again to 75 percent of GDP in 2008.

⁹² « Commerce Transfrontalier: Les Femmes Béninoises, Véritables Vedettes du Secteur », *Le Progrès*, July 15, 2007.

⁹³ IMF (2007) includes a figure for re-exports in its balance of payments table, but there is no discussion. The IMF estimate is also well below that reported here.

5.28 **Transit is considerably larger than re-exports in Togo.** Re-exports dropped sharply in 2008, but the rise in transit more than offset the fall in re-exports. As noted earlier, however, the distinction between re-exports and transit in Togo is rather fuzzy and the overall total and product composition matter more than the allocation of transshipment between the two categories.

5.29 **It is interesting to compare Togo and Benin's cross-border trade.** The jump in Togo's transit and re-exports in 2003 mirrored a large decline in Benin's transit in 2003-2004 (Table 5.3).⁹⁴ As discussed further below, Benin raised transit taxes and fees in 2003, and there was also a serious border dispute between Benin and Nigeria in 2003, both of which opened the door to increased shipments from Togo to Nigeria. Aggregate recorded transit and re-exports are now larger as a share of GDP in Togo than in Benin. In Benin, transit and re-exports gradually recovered from 26 percent of GDP in 2004 to 62 percent of GDP in 2008, back up to the level of 2002, with a particularly large jump in 2007-2008.

5.30 **These aggregate comparisons between Togo and Benin must be nuanced, however.** First, it should be noted that Benin's GDP is about double Togo's, even though its population is only slightly higher (about 7 million in Togo and 9 million in Benin), so scaling by GDP in Tables 5.2 and 5.3 hides the fact that Benin's trade is larger in absolute value. More importantly, in Togo about half of all transit and re-exports consist of petroleum products and cotton, which involve minimal domestic value added, as discussed below. If cotton and petroleum products are excluded, Togo's transit/GDP ratio is well below that of Benin, particularly after the very large increase in Benin's transit in 2008. Moreover, a substantial amount of Benin's imports for domestic use are also smuggled out, while petroleum imports into Benin are mostly informal and do not show up in the official statistics, unlike in Togo (Golub 2009), so Benin's reported imports and transit are probably more underestimated than Togo's. A more disaggregated comparison of the two countries' imports is presented below.

5.31 **Composition of re-exports and transit.** Goods imported into Togo for transshipment are quite diverse. They can be classified into four major categories:

1. Vehicles, particularly used cars but also trucks, motorcycles, and trailers, imported through the port of Lomé and driven mainly to Nigeria via Benin or through Burkina Faso and then Niger.
2. Other consumer and capital goods imports arriving at the port from other continents including staple foods such as rice and sugar, textiles and clothing, a variety of manufactured food products and other household items, fertilizers and metal products, destined to the land-locked countries as well as Nigeria and to a lesser extent other African countries such as Gabon, Côte d'Ivoire and Ghana.
3. Petroleum products, arriving at the port and either brought onshore for shipment by truck to the land-locked countries, or transferred to smaller tankers for delivery by sea to Nigeria.

⁹⁴ In Benin, official re-exports are insignificant.

4. Commodities coming into Togo from inland borders and shipped out through the port of Lomé, particularly raw cotton from Mali and Burkina Faso, but also including gold mined in neighboring countries and scrap metal.

5.32 **Tables 5.4 and 5.5 show the most important commodities by value imported and shipped in transit and re-export status, respectively, over 2000-2008.** The two largest individual goods in transit are petroleum products and used cars. Other significant transit items include cloth, clothing, and edible oils. The 16 items listed in Table 5.4 accounted for about 60 percent of all transit in 2008. Re-exports are even more concentrated, with petroleum products and cotton alone representing about two thirds of the total in recent years.

5.33 **There is partial overlap of the types of goods included in transit and re-exports in Togo,** with petroleum products and cloth featuring importantly in both categories, and cotton appearing as a significant transit item in 2008 in addition to being the second largest re-export product in that year.⁹⁵ Used cars and other vehicles are overwhelmingly shipped in transit with almost no cars listed as re-exported. Frozen fish, on the other hand, is re-exported but not shipped in transit.

5.34 ***Declared and Actual Destinations.*** Table 5.6 shows the stated shares of destinations of selected goods in categories 1 and 2 (vehicles and other imported consumer goods, respectively) for transit and re-exports aggregated, showing the main destination countries of the region. Used cars in transit are manifested mostly for Burkina Faso, followed by Benin and Niger, while re-export and transit of other consumer goods is more diverse, but still led by Burkina Faso, closely followed by Niger, and then Benin and Gabon. Nigeria's reported share is very small, especially for vehicles, in contradiction of the widely acknowledged fact that the majority of vehicles are smuggled to Nigeria via Niger and Benin. Most of the buyers of vehicles are Nigerian. Also, Benin is a huge car importer itself and certainly has no need to import via Lomé, while Burkina could not possibly absorb more than a fourth of the 30,000 plus cars that were labeled in transit to that country in 2008. A large amount of cloth in transit is labeled for Benin, and this too is likely to be really destined for Nigeria. For other consumer goods as well, a substantial quantity is likely to be routed to Nigeria, given that the goods in Tables 5.4 and 5.5 include those which are known to be smuggled in response to Nigerian bans or high tariffs. Overall, probably half or more of the consumer goods imported in transit or re-export status wind up in Nigeria.

⁹⁵ Customs officials said it was possible that the same shipments can be counted in both re-exports and transit, for example in the case of petroleum products, which appears as one of the leading products in both regimes. However, a closer look at the data suggested this was not the case. While products such as petroleum, cotton and cloth do appear in both regimes, they are slated for different destinations, so double counting does not seem to occur. For example cloth in the re-export regime is manifested almost exclusively for Gabon, while cloth in transit is manifested for Benin, Burkina, Niger and Mali. Likewise, petroleum for re-export is declared for Nigeria, while petroleum in transit is mostly for land-locked countries.

Table 5.4: Togo's Composition of Transit, Main Products, 2000-2008 (Percentage Share of Total Transit trade)

	2000	2002	2004	2006	2008
Cars	20.8%	19.6%	19.4%	14.4%	17.8%
Petroleum products	25.0%	32.0%	14.2%	18.4%	15.0%
Clinker	5.0%	0.0%	0.0%	0.0%	4.2%
Trucks	1.7%	1.6%	1.7%	4.2%	3.5%
Motorcycles	1.1%	0.6%	2.2%	2.3%	3.1%
Cloth	3.5%	3.5%	2.7%	2.3%	2.6%
Clothing	0.4%	0.3%	0.3%	1.3%	2.5%
Medicine	0.7%	2.0%	5.3%	2.5%	2.1%
Rice	4.2%	3.6%	2.3%	2.7%	1.9%
Cotton	0.1%	0.4%	0.3%	0.0%	1.8%
Cigarettes	1.1%	1.5%	2.5%	2.1%	1.5%
Vegetable oil	0.5%	0.2%	1.1%	1.5%	1.1%
Condensed milk	0.8%	1.1%	0.7%	0.8%	1.0%
Sugar	1.1%	1.3%	1.9%	1.3%	0.9%
Palm Oil	0.4%	0.9%	0.9%	1.1%	0.7%
Used clothes	3.5%	1.8%	0.6%	0.4%	0.7%
Subtotal	69.8%	70.3%	56.0%	55.1%	60.6%

Table 5.5: Togo's Composition of Re-export, Main Products, 2000-2008 (Percentage Share of Total Re-exports)

	2000	2002	2004	2006	2008
Petroleum products	23.3%	27.0%	6.7%	27.1%	42.2%
Cotton	18.9%	36.4%	65.9%	48.8%	20.9%
Cloth	4.0%	8.1%	5.1%	2.9%	5.4%
Frozen fish	7.6%	5.0%	2.6%	4.1%	2.2%
Vegetable Oil	0.5%	1.3%	1.8%	0.3%	1.3%
Clothing	0.3%	0.2%	0.3%	0.2%	1.0%
Scrap Metal	0.0%	0.0%	0.4%	0.4%	0.9%
Palm Oil	0.2%	0.1%	0.6%	0.2%	0.6%
Condensed milk	0.3%	0.3%	0.5%	0.4%	0.4%
Sugar	1.3%	0.5%	0.4%	0.2%	0.4%
Cocoa	0.1%	0.0%	0.5%	0.6%	0.4%
Cars	5.0%	0.5%	0.3%	0.3%	0.4%
Gold	14.4%	1.5%	0.8%	1.1%	0.3%
Cigarettes	2.1%	1.0%	0.1%	0.2%	0.2%
Rice	2.2%	0.7%	0.4%	1.4%	0.1%
Clinker	1.6%	0.9%	0.8%	0.2%	0.1%
Subtotal	81.8%	83.5%	87.2%	88.6%	77.0%

Source: Togo Customs and author's calculations.

**Table 5.6: Declared destination of Togo's Transit and Re-exports, 2008*
(Percentage of Total Transit and Re-exports)**

	Consumer goods	Vehicles
Benin	9.7%	9.8%
Burkina Faso	21.2%	53.7%
Cote d'Ivoire	2.9%	0.7%
Gabon	7.4%	0.1%
Ghana	3.2%	8.2%
Mali	6.1%	1.9%
Nigeria	5.1%	0.8%
Niger	18.2%	5.2%
Subtotal	73.9%	80.4%

*Products same as those shown in Table 8.

Source: Togo customs and author's calculations.

5.35 *Product-level comparison of Togo and Benin.* Table 5.7 provides a product-level comparison for Togo and Benin, covering some of the key imported products shown in Tables 5.4 and 5.5, as well as frozen chicken, one of Benin's main imports. Careful scrutiny of the Table reveals many interesting features of Togo and Benin's trading behavior. Given the similarity of Togo and Benin's economies and populations, it is unlikely that domestic demands differ greatly in the two countries, although Benin's per capita GDP is considerably higher than Togo's, as previously noted.

5.36 **Most of the goods shown in Table 5.7 are banned or subject to high import taxes in Nigeria**, as seen earlier (frozen poultry, rice, palm and vegetable oil, sugar, cigarettes, medicines, cloth, clothing, used clothes and cars). Frozen fish and motorcycles are two products imported in relatively large quantities in Togo and Benin but not restricted in Nigeria.

5.37 **Used cars and cloth are the two goods most evidently re-exported unofficially to Nigeria by both Benin and Togo in large volumes**, as imports of these two items in transit far exceed imports for domestic use or feasible domestic consumption. Benin's imports of these two items are also much greater than Togo's, suggesting that Togo's role in re-exporting to Nigeria is much less than Benin's for these products. Rice and frozen poultry display a somewhat different pattern, with Benin a very large importer, but exclusively (frozen poultry) or mostly (rice) for domestic consumption rather than transit. Given that Benin's imports of these two goods exceed those of Togo by a factor of more than 10, we can infer that imports are not in fact consumed at home but rather are unofficially re-exported to Nigeria from Benin in very large quantities. In fact, it is well-known in Benin that almost all of the imported frozen chickens are re-exported to Nigeria to circumvent its import ban. A number of other products, including sugar, palm oil, other vegetable oils, trucks, and used clothes also display either of these two characteristics to varying degrees: 1) transit substantially exceeds imports for domestic use in one or both countries and 2) Benin's imports substantially exceed those of Togo. For some other goods, however, including some banned in Nigeria, imports into Togo are nearly as large or larger than those in Benin: cigarettes, medicines, clothes, condensed milk, motorcycles and frozen fish. In the case of imported medicines, which are banned in Nigeria, Togo and Benin both have rather

large imports for both transit and domestic use, leading to the suspicion that much of these are diverted to the Nigerian market. The fact that Togo's imports of cigarettes for domestic consumption are much larger than Benin's suggests that Togo is somehow more successful than Benin in unofficial re-exporting of cigarettes even after payment of customs duties, just as is the case for frozen chicken in Benin.

5.38 Overall, it is surely not coincidental that many of Togo's and Benin's most important imports include items that are heavily protected in Nigeria with either import bans or high tariffs. Although Togo is less reliant than Benin on the Nigerian market, this analysis suggests Nigeria is a significant destination for Togo's imports of used cars and other consumer goods banned in Nigeria such as cloth, medicines and cigarettes.

Table 5.7: Selected Key Imports in Togo and Benin, 2008 (Billion of CFA Francs)

	Togo			Benin		
	Imports for Domestic Use		Transit and Reexport	Imports for Domestic Use		Transit and Reexport
	Use	Reexport	Total	Use	Reexport	Total
Frozen chicken	4.4	0.0	4.5	58.6	0.0	58.6
Frozen fish	2.1	4.9	7.0	4.6	0.7	5.3
Condensed milk	2.0	8.7	10.6	5.6	8.8	14.4
Rice	4.2	8.7	12.8	88.4	43.7	132.1
Palm oil	3.5	6.6	10.1	35.0	27.2	62.1
Vegetable Oil	1.1	6.6	7.8	0.3	11.7	11.9
Sugar	2.1	7.2	9.3	7.8	8.2	16.0
Cigarettes	8.8	11.9	20.7	2.6	19.2	21.9
Medicine	17.7	15.5	33.2	18.8	10.2	29.1
Cotton Cloth	2.3	30.4	32.7	17.9	350.5	368.4
Clothing	15.2	20.9	36.2	17.6	19.1	36.7
Used clothes	4.0	6.0	9.9	22.4	33.1	55.4
Cars	10.9	69.7	80.6	25.7	398.7	424.4
Trucks	3.0	5.5	8.5	5.9	12.1	18.1
Motorcycles	5.1	3.3	8.4	5.1	0.8	5.9

Source: Benin and Togo Customs and author's calculations.

E. Competition and Customs Practices in Togo and Benin with a Focus on the Used Car Market

5.39 Transit Taxation in Togo and Benin. Togo competes with Benin for market share in smuggling restricted products in Nigeria as well as for transit to the land-locked countries to the North. Benin's position next to Nigeria puts Togo at a competitive disadvantage as Togolese products must pass through Benin or Niger via Burkina Faso to get to Nigeria. This disadvantage is particularly acute for perishable products or those requiring refrigeration such as frozen poultry, which explains why Togo does not import frozen poultry in large quantities as Benin does.

5.40 Benin charges a 6.3 percent transit fee on goods passing through Togo on the way to Nigeria. Benin also attempts to police its border with Togo and to limit crossings of goods in transit to authorized points. In its efforts to limit smuggling of imported products, Benin at times blocks cross-border shipments of local produce from Togo in contravention of WAEMU's free trade provisions. Togolese traders have developed elaborate circuits for smuggling goods unofficially into Benin, both for the Beninese and Nigerian markets.⁹⁶

5.41 To compensate for its location disadvantage in vehicles and other products, Togo's taxes on transit trade have fallen over time and are now considerably below those of Benin. In the 1980s, Togo's transit taxes averaged about 8 percent. In the early 1990s transit taxes were lowered to about 4 percent and now, as noted earlier, transit and re-export taxes are in the 0-2 percent range. Table 5.8 shows the effective tax rate on transit in the two countries, obtained by dividing total customs receipts by import values. It confirms that actually-paid taxes on transit are very small for Togo, well below 1 percent for most goods, although they edged up in 2008. For used cars in transit, Togo's tax rate increased from 0.3 percent to a still minuscule 0.5 percent in 2008. The effective transit tax rate on cloth in Togo also rose slightly to about 0.8 percent in 2008.

5.42 In Benin, Table 5.8 confirms that tax receipts on transit were also quite low until 2003 at an average of 1.3 percent in 2002 and 3.2 percent on used cars. In 2003, Benin raised transit taxes considerably, especially on used cars, with the average rising to 4.6 percent and the rate on used cars to nearly 11 percent. These tax increases in Benin, along with the border closing between Nigeria and Benin in 2003 in response to a political dispute, contributed to the sizeable decline in Benin's entrepôt trade and a large increase in Togo's in 2003 as seen in Tables 5.3 and 5.3 above. One can conclude that Benin has sacrificed some of its transit trade in order to collect a larger amount of revenue. Togo, on the other hand, collects very little revenue on transit and re-exports, in order to boost competitiveness. Benin's transit trade nevertheless has recovered impressively since its 2003 slump.

5.43 The greater speed and lower cost of port services in Lomé over Cotonou also likely result from the pressure on Togo to remain competitive. It appears that these very low taxes on transit and re-exports in Togo and the competitiveness of the port are consistent with a strategic decision by the government of Togo to promote the role of Togo as hub and compensate for the higher costs of reaching Nigeria from Lomé relative to Cotonou.

⁹⁶ "Secteur Oleagineux au Benin: Quand la Contrebande fait la Nique a l'Etat," <http://gnona.wordpress.com/2007/03/21/secteur-oleagineux-au-benin-quand-la-contrebande-fait-la-nique-a-l%E2%80%99Etat/>

Table 5.8: Effective Tax Rates on Transit, Benin and Togo

Benin							
	2002	2003	2004	2005	2006	2007	2008
All goods	1.3%	4.6%	4.7%	4.5%	4.3%	4.8%	4.5%
Used cars	3.2%	10.9%	10.7%	9.9%	9.4%	12.6%	13.5%
Cloth	0.7%	2.6%	3.1%	2.5%	2.0%	1.2%	0.4%

Togo							
	2002	2003	2004	2005	2006	2007	2008
All goods	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.5%
Used cars	0.3%	0.2%	0.2%	0.2%	0.3%	0.2%	0.3%
Cloth	0.6%	0.3%	0.3%	0.4%	0.4%	0.5%	0.8%

Source: Togo and Benin customs data on duties collected, and author's collections.

5.44 **The Used Car Market.** Competition in the used car market is particularly intense and significant given the greater value added and employment provided by trade in used cars, as explained in the next section. Large numbers of used cars are smuggled into Nigeria from Benin and Togo. Table 5.9 shows the volume of cars imported into Togo and Benin, by customs status. Used cars are rarely declared for re-export in either country, but rather enter in transit. Benin's imports of used cars averaged around 200,000 per year over 2000-2008, with a dip in 2003 and 2004 and a surge in 2008 to over 300,000. Of these imports, about 8,000 are declared for domestic consumption and the rest in transit, ostensibly mostly to Niger but in practice overwhelmingly intended for Nigeria, where used car imports are severely restricted, as seen earlier. Togo's imports are less than half of Benin's, averaging about 70,000 per year in recent years, peaking at above 90,000 in 2003 and again in 2008. About the same number as in Benin are declared for domestic use, leaving the remaining 80 per cent for transit.⁹⁷ Togo's imports of used cars for both domestic use and transit dropped precipitously in the first 5 months of 2009, the reasons for which are discussed below in Box 5.2.

Table 5.9: Number of Imported Cars, By Customs Status, 2000-2009

Togo										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Total	57,263	83,301	80,354	91,767	70,967	67,415	75,125	67,873	91,933	46,857
Domestic Use	10,146	8,592	9,955	9,784	7,771	7,993	9,037	9,179	11,406	5,401
Transit	47,117	74,710	70,398	81,984	63,196	59,422	66,088	58,694	80,527	41,456

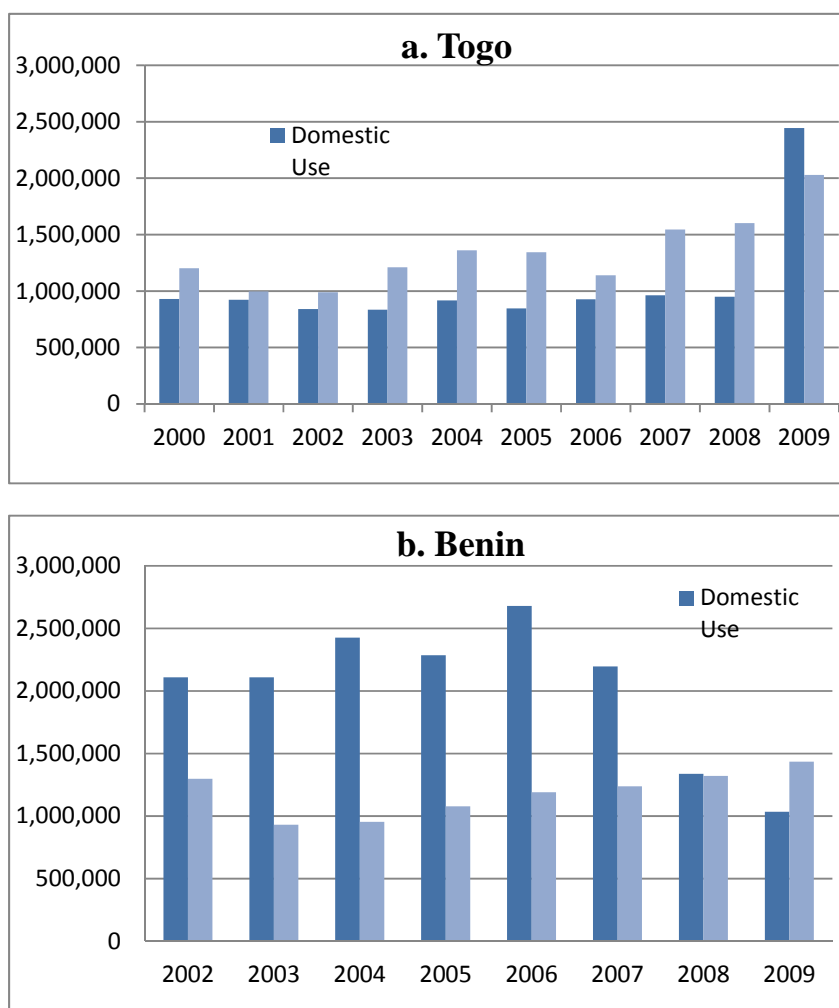
Benin										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Total	203,027	251,405	245,051	207,147	144,030	153,911	203,599	257,664	321,008	235,872
Domestic Use	NA	NA	7,509	9,817	6,110	7,822	7,071	8,968	19,208	21,039
Transit	NA	NA	237,542	197,330	137,920	146,089	196,528	248,696	301,801	214,833

*First 5 months of 2009, annualized.

Source: Benin port of Cotonou, Togo customs, and author's calculations.

⁹⁷ It is surprising that Togo's domestic purchases of cars appear to exceed that of Benin through 2007, given its lower population and per capita GDP. About one third of the cars imported for domestic use in Togo are probably re-exported unofficially. Knowledgeable observers estimate Togo's domestic purchases of cars at about 500 per month. This would lower Togo's actual domestic consumption to about 6000 cars a year. The surge in Benin's imports of cars for domestic use in 2008 and early 2009 also probably reflects increased sales to other countries.

Figure 5.1: Average Customs Valuations of Used Cars (CFA Francs per car) 2000-2009



5.45 **Customs officials in Togo and Benin exercise substantial discretion in valuing goods**, particularly used cars for which the value depends on the model and year, which can be difficult to verify. Figure 5.1a and 5.1b shows the average customs valuation for imported cars in Togo and Benin, distinguished by customs status into imports for domestic use and transit.⁹⁸

5.46 **Customs valuation practices are very important because they influence the amount of duties collected** and therefore impact competitiveness in the car transit business as well as customs revenues. For cars declared in transit, valuations on official declarations may also affect the level of unofficial payments levied at border crossings and checkpoints by customs officers and the police as bribes are related to the stated value of merchandise on official documents. Low valuations therefore increase competitiveness in transit trade by reducing unofficial payments. Moreover, under-valuations of cars declared for the domestic market lowers import

⁹⁸According to customs officials, data on value and weight are more reliable than data on numbers of products. In particular, data on numbers of cars is of poor quality in Togo and are incomplete for Benin. The numbers of cars were therefore partially estimated based on the net weight of cars, assuming that imported cars weigh an average of one ton. Further it is assumed that cars imported for the domestic market and for transit have the same characteristics, on average. Given the socio-economic similarities of the countries in West Africa, and consequently the similarity of demands, this assumption seems reasonable.

taxes and thus makes it more feasible to profit from re-exporting these cars even when imported under domestic use status.

Box 5.2: The COTEC Car Valuation Controversy

In December 2008 the private firm Compagnie Togolaise d'Evaluation et de Contrôle des Véhicules d'Occasion (COTEC) was awarded a contract in Togo to value imported used cars. Valuing used cars is complicated due to the large variety of models and years, which can easily be misrepresented on the bill of lading. Importers have an incentive to claim that cars are older and less valuable than they are in reality to lower import tax liabilities. The director of COTEC is an expert in the used car business and has access to global blue-book values for all models of used cars. Moreover, he checks the chassis numbers to verify the accuracy of customs declarations by importers. COTEC has dramatically raised the average values on imported cars, doubling the values for cars declared for the domestic market and raising values for cars in transit by about 25 percent (Figure 1). A public outcry against the higher prices has received considerable attention in the press, with allegations that the higher prices are destroying Togo's used car business.

Defenders of COTEC justify the higher valuations on several grounds:

1)-Higher valuations correctly reflect market prices. Indeed the COTEC valuations are similar to those of Benin's imports for domestic use prior to the sharp drop in 2008

2)-Rich and well-connected buyers are the ones who are most affected given that valuations have been raised most on higher-end vehicles. Previously, well-connected government officials benefited most from discounted customs values.

3)-Even though import volumes are down, government revenues are up, particularly on cars for domestic use.

4)-The significant fall in sales in Togo is mostly due to the economic crisis in Nigeria and the depreciation of the naira, not COTEC's higher valuations.

We can test the latter assertion by comparing Togo and Benin's imports. Togo's car sales fell sharply in the first 5 months of 2009 (annualized) over 2008, by 53 percent for the domestic market and 49 percent for transit, an overall drop of 50 percent. In Benin, overall car imports are down too, but only by 26.5 percent, with cars for domestic use up 9.5 percent while cars imported in transit lower by 29 percent. This suggests that the Nigerian crisis explains about half of the decline in Togo's sales and that the new higher valuations are also hurting Togo's competitiveness. Although COTEC increased valuations of cars in transit much less than for cars declared for domestic use, the values for cars in transit in Togo were raised to well above those in Benin.

From a national welfare point of view, the optimal policy for Togo might be to raise valuations of cars for domestic use to market levels, as COTEC has done, thereby generating additional revenues, while keeping low valuations for cars in transit to remain competitive with Benin. About 90 percent of the tax revenues on used cars derive from cars declared for domestic use, even though they only account for 10-20 percent of imported cars, because transit taxes on used cars are minimal, as documented above.

In June 2009, the government assessed COTEC's performance. While affirming the new system of car valuations and decrying the campaign of "disinformation" against COTEC, the government announced reductions in taxes on used car imports through roll-backs of 15 to 30 percent of used car valuations. Further details were unavailable at the time of writing.

5.47 Based on Figure 5.1, it appears that Togo's and Benin's customs valuation practices differ strikingly and have changed over time. Until 2009, Togo maintained low average valuations of imported used cars for domestic consumption relative to cars declared in transit, while Benin did the opposite until 2008. For cars in transit both countries had average valuations of cars in the range of 1.0-1.5 million CFA francs (about \$2-3000) through 2008, with a slight upward tendency over time. In the first 5 months of 2009, Togo abruptly raised valuations of

cars, following the outsourcing of car valuations to the firm COTEC in December 2008. Box 5.2 discusses the controversies surrounding COTEC in Togo and the effects of the change. Meanwhile, in Benin, valuations of imported cars for domestic use were considerably higher than in Togo through 2007, but fell sharply in 2008 and 2009, leading to a large increase in cars declared for the domestic market. Given the implausibility of such a large increase in domestic use of cars, it is likely that most of these cars are in fact re-exported unofficially, facilitated by the lower effective tax rates due to undervaluation.

F. Significance of Transit and Re-export Trade for Togo.

5.48 **As seen in Table 5.2, the gross value of transit and re-export trade was equivalent to about 75 percent of GDP in 2008.** The question here is how much this benefits Togo's economy in the form of value added, income generation, employment creation, and government revenue.

5.49 **Government revenues.** Taxes on international trade provide more than half of government tax revenues in Togo, like in Benin. In Togo, however, almost all these revenues derive from customs duties and value added taxes on goods declared for domestic use, given the minimal taxation of transit and re-exports in Togo, whereas in Benin, the government obtains sizeable revenues from taxes and fees on transit, particularly on used cars, as discussed earlier. Moreover, some private operators claim there is widespread abuse, with goods declared in transit sold on the domestic market, thereby reducing customs revenues. Customs acknowledges that some goods are illegally diverted to the domestic market, but claims that the amounts involved are quite small. Overall, considering both the positive and negative effects, the net effect on government revenues of transit taxes is likely to be almost zero. The fact that Togo's government is able to largely refrain from overly taxing transit trade shows a remarkable appreciation of the other economic benefits accruing to this trade. The tradeoff between government revenue generation and competitiveness of entrepôt trade is illustrated by the recent controversy over valuations of used cars, as discussed in Box 5.2.

5.50 **Contribution to GDP.** Despite its limited role for public finance, transit trade is a very important source of employment and income in Togo. In Togo and Benin, the IMF assumes a rate of 15 percent value added on re-exports. There is substantial variation in the amount of value added that occurs, however, depending on the type of product and how much handling occurs in Togo, so a more disaggregated approach seems appropriate, using the four categories of goods noted in section III. For used cars and other vehicles, the value added in Togo for handling and shipping is substantial. At the other extreme, petroleum products involve minimal handling in Togo, particularly when simply transferred from one ship to another at the port en route to Nigeria. Goods arriving in Togo from land borders and shipped out by sea from the port of Lomé, notably cotton from Burkina Faso, also involve fairly limited income generation in Togo as they are packed in neighboring countries and pass through Togo with little handling. Imported consumer items such as cloth, rice and sugar are intermediate cases involving some distribution activities as well as transport.

5.51 **Used cars generate very substantial incomes in Togo.** Freight forwarders ("*transitaires*") at the port receive about 320,000 CFA francs from the buyer of a used car valued at about 1.3 million CFA francs - or 25 percent - to cover all port fees, including taxes, fees for various port agencies, handling, parking, side payments to customs officials, and a small profit

margin for the freight forwarders⁹⁹. Importers based in Togo can be assumed to have profit margins of perhaps 5-10 percent. Beyond the importer profits and freight forwarding port fees, used cars result in payments to a wide variety of Togolese businesses beyond the port: hotels that lodge the buyers who arrive in Togo, mechanics, body shops, license plate makers, electricians, painters, drivers¹⁰⁰, vendors of food and drink at the port and along the road, gasoline station attendants, and unofficial payments to officials at check points along the roads. All told, a value added ratio of 40 percent for used cars and other vehicles seems reasonable, and is consistent with Perret's (2002) detailed study of the used car market in Benin.¹⁰¹

5.52 For other imported goods such as cloth, clothing, rice and other foodstuffs, gross margins are estimated at about 10 percent by importers and customs clearing agents interviewed by the mission.

5.53 For cotton, gold, and other products arriving in Benin from land-locked or coastal countries, it was assumed that the value added ratio was 5 percent, since the handling and profits probably accrue largely to businesses in the producer countries. For petroleum, the respective figure was taken to be only 2 percent.

5.54 In summary, the following value-addition ratios per value of imports are assumed for the four categories of imports:

1. Vehicles	40 percent
2. Other imports entering through the port	10 percent
3. Cotton and others originating in the region	5 percent
4. Petroleum products	2 percent

5.55 Based on the product composition of transit and re-exports shown in Tables 5.4 and 5.5 and further calculations based on import data, the four categories of imports were found to have roughly equal weights in total imports for re-export and transit taken together. Under the assumption of equal weights for the four categories and the value addition ratios shown above, the overall value-added from imports averages about 15 percent of import value, similar to what the IMF assumes. Given that transits and re-exports were in turn about 70-75 percent of GDP in 2006-2008, it can be inferred that transshipment trade contributed about 10 percent of GDP in recent years. This is roughly consistent with the IMF (2007) estimate that commerce and transport contributed some 21 percent of GDP in 2006, if cross-border trade is responsible for half of the latter.

G. Conclusions and Recommendations.

5.56 Although considerably smaller than in Benin, entrepôt trade is among Togo's most important industries, with gross re-exports and transit trade equivalent to around 75 percent of

⁹⁹ The level of fees on used cars imports is based on several interviews with freight forwarders in Togo and Benin, who all provided similar figures.

¹⁰⁰ Drivers must be Togolese nationals in the 15 km radius from the port. Beyond that, drivers can be from other countries. About 40 percent of long-haul drivers picking up merchandise in Lomé are estimated to be Togolese, according to freight forwarders and truck drivers at the port.

¹⁰¹ Perret (2002) estimated that value added in Benin in 2001 amounted to close to 100 percent of import value for used cars, but his estimates are based on an assumed high margin for importers. Port fees are also higher in Benin than in Togo.

GDP in 2008, creating value added accounting for an estimated 10 percent of GDP. Transit and re-exports together are more than double imports declared for domestic use. This trade creates employment for large numbers of workers at the port and in handling and transport of merchandise upon exit from the port. Much of transit trade is dominated by the informal sector, however, including large firms, and about half of this trade is estimated to be smuggled into Nigeria with most of the rest coming or going to the land-locked regions of the interior.

5.57 Togo reaps little in the way of fiscal windfalls from re-exports and transit, as it has lowered taxes on transit to near-zero in an effort to remain competitive with Benin.

5.58 Togo's role as a hub for unofficial as well as legitimate transit trade derives from its location advantages, particularly its deep-water port, historical trading relationships, artificial national borders separating groups with close ethnic ties, and the lure of the highly protected Nigerian market.

5.59 Togo competes at a geographical disadvantage to Benin, however, for access to the Nigerian market. Togo's infrastructure is also poor, as discussed in detail in the trade facilitation chapter. While the port and customs function relatively well by African standards, the roads are in dismal condition and travel is hampered by numerous checkpoints and official harassment, as in other countries of the region.

5.60 It is doubtful that a development strategy based on smuggling and fraud is a viable long-run path to emerging market status. Much of this trade would vanish if agreement is reached in ECOWAS on harmonization of import taxation and Nigeria implements any such agreement, notably the abolishment of import bans and the reduction of duties to a common maximum of 35 percent. The battle to secure a larger share of smuggling has led to adversarial relations between Benin and Togo, with Benin seeking to block entry of goods from Togo, even those that are made in Togo. Smuggling contributes to a culture of corruption and tax evasion that is not conducive to a productive economy. Smuggling also diverts scarce entrepreneurial skills away from other productive activities which are more sustainable in the long term. Over time, therefore, Togo should transition towards more formal trading relationships as ECOWAS harmonization proceeds. In addition to its geographical advantages, Togolese entrepreneurs, including women, display a dynamism, organizational sophistication and ingenuity that indicate a high potential for a thriving market economy. To capitalize on these strengths, Togo will have to further improve infrastructure and customs management, as discussed in the transport chapter.

5.61 Nigeria is unlikely to change its behavior overnight, however, and in the short run, Togo can continue to benefit from Nigeria's distortions along with promoting more legitimate transit activities to the land-locked countries. To this end, Togo's government should avoid unnecessary impediments to the private sector's ability to respond flexibly to a changing environment, including actions that disrupt transit trade. The new higher values assigned to used cars by COTEC, while successfully increasing revenues on cars for domestic use, have contributed to a plunge in vehicle sales much greater than is occurring in Benin. Some rollback in valuations of cars in transit, while maintaining higher values of cars imported for domestic use, would be beneficial, to maintain competitiveness with Benin's low prices for cars in transit.

6. TOGO'S FREE ZONE: TIME FOR A NEW FOCUS?

A. Introduction

6.1 **The narrowness of Togo's domestic market (population 6.5 million, per capita income estimated at US\$400 in 2008) led the government very early on to focus on exports** as a source of growth for manufacturing and services. This approach prompted the authorities to create an export free zone in 1989, at a time when import substitution was still the predominant policy in Africa. Togo's is the fifth free zone created in Africa, following those of Mauritius (1970), Senegal (1974), Liberia (1976), and the DRC (1981)—the latter two never having actually come into being due to domestic problems.

6.2 **The economic justification for a free zone** lies chiefly in the foreign exchange receipts expected, the jobs created (and the attendant income), the possible linkage effect on the national economy, the catalyzing effect of foreign investment in the form of technology transfers and the development of human capital, and also in the demonstration effect on local businesses. In exchange for these positive outcomes, governments offer tax incentives, exemption from customs duties on the raw materials and equipment needed for production, more flexible labor laws, subsidies on utility rates (electricity, telecommunications, etc.), and the cutting of red tape. The competitiveness of nearly all free zones in developing countries derives from the differential in wages vis-à-vis the northern countries to which they export, and an environment of facilitation compared to the frequently unfavorable business climate of the host country. The current trend is more toward special economic zones and competitiveness poles as interesting alternatives, in view of their positive track record in Asia. The concept of the special economic zone is indeed broader and incorporates both traditional duty-free export zones and geographically delineated zones offering good infrastructure, a secure legal environment, and regulatory facilitation, as well as special zones to encourage specific activities (technological parks, etc.). While exemption from the tax on profits is often a factor, at least for a time, it is no longer the main attraction compared to other advantages. A selective bibliography on this issue is included in the annex.

6.3 **This chapter will analyze** (1) the main characteristics of Togo's free zone, (2) its impact on the economy, (3) its strengths and weaknesses, and will (4) propose strategies for revitalizing the development of the free zone and exports in general.

B. Main Characteristics of the Free Zone

6.4 **Togo's free zone began operations in 1990.**¹⁰² The stated objective was to “encourage the development of export-oriented activities in Togo while guaranteeing enterprises operating under that system a level playing field.” The arrangement includes physically delineated free zones as well as the status of free enterprise authorized to operate anywhere in the territory, subject to certain conditions.¹⁰³ In all, 276 licenses were issued between 1990 and 2008. Some companies failed to follow through and make the necessary investments; their licenses were

¹⁰² Created in 1989 by Law No. 89-14 of September 16, 1989 setting out rules governing the Free Export Processing Zone and Decree No. 90/40 of April 4, 1990, adopted in implementation of that law.

¹⁰³ The terms “free zone” and “enterprises with free zone status” will be used interchangeably in the following. In considering the possibility of granting free enterprise status outside a physically delineated zone, Togo could learn lessons from other countries, especially Senegal, where the free zone has been a relative failure because of its location 18 km from Dakar.

revoked after a certain period of time. Others set up shop but have since closed. A very few companies decided to waive free zone status because Togo's domestic market proved to be more profitable than the potential for exports. At end-October 2009, 60 enterprises were in operation,¹⁰⁴ 34 others had received licenses¹⁰⁵ and were in various stages of the start-up process. This compares with the 122 enterprises in business in Ghana's free zone, according to its website.¹⁰⁶

6.5 Sales in 2008 totaled CFAF 145 billion, of which CFAF 127 billion (87.5 percent) were exports (\$324 million, including \$282 million in exports).¹⁰⁷ Enterprises in operation employed roughly 9,000 individuals at end-2008, for a wage bill of CFAF 6 billion (\$13.4 million). For companies in operation at end-2008,¹⁰⁸ cumulative investments from 1990 to 2008 amounted to CFAF 120 billion (\$266 million). According to SAZOF, Togolese nationals held 29 percent of the capital of these enterprises in 2007.

Composition by industry/sector¹⁰⁹

6.6 In 2008, the chemical industries (essentially plastic goods, paints and glues; see Table 6.1¹¹⁰) and construction materials (clinker, for the most part) accounted for 36.1 percent and 20.2 percent of free zone production, respectively. Consequently, these two relatively and even highly capital-intensive sectors together represented more than half the turnover of enterprises in the zone. The services sector—in which two enterprises (freight transport between Brussels and the African capitals and new information technologies, Internet provider) account for nearly all the turnover—represents 27.5 percent of the free zone total, with the textile/clothing/leather sector contributing 7.6 percent (nearly all the output of this latter industry consists of the manufacture of hair extensions and hairpieces). Next come the agri-food industries (5.2 percent), the wood/metal/engineering sector (3.1 percent) and miscellaneous industries (0.2 percent).

¹⁰⁴ 61 according to SAZOF's statistics, which include SAZOF itself.

¹⁰⁵ These 34 enterprises are included in the figure of 276 licenses issued. Agbodji (2007) points out that during the 1990-2000 period, "of a total 169 licenses granted to enterprises, 45 enterprises (27%) were in operation while 33 enterprises (19.5%) closed after a period of activity ranging from less than one year to three years." This suggests that more than half had not—or not yet—used the license by end-2000. A period of two years is accorded for making the necessary investment.

¹⁰⁶ www.gfzb.com.gh

¹⁰⁷ Source: http://stats.oecd.org/Index.aspx?datasetcode=MEI_FIN#. At the 2008 average exchange rate, US\$1 = CFAF 448. To simplify the calculations, we will use this 2008 average rate for all CFAF/US\$ conversions, including for cumulative amounts spanning several years.

¹⁰⁸ According to SAZOF, these cumulative investments only include companies in operation at end-2008 (after subtracting investments made by companies that have since closed).

¹⁰⁹ The following classification was created for this study and is not always the same as the SAZOF classification. It provided a clearer distinction between the characteristics of the various sectors. For example, the wood (furniture, flooring), metal (wrought iron), and engineering industries were grouped together because they require workers to have a certain degree of technical expertise.

¹¹⁰ The chemical industry is presented as a group of industries employing a very wide range of raw materials and manufacturing processes; these industries often have nothing in common, including their capital intensity. The NAF (French industrial classification) of the INSEE included in division 20 basic chemistry (inorganic chemistry and organic chemistry) and parachemistry (glues, lye and soaps, paints, perfumes and plant health products, etc.). The NAF does not include pharmaceuticals and rubber goods among the chemical industries. See: <http://www.insee.fr/fr/methodes/default.asp?page=nomenclatures/cpf2008/cpf2008.htm>

Table 6.1: Distribution of Turnover and Exports by Sector in 2008

	Turnover (CFAF billions)	Turnover in % of free zone total	% of exports of the sector	Of which % exports to Europe, Asia, & the Americas	% local sales of the sector
Chemistry	52.5	36.1%	94.6%	4.2%	5.4%
- of which Pharmaceuticals/Cosmetics	3.6	2.5%	88.4%	0.0%	11.6%
- of which Plastic-Paints-Glue	42.8	29.5%	97.7%	0.5%	2.3%
- of which Fertilizer	6.1	4.2%	76.7%	32.1%	23.3%
Services	39.9	27.5%	83.4%	3.0%	16.6%
- of which 2 firms (transport and NTI)		25.7%			
Clinker	29.4	20.2%	74.4%	0.0%	25.6%
Clothing-Textiles-Footwear	11.0	7.6%	92.6%	5.6%	7.4%
- of which hair extensions/hairpieces		7.1%			
Agri-Food	7.6	5.2%	97.8%	10.5%	2.2%
Wood-Metal-Engineering	4.5	3.1%	96.4%	16.8%	3.6%
Miscellaneous Industries	0.3	0.2%	95.2%	12.6%	4.8%
Total Free Zone	145.2	100.0%	87.5%	3.8%	12.5%

Source: Author's calculations using the SAZOF database.

6.7 **The striking thing about the sectoral composition of the enterprises in Togo's free zone**—and which distinguishes it from most other developing country free zones, especially the free zones in East and Southern Africa¹¹¹—is the preponderance of relatively capital-intensive industries: chemical industries, extractive industries. This characteristic will be analyzed in greater detail below.

Distribution by destination (exports and local market)

6.8 **Table 6.2 summarizes the average distribution of free zone production** by destination in 2005-2008. On average, 15 percent of production is sold on the local market, which is consistent overall with the threshold of 20 percent established by Law No. 89-14 setting out the rules governing the free zone. Sixty-nine percent go to the ECOWAS market (of which a little more than half goes to the WAEMU market), 12 percent to other African markets, and 3 percent to Europe. Exports to Asia and the Americas are insignificant at present.

¹¹¹ The sectoral composition of established enterprises with free zone status in Ghana, particularly Tema, was not available on the GFZB website, which has not been updated for some time.

**Table 6.2: Destination of Free Zone Sales, 2005-2008
(in billions of CFAF)**

Year	No. of companies	Total turnover	Local sales	ECOWAS excl. Togo	of which WAEMU excl. Togo	Rest of Africa	EUROPE	ASIA	AMERICAS
2005	54	125.9	15.88%	68.34%	38.14%	12.39%	3.06%	0.16%	0.17%
2006	57	146.2	15.49%	70.33%	35.13%	11.34%	2.66%	0.12%	0.05%
2007	57	137.3	16.03%	70.99%	43.84%	9.61%	3.35%	0.03%	0.00%
2008	58	145.2	12.74%	67.89%	41.51%	15.77%	3.56%	0.24%	0.05%
2005-08 average			15.04%	69.39%	39.65%	12.28%	3.16%	0.14%	0.07%

Source: Author's calculations using the SAZOF database.

Destination of sales by sector (2005-2008 averages)

- Agri-Food Industries: exports to ECOWAS dominate at 87 percent.
- Wood Industries: this sector exports 84 percent of its output to Europe.
- Textiles/Clothing/Leather: this sector exports almost all its output (86 percent) to ECOWAS (mostly hair extensions).
- Chemical Industries (plastics, pharmaceuticals, cosmetics, etc.): nearly all output (86 percent) is exported to the ECOWAS countries.
- Construction Materials (clinker/cement): approximately two-thirds of output is exported to ECOWAS (68 percent). The rest (32 percent) goes to the local market.
- Metal/Engineering Industries: the two main destinations for exports are ECOWAS (69 percent) and Europe (21 percent).
- Services: most services go to ECOWAS (47 percent and the rest of Africa 26 percent); the local market accounts for 13 percent of the turnover.

The reasons for Togo's atypical free zone

6.9 **Historical:** Until the 2000s, most enterprises were established to serve the regional market (WAEMU and ECOWAS) and enjoyed a double advantage: (a) full exemption from taxes in Togo's free zone, (b) duty-free access to the subregional common market—or at least the prospect of access. SAZOF promotional brochures at the time specifically mentioned the subregional market of 250 million inhabitants. It was not until 2001-2004 that the WAEMU (with the introduction of the common external tariff, CET) and then ECOWAS made it clear that an enterprise operating in a free zone cannot at the same time benefit from freedom of movement within a customs union or even a free-trade zone.

6.10 **Cross-border trade:** From a customs perspective, free zones derive from the concept of extra-territoriality. Consequently, upon being imported into the customs territory of a country or a customs union, goods produced in free zones are subject to customs duties and VAT, just like goods from a third-party country. However, it is possible—and even probable—that import duties are paid only on some exports from free zone enterprises to countries in the subregion,

depending on the nature of the goods and the export method (direct or indirect). Indeed, most free zone enterprises do not export directly, but sell ex factory to buyers domiciled in the destination countries. The goods are “in principle” escorted by Customs to the border (customs agents are supposed to bring back to their home office the export declaration duly initialed at the border) and the buyer or its carrier then takes the necessary steps to clear the goods when they enter the customs territory of the importing country. The situation is similar to the re-export trade (see the chapter on that subject), where the exporting country has the goods tracked (more or less) as far as its own border, but does not concern itself with the conditions governing entry into the importing country. This is a legal export procedure, but the situation is less clear when the goods are imported into the country of destination.

6.11 **Circumstances:** The few large enterprises that exported exclusively to Europe have closed—according to SAZOF—for reasons unique to them and unrelated to one another: Darégal (aromatic herbs, more than 1,000 agricultural jobs) owing to a dispute about the financial conditions of the takeover; Crustafric (shrimp, owned several boats and a processing plant) because of Togo’s suspension in Europe for noncompliance with quality standards (no certification laboratory in Togo); a plant that manufactured garden furniture when its promoter returned to England; and a cotton ginning plant owing to the collapse of the cotton industry. While each of these reasons may seem valid individually, the cumulative effect is nevertheless troubling and further investigation is needed to determine the causes of this atypical situation in the free zone of a developing country.

C. The Impact of the Free Zone on Togo’s Economy

6.12 **The impact of a free zone should be measured in terms of the advantages it was initially expected to provide.** Because we were unable to conduct a systematic cost/benefit analysis in the context of this chapter, the impact of the free zone will be analyzed in the following pages using the most important assessment criteria and based on the available overall statistics, namely: (1) the share of value added in the enterprises’ output, (2) the free zone’s contribution to GDP, (3) integration with the local economy and the resulting ripple effects, (4) contribution to job creation, and (5) contribution to exports. Other positive factors that are more difficult to measure, such as technology transfers and the impact on the training of local labor, should be addressed in a complete cost-benefit study in the future.

Characteristics and trend of value added

6.13 **The share of value added in the turnover of free zone manufacturing and services enterprises**—estimated as the difference between reported output and intermediate inputs (local and imported purchases)¹¹²—amounted, on average, to 40.5 percent in 2000-2008, which is close to the ratios of many manufacturing industries compared at the international level. It was not possible to make a comparison with the value added of other free zones in Africa and elsewhere in the world. Around this average of 40.5 percent, however, a certain downward trend is observed in Togo’s free zone: 51 percent on average in 2000-2001, compared to 36 percent in 2007-2008, probably due to the closing of high value added agro-industrial enterprises.

¹¹² Gross value added by year was estimated by subtracting purchases (local and imported) from total annual turnover. As data on total purchases are available since 2000, the overall value added generated by free zone enterprises can only be calculated from that year forward. Since free zone enterprises pay no taxes or levies, this definition should be essentially the same as that of value added exclusive of taxes (VAHT) in the national accounts.

Nevertheless, the 2007-2008 average ratio is probably still on an upward course because of the substantial value added of the construction materials industries (clinker), a sector organized as a vertically integrated value chain (working of a local raw material by the enterprise, resulting in a limited amount of local or imported purchases) that only began producing in 2000-2001. It is therefore likely that the share of value added of the other free zone enterprises (excluding clinker) was well below the average of 36 percent in 2007-2008.¹¹³ It is impossible to draw relevant conclusions concerning this trend, however, given the extreme variability of the share of value added in production from one year to the next (which is itself unusual because this characteristic is normally structural and should not vary so much over short periods). A detailed analysis of the share of value added by sector should highlight the intersectoral differences and allow for an explanation of the decrease observed in 2000-2008.¹¹⁴

Contribution of value added to the GDP of the commercial sectors

6.14 The free zone's contribution to the overall value added of the commercial sectors (primary, secondary and tertiary) of Togo's economy can be estimated at 5 percent in 2007,¹¹⁵ which is not negligible. The contribution of free zone manufacturing enterprises (plus the extractive industries' sub-sector "clinker") to that sector of the economy can be estimated at approximately one-third of the overall value added of the sector, which is highly significant.¹¹⁶ At present, the growth of Togo's manufacturing industry is therefore driven in large part by free zone production. Even if the resumption of cooperation in the years ahead leads to an increase in the purchasing power of the public and a corresponding jump in demand on the domestic market, the free zone's contribution to growth will remain substantial.

Integration into the national economy

6.15 The share of local purchases can be used to measure the degree of integration of the free zone into the national economy; it averages 24.5 percent of total purchases of goods in 2000-2008.¹¹⁷ This share fell from 32 percent in 2000-2001 to 12.5 percent in 2008. This trend is rather disturbing because of the prospect of creating ripple effects on the national economy. It should be noted that the available statistics do not include the provision of services, the impact of which on integration into the national economy could not be measured.

6.16 The combination of these two trends (downward trend of the share of value added in production and the smaller share of local purchases in total purchases) could be viewed as a gradual decrease in the free zone's contribution to the Togolese economy in 2000-2008. However, to the extent that the statistics on which this assessment is based are reported by the enterprises themselves and are not necessarily consistent with the commonly accepted definitions in the national accounts, the reality of this trend and, more to the point, its significance, are

¹¹³ In general, the average share of value added of all free zone enterprises varies significantly from one year to the next, which, in the case of a relatively uniform structure of enterprises with only a few start-ups and closings each year, is not easy to explain. The reliability of these statistics is uncertain because they are based entirely on the statements of the enterprises.

¹¹⁴ It will be remembered that the definition of value added in the national accounts is associated with the concept of "residents" and cannot be compared to the income of Togolese nationals. It would be necessary to subtract the remuneration of non-national production factors repatriated outside the country (wages of non-nationals not spent in the local market, retained dividends, etc.) to obtain the value added accruing to nationals.

¹¹⁵ Year 2007; the data for 2008 are not yet available. Gross value added of the free zone: CFAF 47 billion; gross value added of market sectors: CFAF 972 billion.

¹¹⁶ CFAF 38 billion and CFAF 121 billion, respectively.

¹¹⁷ Purchases of goods only. Purchases of services are not broken down in the available statistics.

uncertain. A more detailed economic analysis of these trends is needed. The results could contribute to a better assessment of the advantages, based on the contribution of free zone activity to the national economy.

Contribution to modern sector employment

6.17 At end-2009, the free zone employed approximately 9,000 permanent wage earners. The employment statistics for all of Togo's modern sector (excluding government) vary widely between different departments and publications (between 25,000 and 80,000),¹¹⁸ consequently, the free zone's contribution to modern employment varies according to the figure selected: between 11 percent and 36 percent.

Cost per job created

6.18 With the assumptions used,¹¹⁹ the cost per job created in the free zone for companies in operation at end-2008 can be estimated at approximately CFAF 17 million (US\$38,000), which seems relatively high.¹²⁰

Export value added per job and labor intensity of production

6.19 Export turnover per job is among the highest in sub-Saharan Africa, with approximately CFAF 16 million (US\$36,000) in 2008, while export value added *per job* is around CFAF 6 million (US\$14,000) during the same year. But neither of these ratios can validly serve as an indicator of labor productivity. Instead, these ratios are supplementary indicators of the relatively high average capital intensity of enterprises in Togo's free zone and free points.¹²¹ It will be remembered that the construction materials and chemical industries—both of which are highly capital intensive—account for 56 percent of free zone production, and that this large share therefore significantly influences average capital intensity in the zone.

6.20 Analyzed from the opposite perspective, the typically low average labor intensity of most free zone production¹²² is inherent in the activity of the industrial enterprises in the zone and not a result of their technological choices or management decisions. This structural characteristic necessarily limits the potential for job creation and the distribution of a substantial wage bill to Togolese nationals. In this context, it should be noted that the share of the wage bill in overall turnover is constant at 4 percent throughout the 1991-2008 period, and that this wage bill represents, on average, only 10 percent of value added in 2000-2008.¹²³ The question arises of whether a system of incentives favoring investment as such and including tax exemptions not based on the volume of jobs created contributes to the free zone's specialization in capital-intensive activities.

¹¹⁸ Figure provided by the Directorate of Employment, based on information reported to the CNSS.

¹¹⁹ Cost per job created = cumulative amount of updated investments / work force. Only the investments of companies still in existence are taken into account (according to the information provided by SAZOF, the investments of companies no longer in business are subtracted from the statistics). Rate of updating of past investments: assumption of 4 percent per year.

¹²⁰ In a recent project involving the establishment of a special economic zone in Palestine, the World Bank estimated the investment cost per future job at \$10,000-\$15,000.

¹²¹ To obtain more reliable productivity indicators, it would be necessary to use the total factor productivity (TFP) method.

¹²² This observation does not necessarily apply to the majority of the enterprises (in number), but to most production. Some enterprises, such as those involved in the manufacture of hair extensions and hairpieces, are highly labor-intensive.

¹²³ With the increase in the free zone wage schedule in May 2008 and May 2009, the share of the wage bill in value added could increase again slightly in 2009.

Share of free zone enterprises in Togo's exports

6.21 **The merchandise exports of free zone enterprises represent**, on average in 2005-2008, nearly half (46 percent) of Togo's total merchandise exports, with an upward trend (55 percent in 2008) owing to the collapse of phosphate and cotton (customs territory) and the steady performance of clinker (free zone).¹²⁴ This large share of the country's exports justifies the special attention that the authorities are giving to the future of the free zone.

D. The Strengths and Weaknesses of Togo's Free Zone

Free zone strengths

6.22 **The main strengths of Togo's free zone are:** (1) a highly advantageous tax and customs regime, (2) the low level of the wages of a disciplined work force with a good general education and a record of productivity that is generally considered satisfactory by employers, (3) its geographic location and the existence of a port well-known for the swiftness of its operations.¹²⁵ It also benefits from temporary factors, such as political instability in Côte d'Ivoire.

Tax and customs regime

6.23 The tax and customs regime established by Law 89/14 (in force until the publication of the 2009 Budget Law) included the following provisions:

- Exemption from corporate tax (i.e., the tax on profits) for the first 10 years, and stabilization at the rate of 15 percent starting in the 11th year after the date of licensing of the enterprise
- Exemption from the dividend tax for the first 10 years for non-national shareholders
- Stabilization of the payroll tax at the reduced rate of 2 percent for the life of the enterprise
- Exemption from the general business tax (TGA, later replaced by the VAT) on work and services provided for the account of enterprises benefiting from free zone status
- Exemption from import duties and taxes (fiscal entry duty, general business tax, statistical tax) on the equipment, spare parts, raw materials, semi-finished goods and consumable goods needed for the set-up and operation of the enterprise
- Reduction of 50 percent in the same duties and taxes on commercial vehicles

The Law also provides exemption from all duties, taxes, and levies not expressly mentioned above.¹²⁶

6.24 **The 2009 Budget Law introduces the following changes in this arrangement:**

- Adjustment of the corporate tax and graduated taxation by brackets: 5 percent for the first 5 years, 10 percent up to and including the 10th year, 15 percent between the 11th and 20th

¹²⁴ This estimate is based on information from two sources: customs statistics on total exports and free zone statistics (goods and services), from which the percentage represented by services in 2008 (27.5 percent) was subtracted to estimate exports of goods.

¹²⁵ Even if the cost of services begins to be a problem compared to competing ports.

¹²⁶ Article 21 of Law 89-14 is quite surprising. If such were the intention of the legislator, free zone enterprises could be exempted from all duties, taxes and levies except those explicitly mentioned...

year, and transition to the common duty beginning in the 21st year (currently 30 percent for industrial enterprises)

- Payment of VAT on imported raw materials and semi-finished goods and on locally purchased goods and services (after an initial exemption period of 10 years)

6.25 Evaluation of the principal measures of the 2009 Budget Law: The principle of a gradual reduction in tax benefits is in the interest of the national economy and is also consistent with best international practices. This approach provides protection against investors who exploit tax benefits to the fullest and then move on once the period of exemption has expired, especially in sectors that do not require heavy investment, such as the clothing industry.¹²⁷ Nevertheless, the exemption from corporate tax (IS)¹²⁸ should be maintained for the first five years of existence. A similar benefit is granted in many countries to certain types of new enterprises, even when they are not exporters. An exemption from corporate tax for five years is also included in the draft version of Togo's new investment code; for the sake of consistency, at least the same benefit should be granted to companies operating in the free zone.

6.26 However, the measure instituting the payment of VAT (after 10 years in operation) on imports and local purchases of goods and services used by free zone enterprises ignores the basic principle of a free zone, which is based precisely on the concept of extraterritoriality from a customs perspective and therefore applies to VAT collected by Customs, just as it does to customs duties. Since the enterprises pay no VAT on exported production, the payment of VAT on imports of raw materials necessarily gives rise to structural VAT credits, which—in most developing countries—are rarely recovered by the enterprise and thus become an additional charge to be included in prices.¹²⁹ In the customs corridor, this measure has no justification whatever, even after 10 years of existence. According to the available information, it has never entered into force. On the other hand, in the case of VAT on local purchases, certain free zones offer a drawback instead of exemption.

6.27 Although the first measure is justified in substance, the way in which these major changes were introduced in the legislation—in a budget law amending the 1989 law setting out the rules governing the free zone, and especially without even consulting SAZOF and the free zone enterprises—does not contribute to the secure legal environment that investors need. It would be important to prepare any future reform very carefully, to consult with the affected parties, and to coordinate it with the reform of the Investment Code, to avoid having to make successive revisions through the annual budget law, which would further erode legal security.

6.28 Following the new provisions of the 2009 Budget Law, SAZOF, for its part, prepared a draft law setting out rules governing industrial parks to replace Law 89-14 on free zones. With regard to tax benefits, the draft is very similar to the 2009 Budget Law on the subject of corporate tax, except that it provides exemption for the first 5 years and transition to a 15 percent tax rate from the 6th to the 20th year. As for general conditions, the SAZOF draft calls

¹²⁷ According to SAZOF, this was not the case in Togo's free zone after the expiration of the ten-year "tax hiatus." Enterprises that closed around the threshold of 10 years apparently did so for a variety of other, valid reasons. This explanation should be taken with a grain of salt, as an enterprise is obviously not going to cite the end of the tax hiatus to justify its departure...

¹²⁸ Or an equivalent measure such as accelerated depreciation.

¹²⁹ There is, of course, a drawback procedure for customs duties and VAT, but it complicates matters. For the enterprise, the system requires the keeping of analytical accounts. On the government's side, it is unclear at present whether Togo's customs administration has the capacity to manage such a system. If the drawback is chosen for local purchases, thorough training for a number of tax and customs inspectors will be necessary.

for increasing the percentage of authorized local sales to 30 percent (compared to 20 percent at present). These sales would be subject to the payment of customs duties and taxes upon their entry into the customs territory, which is at least the principle currently.¹³⁰ But at the 30 percent level, the risk would be greater that some sales would compete with local companies or prevent the emergence of new local industries in the same sectors.

6.29 The 20 percent allowance granted to free zone enterprises in most countries was initially justified by the flow of second-choice goods (especially clothing and electronics) not subject to strict export quality controls. On a large domestic market, this surplus can be easily absorbed, but in a small country such as Togo it poses a real problem for the development of local industry. Unfortunately, there is currently a form of one-upmanship in the subregion that would justify the higher drawback percentage on the local market; Ghana's free zone authorizes 30 percent and the law on Benin's new free zone (not yet operational in mid-2009) even specifies 35 percent. The possible consequences of these policies at the regional level, in terms of both tax revenue and the development of local industries, warrant analysis.

Labor force

6.30 The law accords enterprises established in the free zone or benefiting from free zone status the freedom to hire and fire Togolese and expatriate personnel subject to the requirement of giving preference to Togolese nationals for permanent jobs.¹³¹ The text of the law does not explicitly state that Togo's free zone enterprises are not subject to national labor legislation and the jurisdiction of the labor courts, but such is the practice in most of the world's free zones. In response to criticisms leveled in the past, the preliminary draft of the law setting out rules governing industrial free zones (March 2010 version) states that the provisions of the labor code apply to enterprises operating in the free zone. However, they are apparently not subject to the collective hiring and firing procedures and formalities, the procedures governing arbitration and the settlement of individual and collective labor disputes, and the system of classification of job categories.

6.31 The minimum and average wages paid in the free zone are among the lowest in Africa and probably the lowest in West and Central Africa, after Nigeria.¹³² At present, the free zone is not in fact subject to the collective agreements in force in Togo. Labor relations are governed by a specific agreement between the Association of Free Zone Employers and the representatives of free zone personnel. However, until 2008, the minimum wage in force in the free zone was nearly double the guaranteed interoccupational minimum wage (SMIG) in force in Togo.¹³³ But with the doubling of Togo's SMIG in August 2008—it is now CFAF 28,000¹³⁴ (approximately 43 Euros)—the minimum wage under the free zone agreement has apparently fallen below the SMIG outside the zone. Consequently, and although there was no legal

¹³⁰ The amount of customs revenues collected on sales within the customs territory does not suggest that this provision could be effectively enforced.

¹³¹ It is unclear how this provision could be enforced if hiring is not subject to authorization. This provision is found in the investment codes of many countries. In the case of Togo, it is contrary to the WAEMU legislation (which did not yet exist in 1989).

¹³² It was not possible to obtain complete information on this subject. The IZF (Investir en Zone Franc) site is no longer updated regularly.

¹³³ The SMIG is set by order of the President of the Republic, whereas the wage schedule for job categories above the SMIG is determined in periodic tripartite negotiations between employers, employee unions, and the government.

¹³⁴ By decree, the SMIG legally in force in Togo was raised from CFAF 13,757 to CFAF 28,000, equivalent to 42.67 euros per month. It had not been adjusted since 1990!

obligation to match the new SMIG, the entire free zone wage schedule was revised upward by about 10-15 percent depending on the category, in two stages: May 2008 and May 2009. The free zone minimum wage is now CFAF 28,000, as it is for other Togolese enterprises and, consequently, there is no longer a differential favoring free zone employees. By way of comparison, Benin's SMIG is around CFAF 31,625 (48 Euros), that of Côte d'Ivoire is CFAF 36,460 (56 Euros), and that of Senegal is CFAF 47,700 (73 Euros). In contrast, the minimum wage in Nigeria was lower than Togo's around mid-2009: N 5,500 (approximately 26 Euros), but is currently being reevaluated.¹³⁵

6.32 The average free zone wage (all job categories combined) can be likened to the “wage bill per employee” ratio and amounted to roughly CFAF 48,000 (70 Euros), the same as the minimum wage in Senegal.¹³⁶ But considering the 2008 increase in the wage schedule, the average will increase by at least 10 percent in 2009. Although the minimum wage is a good reference point for enterprises that employ a large number of unskilled workers, the average wage ratio gives a better indication of wage costs for enterprises whose employees are distributed over several skill categories. Regardless of the indicator chosen, the level of wages in Togo's free zone can be considered highly “competitive” from the perspective of the employer, compared to the rest of West Africa and especially compared to China (approximately \$130, or 93 Euros in the Shenzhen zone).¹³⁷

6.33 But the level of wages is only one of two factors that determine the unit cost of labor, the other being labor productivity. International comparisons are quite difficult to make and are often specific to a given industry.¹³⁸ The available data (turnover/employee or value added/employee) cannot therefore be used as such for international productivity comparisons, because the ratio depends on the structure of the activities and their greater or lesser degree of capital intensity. A micro approach consists of taking the assessments of operators familiar with the productivity standards in their sector of activity in several countries as a basis. We were unable to make systematic use of this approach here; only a few one-off assessments were collected. They suggest that labor productivity in Togo's free zone is relatively good compared to West Africa as a whole, but well below that of Asia. As investors make decisions based on the unit cost of labor, and not only on the minimum or average wage, it would be useful to undertake a study of productivity and output-based pay systems,¹³⁹ which could provide reference points for all labor-intensive industries (clothing, toys, electronics, etc.). The results could (a) serve henceforth as a commercial argument for promotion of the zone if the results are positive, or (b) identify areas that the authorities involved should pay attention to with a view to improving the attractiveness of the free zone.

¹³⁵ It has not been adjusted for 9 years. However, the Federal Parliament was debating a law that would raise it to N 30,000 (\$200, approx. 135 euros).

¹³⁶ Wage bill/work force = CFAF 56,000/month. Less social contributions of 16.5 percent payable by the employer included in the wage bill: average wage: 56,000/1.165 = 48,000.

¹³⁷ In China, minimum wages are set by province or even by each large city. The example refers to the special economic zone of Shenzhen in mid-2009: RMB 900 – \$133.

¹³⁸ The best-known standards or “benchmarks” are those for the production of dress shirts of a certain quality. They are expressed in terms of the number of shirts per person/day or in minutes required to sew a shirt.

¹³⁹ A highly labor-intensive free zone enterprise experimented over the years with several output-based pay systems. After its employees virtually refused at first to bend to the law on output-based pay, it seems to have found a satisfactory system based on voluntary participation that was accepted by a number of workers motivated by the prospect of larger earnings.

Other advantages

6.34 **Simplification of the formalities at SAZOF's one-stop window.** This window serves potential investors from the time of their arrival at the airport and on their behalf takes care of the formalities involved in setting up a business, obtaining visas or residence cards, connecting to public utilities (electricity, water, telephone) etc. It can assist in negotiations with land or building owners. Although the services provided are quite extensive, they are only available during the start-up phase. Once in operation, free zone enterprises, like all other enterprises, generally have to cope with the slowness and complexity of the administrative environment, with two notable exceptions: Customs and Taxes. The customs procedures are simpler because of duty-free commodities imports and VAT-exempt merchandise exports. "Free points" even have a seconded customs officer in the factory itself. As for Taxes, there was apparently an oral instruction not to subject free zone enterprises to too many controls, which may have given credence to the theory¹⁴⁰ that the DGI was not authorized to inspect free zone enterprises. There is no legal basis for this assertion.

6.35 **Availability of industrial property close to the port and the airport** for the first enterprises established. The free zone administration has 72 hectares of land close to the Port of Lomé. The first group of licensed enterprises was therefore able to obtain land in this industrial zone and benefited from extremely advantageous rents.

Free zone weaknesses

6.36 **Despite all the advantages offered**, enterprises operating in a free zone are not exempt from a country's general business environment.

High cost of production factors despite preferential rates

6.37 **Free zone enterprises are charged preferential rates for electricity, water, telecommunications, port services, and air freight.** This benefit, granted by law, needs to be qualified, however, for despite the existence of preferential rates, the cost of electricity and telecommunications is still much higher in Togo's free zone than in the customs territories of most competing countries, which drives up production costs. Some additional costs can be considered cyclical, whereas others are structural. The improvements envisaged by the government and quasi-public corporations in these sectors are described in greater detail in the chapter on the business environment.

De facto failure to enforce certain provisions of the Law

6.38 **Law 89-14 also gives enterprises the right to acquire their own telecommunications network** (V-Sat or microwave), but this option was effectively eliminated by Article 69 of Law No. 98-005/PR of February 11, 1998 on Telecommunications, or else is available at an exorbitant cost. Although currencies can generally be transferred freely in Togo, very few free

¹⁴⁰ Reiterated in IMF and World Bank documents.

zone companies have obtained permission to hold accounts in foreign exchange¹⁴¹ as the law allows them to do.

Poor condition of road infrastructure – exaggerated costs and congestion

6.39 The importance of infrastructure in business start-up decisions and its impact on production costs need no explanation. The good condition of its infrastructure was formerly one of the attractions of Togo’s free zone, but now that same infrastructure, especially with respect to its roads, has become a liability and considerably drives up vehicle operating costs. Some infrastructure, such as the city streets in Lomé (seriously degraded owing to the lack of maintenance and heavy rains in 2008), could be rehabilitated rather quickly, thanks in part to foreign financing. Other infrastructure, however, poses structural problems that require medium- and long-term solutions (see the discussion of the “Lomé bypass” projects in the chapter entitled Facilitation of Trade and Transport).

Lack of industrial land in the port area – obstacle to free zone developmen.

6.40 All of the land made available to the Administration in the port area is currently tied up.¹⁴² The land allotted to a private developer to service and construct ready-to-use prefabricated buildings (shells) has never been used for that purpose and now serves as the site of warehouses (M.A.D. – Customs Clearance Warehouses and Areas) that are used to store goods prior to clearance and transit.¹⁴³ The rational use of land around the Port of Lomé is a major problem that will also be addressed in the chapter on transport. To remedy the problem of insufficient industrial land, SAZOF has acquired an additional 140 hectares of land in Adétikopé, about fifteen kilometers north of Lomé.¹⁴⁴ For this approach to work, two difficulties must be overcome:

- Mobilizing resources to service this land (offsite infrastructure) is a challenge in the current environment of budgetary constraints in Togo.¹⁴⁵ Given the considerable lags between the design of a project, the feasibility studies, the decisions to begin the work, the securing of financing, and implementation, the envisaged “relocation” project could put a stop to free zone expansion for many years to come, at a critical juncture when neighboring countries are turning to private developers who have a much larger financing capacity and can make decisions much more quickly than the Togolese government. Togo is therefore in danger of falling so far behind in the race for investors that it will have a hard time catching up, unless it offers more enticing permanent tax incentives, which would be contrary to the country’s long term interests.
- Whether potential investors will accept this site is unclear, especially since no survey of prospective candidates has been conducted. The failure of Senegal’s free zone—among many other factors, especially investment and job creation thresholds initially set too high

¹⁴¹ According to the BCEAO, this is apparently because the enterprises are not interested, since holders of a foreign exchange account must first use their assets in that account before requesting foreign exchange from the central bank to pay invoices for imports.

¹⁴² Although there are some legal difficulties involving deeds to the small amount of remaining land, the problems cannot be attributed to investors.

¹⁴³ These warehouses are notionally “under customs.” See the chapter on re-exports.

¹⁴⁴ 60 hectares of this area were deeded back to the Port of Lomé.

¹⁴⁵ In Benin, the work of installing services in the geographic free zone of Sèmè Kpodji began in 2005. It was completed toward the middle of 2009, with electricity and telecommunications services available on a third of the land and access roads for 70 percent. The capital of Benin’s free zone is held at 20 percent by the government and 80 percent by private investors, but as is usually the case, the installation of services was the government’s responsibility.

and wages deemed excessive—was attributed in part to its location 17 km from Dakar. It is true that the road linking Adétikopé to Lomé is far less congested and that most exports are currently shipped by road instead of transiting the Port. But this situation could change and a location at the port remains a determining factor of competitiveness in the long term.

6.41 Consequently, the problem of the availability of land for free zone development seems far from satisfactorily resolved. The government will probably not be able to avoid a thorough reform of land use in the interior and near the Port of Lomé, which will require, in particular, more efficient management and the revision of rental charges. This reform should be preceded by a cost-benefit analysis of alternative commercial/industrial uses, inasmuch as the land needed for free zone expansion is currently occupied by MADs and is used for the re-export trade (see the chapter on the re-export trade and its medium- and long-term viability). Reliance on the “free point” concept (making it possible to set up shop anywhere in the country) is especially valid for enterprises working with raw materials. Most other enterprises continue to value the services provided in a dedicated zone (banks, carriers, employee transportation, etc.). This is, in fact, the strongest argument in favor of the new “special economic zones” in other countries.

E. What kind of free zone can revitalize growth?

6.42 The performance of Togo’s free zone has been positive overall if one takes into account the unfavorable sociopolitical climate that had prevailed just a few years before it was initiated. The results obtained are about average for the free zones in Africa, some of which never really got started while other, more recent ones, have considerably outperformed Togo in terms of job creation. Despite the favorable outcome in terms of job creation, it must be acknowledged that Togo’s free zone is atypical in nature given its orientation toward the ECOWAS community market in which the products of the zone do not benefit from the trade liberalization scheme (SLE) and should normally be subject to customs duties.

6.43 The revision of tax benefits under the 2009 Budget Law, the draft law on economic activity parks, as well as the draft law on the investment code provide the opportunity to:

- Conduct an in-depth stock-taking of the free zone in the form of a cost/benefit analysis for the national economy
- Initiate frank reflection about the outlook for the free zone for a 5-10 year horizon; and
- Take immediate steps to move in the proper direction to prepare the future and adapt the incentives system accordingly.

Stock-taking of the free zone—Benefits and costs for the national economy

6.44 An earlier section of this chapter provides a brief overview of the contributions made by the free zone to the Togolese economy, this in the form of (a) value added (contribution to GDP), (b) export receipts, and (c) job creation. The data used are those provided by enterprises themselves to SAZOF, and the methodology was forced to make use of approximations.¹⁴⁶ Before modifying the incentives system, it would be advisable, if not to say

¹⁴⁶ It bears noting that value added was estimated by “production minus imported and local purchases.” Purchases of services should also have been subtracted out.

essential, for the Government to conduct an in-depth stock-taking in the form of a costs/benefits analysis.¹⁴⁷ Such an effort goes beyond the scope of this study, and we will confine ourselves here to indicating the broad lines of approach used elsewhere. It should be recalled that this is a general methodological framework and not a description of the benefits and costs of Togo's free zone.

6.45 Benefits provided by a free zone:

- Value added in each of its three components:¹⁴⁸
 - Labor (wages paid to Togolese employees)
 - Capital (profits/dividends distributed to Togolese shareholders)
 - Government (tax receipts/taxes and fees paid by the enterprise)
- Local purchases of goods and services, including transportation, electricity, telecommunications, etc. (after deduction of the imported share, perhaps by applying a coefficient)
- Foreign exchange receipts (export proceeds)

6.46 To these static benefits measurable in monetary form, one often adds the dynamic benefits whose effects on the national economy make themselves felt in the longer term and which are more difficult to measure:

- Transfer of know-how (technical, management, marketing, etc.)
- The “demonstration effect” for local entrepreneurs
- The effect of learning, the acquisition of knowledge, and the experience gained by personnel
Bringing in new customers via foreign partners/access to distribution circuits abroad

Costs occasioned by a free zone

- Infrastructures for improving the viability of a physically delimited space
- Administration and promotion of the zone
- Subsidies, including:
 - Preferential tariffs for services¹⁴⁹
 - Rents at lower than market prices (shortfall by comparison with alternative uses)
- Opportunity cost of local bank financing (recourse to local borrowing by free zone enterprises does contribute to the profits of local banks, but also limits their capacity to finance the local economy)¹⁵⁰
- Tax shortfall attributable to “losses/leakages” into national territory of merchandise produced in the free zone (in excess of the legally authorized percentage)¹⁵¹

¹⁴⁷ The French terms used here are equivalent to costs/benefits [*avantages*] rather than costs/profits [*bénéfices*] in order to avoid any confusion with business profits and thereby better capture the dynamic nonmonetary gains.

¹⁴⁸ This is not the same as total value added, which makes it possible to measure the contribution to the economy, but only that proportion of this value added that goes to the Togolese labor force and shareholders and to the Government in the form of taxes. Investment as such does not constitute a gain for the economy to be taken into account separately, inasmuch as the value added that this investment makes it possible to create is accounted for. Consideration could also, however, be given to including among the benefits the share of initial investment devoted to construction (local materials and labor).

¹⁴⁹ These costs are borne by other users in the form of higher tariffs.

¹⁵⁰ A distinction should be drawn here between investment capital, often (but not always) raised in the country of origin of the foreign investor, and the rolling capital obtained from local banks.

- Tax shortfall attributable to the approval of companies that are engaged in the initial processing of a local raw material and which, in any case, would not have had the possibility of setting up in a different country. This notion will be further clarified later.

6.47 In Togo, this cost/benefit analysis should constitute the first stage and the basis for the process of assessing the future of the free zone. The relative importance of each benefit will be determined in the specific context of the country. There could, for example, be questions about whether the benefit of the foreign exchange inflow, in light of Togo's membership in the Franc zone and the access to foreign exchange that this procures, is as great as that of job creation (and wages hence distributed) or of the locomotive effect (purchases of goods and services) on the local economy. It is this prior analysis that will inform strategic thinking, including that about the system of incentives to be adopted to achieve the objectives.

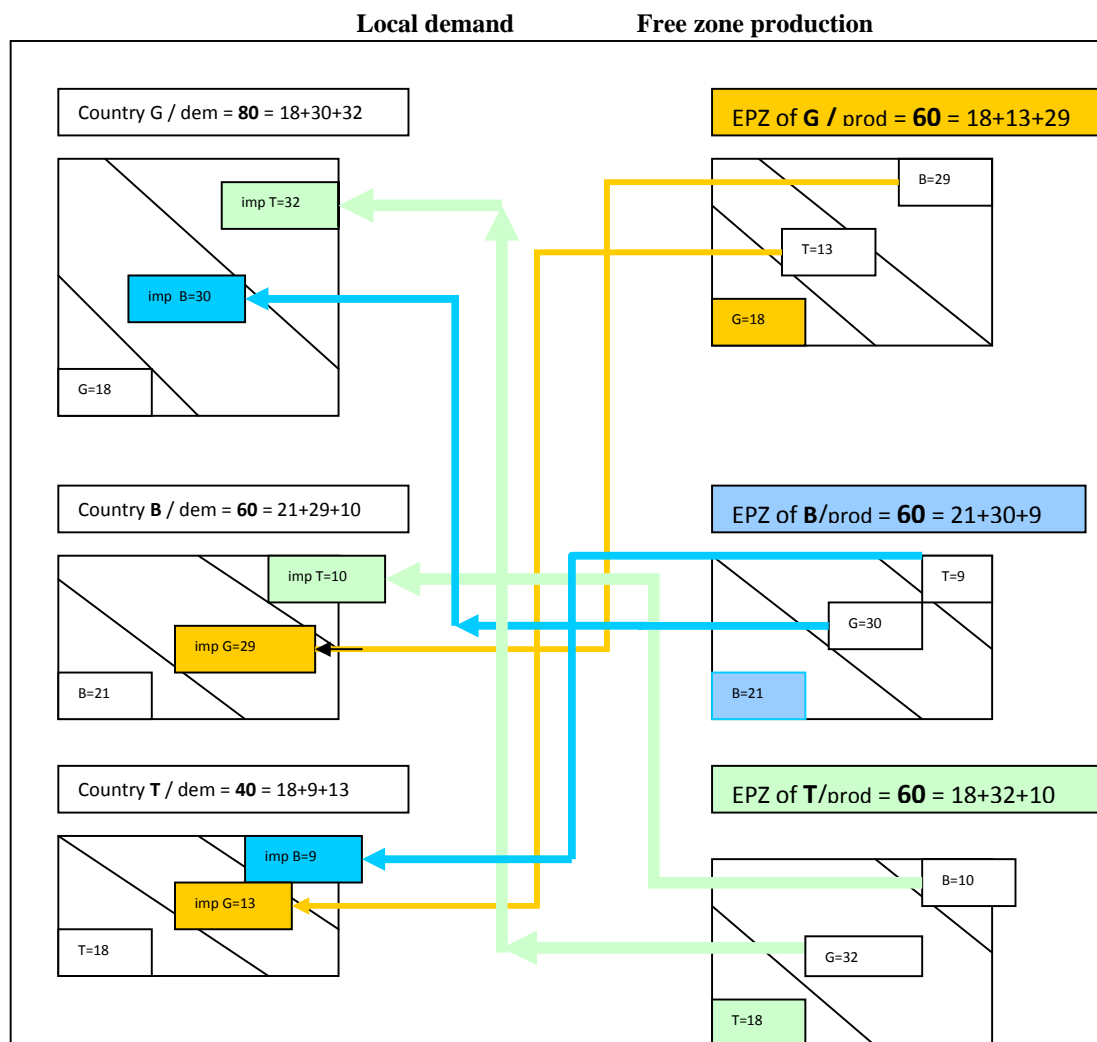
Medium-term outlook for the free zone

6.48 Nearly 70 percent of exports are to ECOWAS and 15 percent to the local market. Now, exports from a free zone are not eligible for the trade liberalization scheme (SLE) of ECOWAS and are therefore supposed to be subject to payment of customs duties and VAT, just as are imports from a third country.¹⁵² Assuming equal production costs (exclusive of taxes), the tax exemptions granted to free zone enterprises should therefore at least offset the customs duty in order for exports to ECOWAS to remain competitive vis-à-vis a local enterprise in the importing country or a Togolese enterprise benefiting from the SLE. For an essential commodity, raw material, or intermediate product taxed at 5 percent or 10 percent, this specimen case (i.e., "offsetting" of the customs duty by tax exemptions) is plausible. On the other hand, for a current consumption good taxed at 20 percent upon import to another ECOWAS country, it is unlikely that the total taxes and fees from which the enterprise is exempted might be as high as 20 percent of turnover excluding VAT. This creates a paradox suggesting that at least a portion of exports of current consumer goods are not passing through the customs frontier or at least are not paying all customs duties. This situation would be fully compatible with that of the re-export trade, in which Togo is of the view that it is the responsibility of the country of final destination to take the measures necessary to collect duties.

¹⁵¹ We do not include the proportion sold legally on the domestic market up to the authorized 20 percent. Normally, this production should be subject to customs duties and VAT as imported merchandise. On contrast, if the merchandise had been produced by a business operating within the customs territory, the Government would have collected all the taxes and fees to which the local enterprise is subject. However, if the merchandise had been imported from an ECOWAS country under the SLE, the Government would have collected neither taxes nor fees on a local enterprise, but only the VAT. The shortfall therefore depends on the substitution assumption used.

¹⁵² With the exception of the PCS and the PC, and hence a 2 percent decrease in duties.

Chart 6.1: Theoretical Case in which Three Countries in a Customs Union Supply One Another from their Free Zones
(In fictional units of account : \$ million or CFAF billions)



Percentages of local market sales authorized

G: 30 percent of 60 = 18

B: 35 percent of 60 = 21

T: 30 percent of 60 = 18

N.B.: The figures used for demand (dem) roughly reflect the size differences among the three countries, while those for export processing zone (EPZ) production (prod) are arbitrary in order to illustrate the argument.

6.49 Togo could therefore perfectly accommodate this situation, which would be compatible with an expansion of the free zone in the short term. But the problem lies in the multiplication of free zones in the sub-region, all of which are pursuing the same strategy. Pushed to the extreme, this strategy could result in a situation in which a sizable share of industrial production is delocalized in free zones in order to be exported to neighboring countries, while the local market is supplied by local sales from the free zone (30 percent) as well as sales from the free zones of neighboring countries. The caricature of such a situation would be the case illustrated below.

6.50 **Such a situation could work a priori to the advantage of small countries such as Togo** that have a well developed free zone, as the percentage of production channeled to the local market may cover a sizable share of domestic demand, whereas its exports are more easily channeled to the larger neighboring markets. The situation is reversed for the large countries exporting toward smaller markets.¹⁵³

6.51 **There is some question, however, about how long such a development model is sustainable** with respect to two aspects: business competitiveness and tax receipts. In the best case scenario for such a model's conditions for success, the high level of border porosity, at least in the medium term (5 to 10 years), and thereby guarantees both exports from the free zone to the subregion and the possible supply of part of the domestic market by the free zones of neighboring countries. Should this assumption gain favor, it would at least be necessary to conduct tax simulations in order to estimate whether the amount of receipts subtracted from the payment of customs duties and VAT on the merchandise sold locally, plus the customs duties and VAT partially levied on imports from the free zones of neighboring countries, can offset the shortfalls occasioned by the exemptions granted to the free zone enterprises (profits tax and other taxes) and the gradual decline in the taxes collected from enterprises doing business within the customs territory. In general, taxes and fees to be levied on enterprises within the customs territory are more stable and easier to collect than customs duties at the borders.

6.52 **In terms of competitiveness, the assumption becomes less favorable for enterprises after the application of an IS rate of 15 percent starting with 11th year** and the normal rate (currently 27 percent for industrial firms) starting with the 21st year. The enterprise will then have a combined tax burden that is much higher, with the drawback of not having access to the SLE, which will make it uncompetitive on the ECOWAS market. It will then be advantageous for it either to come under ordinary law (inside customs territory) or to delocalize into another free zone in the sub-region and thereby restart the period in which it is entitled to tax benefits. From the tax standpoint, the first variant leads to a receipts surplus (the enterprise is subject to all taxes and fees, not just the IS), while the second variant entails the definitive loss of receipts that the authorities could have looked forward to collecting permanently after having granted substantial exemptions over a 10-year period.

6.53 **The worst case assumption for enterprises is that of ending the laxity at the land borders**, and hence the payment of all customs duties and VAT combined with the expiration of exemptions beginning with the 21st year. It is likely that only the most competitive enterprises in the zone, those that have either more advanced technology than do competitors in the sub-region, special know-how, or solidly implanted brand recognition, will be able to address this situation while remaining in free zone status. For the others, the choice is between the two previously discussed variants.

6.54 **These considerations on the medium term are very important for both the enterprises and the Government.** When future potential investors come to the realization that (a) they will not be able to access the "greater ECOWAS market (assumed to include Nigeria) free of customs duties from Togo's free zone, and that (b) the juxtaposed customs posts and/or

¹⁵³ The example is based on free zones of comparable size in the three countries. If the free zone of country G had a capacity of 120 instead of 60, it could of course cover a larger share of its own local market, but the markets of the two other partners could no longer absorb the remaining production. This does not affect the validity of the demonstration: G should then export a portion of this production to countries that have no free zone or are located outside the ECOWAS area.

interstate customs cooperation will have reduced the possibilities of arrangements to elude the payment of customs duties, interest in establishing themselves in Togo to serve the sub-regional market will be considerably reduced. This horizon may seem far out, perhaps 5 to 10 years or even more, but it is up to the Government to anticipate this development and reorient Togo's exports in light of its intrinsic comparative advantage in the medium and long term, and not solely by means of the tax exemption system. It would be worthwhile to establish a working party to conduct simulations using the accounts of several enterprises selected on the basis of a typology, and to develop a medium-term strategy in response to the findings.

Orientations for the sustainable expansion of the free zone

6.55 The competitiveness of developing countries is based fundamentally on the sizable differential in wage levels for labor. However, this comparative advantage is not sufficient so long as the business climate is unfavorable. The justification for a free zone thus consists in offering, in an enclave, a relatively favorable climate together with initial tax incentives in order to offset the remaining supplementary costs, this in order to attract foreign investors (who have the choice of setting up business in any other country) and with the hope of retaining them definitively after the tax exemption period comes to an end. However, the approach needs to be sustainable over time, because the higher the exemptions, the greater the reduction in the Government's room for maneuver in introducing lower taxes for the remainder of enterprises, including SMEs within the customs territory.

6.56 Bearing these constraints in mind, consideration should be given to redefining the scope of application of exemptions and ensuring their more focused targeting so as to achieve job creation objectives. At the same time, there needs to be improvement in the business climate for all enterprises. After the cost/benefit analysis and the serious reflection phases referred to above, such a medium- and long-term vision promoting the sustainability of the free zone in the Togolese economy could revolve around four pillars of intervention:

- Clear definition of the approval criteria so as to maximize the enterprises' contribution to the national economy, as a counterpart to the tax exemptions;
- Consistency with the new Investment Code;
- Improved alignment of the tax incentives system with the primary objective of job creation; and
- Improvement of the business climate and the services provided to enterprises in other areas (land, infrastructure, legal security) so as to enhance their competitiveness.

Associated supportive measures should be added to these four intervention pillars to improve the attractiveness and effectiveness of the free zone.

Clear definition of the approval criteria for the free zone

6.57 Case of export activities based on initial processing. The approval criteria should serve as a filter, ensuring that tax exemptions are not extended to enterprises that cannot carry out their activities anywhere other than in national territory, in other words, firms that are not in a position to delocalize their activities. This approach should apply in particular to the exploitation or initial processing of agricultural and mining products that cannot be exported in their current state in an

economically profitable way. In consequence, in virtually all countries that have free zones,¹⁵⁴ exports of agricultural raw materials and the products of extractive industries are not able to benefit from the tax incentives associated with free zone or free enterprise status. In contrast, in the case of extractive industries, there are typically sizable rents and it is instead levies of various kinds that are the rule, in the form of signing bonuses, royalties, profits taxes, etc.

6.58 This non-eligibility should logically be applied not only to unprocessed products, but also to initial processing if it is essential for making the product exportable. In Togo, in the case of phosphates for example, raw phosphate is not exportable as such because it is too heavy and hence costly to ship; it must of necessity be processed locally in order to be exported in the form of marketable phosphate. It can be argued that the same is true of limestone and cotton, which need to undergo initial processing in order to be exportable under satisfactory conditions. Nowhere in the world is the limestone extracted from a quarry and crushed exported, or transported over great distances, because it is a raw material of extremely low value. Clinker quality limestone is always processed on site. In addition, the export of unginning cotton is no longer practiced (with a few rare exceptions)¹⁵⁵ as it is not economical.¹⁵⁶ Consequently, there is no justification for extending special tax incentives to ginning, much less the status of tax-free enterprise,¹⁵⁷ as was the case in Togo before the decline in the sector and the closure of two out of the three ginning plants.

6.59 In order to avoid any pressure from new investors in these sectors, it would be preferable to include these exclusions clearly and transparently in the law rather than leave them to case-by-case decision at the discretion of the approval committee. The formulation proposed in Article 6 of the draft law on economic activity park status—namely, “*enterprises based on the use of local raw materials, especially agro-industrial materials, mining materials, etc., may benefit from the status*”—should therefore be made more precise and limited. In the case of existing enterprises, and in the interest of investment climate stability, it would nonetheless be preferable not to withdraw their approval, but rather to negotiate emergence from the status of free enterprise against some form of compensation (not necessarily monetary), while also taking into account the financial advantage to be gained by an enterprise doing business within the customs territory having full access to the trade liberalization scheme (SLE) of ECOWAS.

6.60 Approval criteria for other export activities: As does the earlier law (No. 89-14), which it copies verbatim in this regard, the new draft law combines “positive” approval criteria with but one single exclusion: international trading and brokerage companies, and storage, packaging, and reconditioning companies. The approval criteria listed (highly labor-intensive, leading-edge technology, international subcontracting, etc.) are vague and not observed in practice; there are many authorized enterprises that are not covered by any of the instances cited in the law. If the intent is not to limit eligibility except for enterprises engaged in the initial processing of mining and agricultural products (see above) and for commercial, storage, packaging, and reconditioning companies, it serves no purpose or is even counterproductive to

¹⁵⁴ Offhand, we are unaware of other examples where such industries are eligible, but cannot rule out this possibility, as it does exist in Togo.

¹⁵⁵ For example, in cross-border trade, if the plant of a neighboring country is geographically closer and achieves saving in shipping costs.

¹⁵⁶ Reduced ease of storing unginning cotton and reduced quality, local processing of grains into oil and cakes, need to hold back a portion of the seed for redistribution to growers.

¹⁵⁷ Instead, the activity should benefit from reimbursement of VAT credits, with no ceiling, as in the case of other export enterprises.

enumerate conditions the non-observance of which is known. In the opposite case, if the objective is to attract certain categories of enterprises (such as labor-intensive enterprises), the conditions and the criteria used should be specified clearly and followed in granting approvals.

Consistency of free zone legislation with the Investment Code

6.61 The tax incentives granted by Law No. 89-14 were in line with the best practices being followed in the late 1980s and incorporated the lessons learned from the mixed results (which some characterize as a relative failure) of the Dakar free zone. Also in 1989, Togo adopted a new Investment Code, which at the time was advanced by comparison with the West African sub-region, but it was suspended *de facto* in 1996. It would be highly desirable to use the opportunity afforded by the revision of the two codes (investment and free zone) to create a cohesive system of incentives. Indeed, if the medium-term outlooks described above were to come about, even in part, it is important to facilitate conversion from free enterprise status to the ordinary law regime within the customs territory¹⁵⁸ in order to forestall the delocalization of enterprises. This assumes close coordination between the new legislation on the free zone and the draft investment code and/or the common regime provided for under the tax code and customs code. There should also be advance verification of the position of the ECOWAS Commission on SLE eligibility of enterprises possibly benefiting from export incentive measures other than the free zone regime. A table comparing the earlier provisions with those currently planned for is annexed hereto.

Better alignment of the incentives system with the objective of job creation

6.62 Exemption from all taxes and levies for fixed periods, even if in decreasing amounts, is an instrument that is too undifferentiated and poorly adapted to achieving specific objectives. In order to favor their primary objective—job creation—some countries have introduced mandatory employment thresholds in order to be approved (investment code, free zone,¹⁵⁹ etc.). This instrument is also inappropriate for the following reasons: (1) multiple SMEs may create the same number of jobs as one medium-sized enterprise; (2) there should be an incentive based on the effective achievements of enterprises and not simply on forecasts contained in approval files;¹⁶⁰ (3) the employment threshold fails to distinguish between skilled and unskilled jobs. The only instrument that makes it possible to meet all these effectiveness criteria is a tax credit based on the wage bill paid to local nationals.¹⁶¹ Depending on the coefficient selected and the length of time for which the credit can be carried forward, this method makes it possible to achieve virtual exemption from the IS for enterprises whose profits have a particular relationship to their wage bill. Switching to an only partial exemption after a period to be determined (5 or 10 years) will be achieved by applying a declining coefficient. Full or partial exemption is thus granted depending on the Togolese jobs effectively created, and the method even takes account of skill levels which are necessarily reflected in the wage bill. A similar provision could be introduced into the Investment Code in order to replace the existing

¹⁵⁸ Switching from ordinary law to free zone status already exists when it is possible to document turnover for export exceeding 75 percent over the three preceding fiscal years.

¹⁵⁹ The 1975 law on Senegal's free zone, subsequently revised, included a minimum threshold of 100 jobs. This threshold has been identified as one of the factors for failure of the zone.

¹⁶⁰ It is widely known that approvals are never withdrawn for failure to have achieved the announced employment threshold. Moreover, if activity picks up at a pace slower than the one identified in the business plan, it is not desirable for the enterprise to undermine its competitiveness by excessive staffing.

¹⁶¹ Perhaps with the exclusion of wage-earning partners or managers so as to prevent abuses.

exemptions. It could be less generous given that local enterprises benefit from tariff protection and are not exposed to the rigors of the international market.¹⁶²

6.63 Among the justifications for creating a free zone are the transfer of know-how (production, management, marketing) and the learning effect (knowledge, experience) for personnel. For these positive impacts on the national economy to occur, a cohesive training effort is required. As it happens, the training investment of free zone enterprises varies widely. In this connection, the exemption of free zone enterprises from the 1 percent payroll tax devoted to vocational training runs counter to the objective pursued and is not warranted. Used judiciously,¹⁶³ this levy benefits the enterprise, in the form of a better trained labor force, as much as it does the community. In order not to increase the expenses of enterprises that are already engaged in training at their own expense, these outlays could be charged against the 1 percent levy, after approval and with documentation. The others will have the possibility of “recovering” the amount paid by having their personnel benefit from training in accordance with customary FNAPP procedures. The investment made in training the labor force is also a factor in retaining enterprises after their tax benefits expire, when the enterprise is tempted by delocalization.

6.64 Implementation of the reforms referred to above should: (1) be consistent with the “cost/benefit” and reflection phases mentioned previously; (2) occur in consultation with the private sector, enterprises in the free zone and in the customs territory; and (3) to the extent possible, include grandfathering provisions at least as regards the 2009 Budget Law so as to preserve the stability of the investment climate.

Improving the environment for free zone enterprises

6.65 The tax exemptions granted to enterprises in a free zone are justified in part by the fact that they offset the excess costs borne because of an uncompetitive general environment. Other measures in the arrangement (such as the One-Stop Window) are efforts to isolate enterprises from the cumbersome administrative environment, but they come into play only when the enterprise is first created. Consequently, the Government’s ultimate objective should tend toward eliminating the majority of the obstacles and supplementary costs associated with the business climate in Togo, which would make it possible to forgo a portion of the tax incentives.¹⁶⁴ While the private sector environment in Togo is addressed in a separate chapter, including factor costs (in particular those of electricity and telecommunications), and detailed recommendations on road transport and port traffic are covered in the chapter on the “strategy for facilitating transport and trade,” the following topic merits closer and more targeted attention in the context of the free zone.

¹⁶² Free zone enterprises exporting to ECOWAS markets are indirectly exposed, as they are in competition with other imports.

¹⁶³ The chapter on vocational training addresses the problems associated with the National Apprenticeship, Training, and Vocational Upgrading Fund (FNAPP).

¹⁶⁴ The suspension of import duties and taxes on raw materials/semifinished goods and the reimbursement of 100 percent of VAT credits are part of the basic philosophy of a free zone; these are rights that can also be set out as part of the customs code, not special incentives.

Improve the availability of land and the legal security of land

6.66 Shortage of land in the port and airport zones: This harmful situation cannot be solved without streamlining functions and land rents in these two zones, in the form of:

- Establishing new criteria for land tenure awards;
- Setting new rents at near market prices in order to ensure rational land use; and
- Gradual movement from existing rents to near market prices, without jeopardizing the operating conditions of existing enterprises (after prior study).

Expansion of land in the physically limited free zone:

- Conduct an opportunity/feasibility study on the new land area at Adétikopé north of Lomé. Survey existing and potential investors on their interest in establishing businesses in such a zone and at what rents; and
- Seek financing and initiate improvements only following positive findings from the study and survey.

Ensure the legal security of land tenure and the buildings occupied by free zone enterprises. A number of enterprises under the “free points” regime have recently experienced legal problems associated with land tenure involving the questioning of real property transactions or commercial leases by the seller/lender or the heirs thereof. Legal security is an absolute must for investors, and the existing situation threatens to undermine SAZOF’s promotional efforts, all the more so given that the possibility of having access to new fenced-off land remains remote. Consideration should be given to the most appropriate way in which to guarantee such legal security, either, for example, by including in the contract a special exception clause on free zone status,¹⁶⁵ by including an arbitration clause (mandatory arbitration), by government guarantee of the amounts in dispute through SAZOF, or any other provision proposed by legal specialists to protect investors from unjustified legal actions brought before the local courts, and thereby guarantee greater legal security.

Other measures to improve the attractiveness of the free zone

6.67 **Provide a special framework for public/private partnership in the development of special parks/zones.** This is the approach adopted by almost all countries for the development of new zones, and in particular within the subregion by Ghana (achieved), Benin (partially achieved), Côte d’Ivoire (implementation beginning) and Senegal (proposed). The provisions currently called for in the draft law are insufficient in this regard. Such partnerships will be essential to (1) finance the development of the new zone north of Lomé should the feasibility study and investor survey prove conclusive, and after land improvements by the Government; and (2) ensure dynamic management of the zone resembling private management as closely as possible. The composition of this public/private partnership should obviously be reflected in the board of directors, the current composition of which (even taking account of the fact that the Government is the 100 percent shareholder) is suboptimal. The presence of the Lomé Port on this board is important and should continue, but there are valid questions about the justification for the presence of two State Companies characterized by their poor management and their own need for restructuring (*Société Nouvelle des Phosphates du Togo* SNPT and *Nouvelle Société*

¹⁶⁵ Similar to the one benefiting embassies or international organizations.

Cotonnière du Togo NSCT), as well as the presence of the post office. The Government should be represented on this board by the ministries whose decision-making authority has a direct impact on the zone (Finance through the directorates-general of taxes and customs, Industry, Commerce, etc.) and the state companies or mixed companies whose services constitute factor costs for enterprises in the zone (Port, electricity, telecommunications, etc.). Concerning private sector representation, it would be desirable for it to include not only developers of and enterprises in the zone, but also one or two associations representing enterprises active inside the customs territory.

Promotion of the free zone

6.68 **Principles:** More active and targeted promotion of the Zone is essential in order to attract investors able to contribute to its diversification outside the ECOWAS sub-region and thereby reduce the vulnerability associated with that destination. It would be desirable to combine efforts to promote the Zone with the promotion of investment in general, for which a specific agency is planned in the preliminary draft law on the Investment Code. There are several reasons for this: (1) many potential investors will have to decide between the option of establishing themselves within the free zone and the option of the customs territory so as to preserve SLE eligibility¹⁶⁶ for their exports to the sub-region; and (2) it will be necessary to avoid dispersing the promotion effort among multiple agencies, and instead to strengthen the promotion mechanism in a cohesive manner. Accordingly, it would be preferable to broaden the SAZOF mandate to include the investment promotion function generally (even should this entail changing its name to the Investment and Export Promotion Agency), restructure it, and provide it with corresponding resources.

Proposed Approach:

- Undertake one or more studies targeting potential investors on the basis of detailed analysis of the production and transport costs of enterprises established in competing locations. This amounts to better determining the promising niches and the typology of enterprises whose production cost structure is (or would be) advantageous for establishment in Togo, this in terms of labor costs and the costs of production factors (after reliability and cost improvements, see above).
- It is quite surprising that Togo's free zone exports only 3 percent of its production to Europe, given that the strategy of a free zone in a low-wage country is specifically to take advantage of this differential and specialize in labor-intensive production. The synthetic hair plants established in free zones represent just this kind of enterprise. True, their production is not adapted to the European market (where synthetic hair, wigs, and hairpieces have fallen out of fashion), but one might ask why the free zone has not been able to attract enterprises with similar production modalities, in the clothing manufacture and toy-making sectors, etc.¹⁶⁷ The study could make it possible to answer such questions and identify investor expectations. In the worst case, these studies will reveal

¹⁶⁶ While some firms already established appear to benefit from some tolerance in this area, rare are the investors who will take decisions on the basis of this practice, the future of which is quite uncertain.

¹⁶⁷ There was only one foreign clothing manufacture enterprise (with Indian capital) founded before 2005, apparently for reasons not associated with the expiry of the Multifibre Arrangement. Since 2005, there has been no demand. A small unit with local capital produces uniforms and work clothing for the subregion. There has never been any demand for establishing a toy factory.

the effort to be made in the area of factor costs in order to become more competitive and thereby identify some catch-up objectives.

Based on the targeting study:

- *Develop a promotion strategy*, with assistance from entities specialized in this area. Quantification of resource requirements.
- *Implement the strategy*. The shareholders in the public/private partnership should participate in the promotion effort. Concessional external resources should also be sought.

F. General Conclusions

6.69 **Togo's new orientations toward revitalizing the free zone and revising the Investment Code are too important to be confined to simple refinement of the language of legal and regulatory provisions.** The hasty adoption once again of laws that need revision in just two or three years is to be avoided. Investors are wary of uncertainty above all. It is therefore necessary to take the time for in-depth reflection, not working in a vacuum, and basing actions on best practices adopted elsewhere. The approach will entail first (re)asking the question of the objectives sought and then ranking them, and then aligning the instruments (incentives and others) for achieving these objectives, instead of focusing the debate on incentives from the outset. This serious review period could last a maximum of six months. It will not significantly delay the introduction of the new instruments, the great majority of which have in any case been suspended pending greater visibility of what is at play in the context of the global economic crisis and, with regard to the sub-region, pending the situation that will become clear following elections in Côte d'Ivoire. This review period should be characterized by a participatory approach, including enterprises from the free zone and from within the customs territory, and be based on the best practices currently adopted in other countries.

**Table 6.3: Togo: Comparison of Different Free Zone and Investment Code Regimes
(Limited Comparison of Main Provisions Only)**

Nature of tax/fee	Law No. 89-14 (Free Zone)	2009 Budget Law	Common Regime CG Imports and CG Customs	Draft Law on Economic Activity Parks	Investment Code Law No. 89-22	Preliminary Draft Investment Code (2006)																										
Import duties ➤ Customs duty + statistical tax	Exempt DFE (fiscal import duty = customs duty equiv. + statistical tax on <ul style="list-style-type: none"> • Equipment material • Spare parts • Raw materials and semi-finished goods • Consumables Art. 19	Unchanged	Customs duty of Common External Tariff (CET) of WAEMU, at the rate of 0 – 5 – 10 – 15% Possible temporary admission of raw materials and semi-finished goods intended for production of exports.	Unchanged	Exempt from DFE (equivalent from customs duty) during investment period (max 36 months) on equipment and supplies (subject to processing of local raw materials) Temporary admission or drawback (based on CGD) of all duties for imported raw materials and packaging involved in the manufacture of exported products	Exempt from customs duty during investment completion period (max 24 months) on: <ul style="list-style-type: none"> • Materials and equipment • Spare parts (up to 15% of the investment value) 																										
➤ VAT	Exempt TGA (VAT equivalent) on same categories of goods as above, as well as services Art. 19	Exempt VAT limited to 10 years for imports of goods and services needed exclusively for the set-up and operation of enterprises approved for free zone status Art. 311-V, para. 6	Temporary admission also applies to VAT	Return to provisions of Law No. 89-14 (= VAT exempt during life of enterprise)	Exempt from TGA (VAT equivalent TVA) on equipment and supplies (see above) Temporary admission or drawback for raw materials and packaging (same conditions as above)	Investments >CFAF 500 million plus exemption from customs duties. Exemption from VAT on: <ul style="list-style-type: none"> • Supplies and equipment • Spare parts except for construction equipment, rolling stock, and office furniture 																										
➤ Customs duty + statistical tax + VAT	50 % reduction for service vehicles	Unchanged		Unchanged	No exemption on vehicles except for special engines under headings 8703 and 8707 of Customs Tariff	List approved by Customs administration. Exclusion of rolling stock.																										
IS (Company tax) Base = taxable profit	<table border="0"> <thead> <tr> <th>Years</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>01 – 10</td> <td>0%</td> </tr> <tr> <td>11 – 20</td> <td>15%</td> </tr> <tr> <td>From 21</td> <td>ordinary regime</td> </tr> </tbody> </table> Art. 20	Years	Rate	01 – 10	0%	11 – 20	15%	From 21	ordinary regime	<table border="0"> <thead> <tr> <th>Years</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>01 – 05</td> <td>5%</td> </tr> <tr> <td>06 – 10</td> <td>10%</td> </tr> <tr> <td>11 – 20</td> <td>15%</td> </tr> <tr> <td>From 21</td> <td>ordinary regime (currently 30%)</td> </tr> </tbody> </table> Art. 150	Years	Rate	01 – 05	5%	06 – 10	10%	11 – 20	15%	From 21	ordinary regime (currently 30%)		<table border="0"> <thead> <tr> <th>Years</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>01 – 05</td> <td>0%</td> </tr> <tr> <td>06 – 20</td> <td>15%</td> </tr> <tr> <td>From 21</td> <td>ordinary regime (currently 30%)</td> </tr> </tbody> </table>	Years	Rate	01 – 05	0%	06 – 20	15%	From 21	ordinary regime (currently 30%)	Export Incentive Exempt from base of profits tax on exported share of production, up to 75% of exports Togolese job creation incentive Tax credit equal to 50% of wage bill paid to permanent Togolese residents, for periods of 3, 5, or 7 years, see IMF below). Can be carried forward.	Exemption from BIC tax for 2, 3 or 4 years depending on investment level and geographic area (preliminary draft made no reference to the IS, but it is assumed that the exemption should be applied to it as well
Years	Rate																															
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	Law No. 89-14 (Free Zone)	2009 Budget Law	Common Regime CG Imports and CG Customs	Draft Law on Economic Activity Parks	Investment Code Law No. 89-22	Preliminary Draft Investment Code (2006)
IMF (Lump-sum minimum tax) payable when no profits are made	No specific provision in Law No. 89-14, but so far collected from all free zone companies	<i>Years</i> in % of IMF for ordinary regime 02 – 05 5% 06 – 10 10% 11 – 20 15% from 21 ordinary regime <i>Art. 163</i>	Declining by turnover tranche. <i>Examples:</i> <i>CFAF Turnover Rate</i> 5,000,000 1.0% 500,000,000 0.7% 30,000,000,000 0.6%	<i>Years</i> in % of IMF for ordinary regime 01 - 05 0% 06 – 20 15% from 21 ordinary regime (currently 30%)	IMF exemption until end of 3 rd year for all of approved enterprises 5 th year for SMEs (depending on definition) 7 th year for enterprises processing local plant, animal, or mining materials	Exemption for the IMF for three years
Professional tax	Exemption <i>Art. 21</i>	<i>Years</i> in % of TP for ordinary regime 02 – 05 5% 06 – 10 10% 11 – 20 15% from 21 ordinary regime <i>Art. 239</i>	Calculate in light of turnover and value of equipment	No proposal	No provision	No proposal
Tax on developed property		<i>Years</i> in % of TF for ordinary regime 02 – 05 5% 06 – 10 10% 11 – 20 15% from 21 ordinary regime <i>Art. 239</i>	15% of net cadastral income per Art. 260 CGI	No proposal	No provision	No proposal
Payroll tax	2% of wage bill	Unchanged	7% of wage bill	Years 0 – 5 0% From year 6 2%	2% of wage bill (variable length, see IMF)	Years 0 – 5 2% From year 6 7%
IRVM (tax on income from securities = on dividends)	Togolese shareholders: Exempt for life Foreign shareholders: Ordinary law	Togolese shareholders: Years 01 – 05 Exempt 06 – 10 50% reduction from 11 ordinary regime Foreign shareholders: Ordinary law		Togolese shareholders exempt for life = return to Budget Law 80-14		
Decentralization incentive					Zones II and III (outside Lomé and Gulf Region) ° Exempt from TGA on services and works for carrying out investment ° Exempt from DFE and TGA on fuel and gas-oil, up to an annual quota (graduated length, see IMF)	Extension of the application periods for the various exemptions and reductions, depending on geographic area

7. THE MINING AND CEMENT SECTORS: HIGH STAKES

A. Introduction

7.1 **The mining sector has been playing a key role in Togo's economy since phosphate extraction and exports began in 1961.** A second major event—the launch of the regional clinker production project, CIMAO (West Africa Cement Company), based on mining of the Tabligbo limestone deposit—occurred at the end of the 1970s. CIMAO was soon beset by economic and financial woes. After just a few years in operation, it was placed in liquidation, and the clinker plant closed its doors. However, following the purchase, rehabilitation, and development of the plant in the 1990s by private investors, clinker production quickly picked up again with the export of a portion of its production and the on-site processing of another portion into cement. Serious problems also hobbled the operations of the State-owned company tasked with phosphate mining, precipitating a rapid decline in output and exports. The clinker and cement industry has since then outperformed the phosphate mines in terms of exports, to become Togo's leading exporter.

7.2 **The phosphate mines can, nevertheless, be revitalized and developed—probably with private capital support—to once again play a major role in Togo's economy.** Similarly, there is strong potential for more substantial development of clinker and cement production. It is also possible that other ore mining-based activities could be developed in Togo. However, this will certainly not be carried out on the same scale as phosphates and clinker—at any rate, in the short or medium term—owing to the fact that no large deposits of high-grade ore or any other valuable mineral substance have been discovered to date. The regulatory and institutional framework governing Togo's mining sector is also in need of modernization. Such a framework, which would be improved with well-targeted technical assistance, would most likely help attract more private investments in the mining sector. Lastly, in view of the considerable tax and other revenues that the State collects from the mining sector and the need to improve governance in this sector, it is essential that Togo immediately take all necessary steps to effectively join the Extractive Industries Transparency Initiative (EITI).

B. Phosphates

7.3 **High quality phosphates were discovered in 1952 in southern Togo, with reserves at that time estimated at 130 million metric tons.** A private company began phosphate extraction in 1962 and production quickly took off, generating, in 1973, 2.6 million metric tons of market-grade phosphate entirely for export. Production had plummeted to 1.2 million metric tons per year following nationalization of the phosphate sector in 1974, but rebounded a few years later to hold steady at around 2.5 million metric tons until 1980 when the State-owned company, Togolese Phosphates Office [*Office Togolais des Phosphates* OTP], was established to take over all phosphate mining operations. The OTP often failed to achieve its objectives, with actual production oscillating between 2 million metric tons in 1982 and a peak level of 3.39 million metric tons in 1989. After this peak level was reached, production steadily declined (see Table 7.1). In 2001, the Government established a new company—*International Fertilizer Group-Togo* (IFG-Togo)—in collaboration with foreign private partners, in a bid to revive production.

IFG-Togo did not meet these expectations and was already in receivership by end-2003. In 2007 the Government established the New Phosphate Company of Togo (*Société Nouvelle des Phosphates du Togo* SNPT) to take over the assets and operations of the OTP and IFG-Togo. Since that time, SNPT has been unable to increase production levels, which amounted to 751,000 metric tons and 843,000 metric tons in 2007 and 2008, respectively. The sector produced only 725,000 metric tons in 2009 (the minimum required to cover fixed costs). Togo is now grappling with a major challenge: finding solutions to the serious problems hindering the expansion of phosphate production and exports. In view of the significance of the sector's economic potential, the Government must immediately take the necessary steps to address this challenge. Given the quality and volume of known ore reserves, phosphate production and exports can quite likely be revived, thus making it possible for Togo to reclaim its position among the major global phosphate exporters. Immediate consideration should also be given to efforts to enhance the value added of phosphates through downstream industrial diversification.

Table 7.1: Togo's Phosphate Production and Exports

Year	Production (millions of metric tons)	Exports (millions of metric tons)	Average price in \$/metric ton exported	Total sales (millions of US\$)
1968	1.374	1.357	N/A	N/A
1973	2.272	2.292	N/A	N/A
1978	2.827	2.854	N/A	N/A
1983	2.081	2.008	N/A	N/A
1988	3.344	3.313	41.7	138.3
1989	3.356	3.347	43.1	144.4
1990	2.439	2.455	42.5	104.4
1991	2.965	3.075	42.2	129.6
1992	2.075	2.086	40.2	83.9
1993	1.794	1.567	37.8	59.2
1994	2.181	2.233	30.6	68.3
1995	2.569	2.652	30.8	81.7
1996	2.731	2.686	33.8	90.7
1997	2.631	2.687	38.3	102.9
1998	2.253	2.243	43.6	97.9
1999	1.715	1.617	44.6	72.1
2000	1.370	1.220	40.4	49.2
2001	1.067	1.304	36.5	47.5
2002	1.381	1.278	33.8	43.2
2003	1.471	1.363	32.8	44.7
2004	1.115	1.238	34.0	42.1
2005	1.021	1.048	35.6	37.3
2006	1.171	1.174	36.0	42.3
2007	751	742	34.5	25.6
2008	843	686	163.2	112.1
2009	725	681	125.8	85.7

Reserves

7.4 **Phosphates were discovered in two separate deposits.** The only deposit being mined since 1961 has a rich layer of clay (loose layer) and a carbonate layer, which has not yet been mined.

- The clay ore reserves¹⁶⁸—taking into account cumulative production of 87 million metric tons since 1961—were estimated at 77 million metric tons¹⁶⁹ at end-2008 (with an average P₂O₅ content of 35 percent). At a normal extraction rate of 3 million metric tons per year of market-grade phosphate for export, it is projected that reserves will remain economically profitable for the next five to seven years.¹⁷⁰
- However, in-depth research leading to an assessment of the reserves has not been conducted on the carbonate layer. Drilling of this layer has, nonetheless, put mineable resource estimates at 2.196 billion metric tons, with a lower P₂O₅ content (roughly 15 percent). It is expected to quickly become the long-term resource of Togo’s phosphate mines, before the loose layer is completely exhausted. It will require the implementation of a beneficiation technique (calcination or flotation), which differs from the one currently being used by SNPT, but will help achieve significantly higher production and export volumes—6 to 10 million metric tons per year, according to some sources.¹⁷¹

Table 7.2: Togo’s Phosphate Exports and Total Exports

Year	Phosphate exports (billions of CFAF)	Total exports from Togo (billions of CFAF)	Phosphate exports as a % of the total
1993	31.1	74.8	41.6
1994	35.9	182.3	19.7
1995	42.9	188.0	22.8
1996	47.6	225.0	21.2
1997	54.0	246.0	22.0
1998	51.4	247.0	20.8
1999	37.8	241.0	15.7
2000	25.8	257.0	10.1
2001	25.0	262.0	9.5
2002	22.7	296.0	7.7
2003	23.5	347.0	6.8
2004	22.1	317.0	7.0
2005	19.6	348.0	5.6
2006	22.2	394.0	5.6
2007	13.4	315.0	4.3
2008	58.8	307	19.2

SNPT’s Current Operations

7.5 **Ore is currently extracted from two open-pit mines, with mine faces measuring between 800m and 2,000 m.** Bucket wheel excavators are used for extractions on surfaces

¹⁶⁸ High P₂O₅ content of between 38 percent and 42 percent, but also contains high levels of cadmium (close to 58.mg/kg).

¹⁶⁹ Snowden/Africa Label explains these estimates by stipulating that, with the calculations for SNPT reserves and mineral resources (based on obsolete manual methods), these reserves cannot be categorized in terms of level of geoscientific confidence, and are not in compliance with any of the internationally accepted measurement systems.

¹⁷⁰ Excluding areas under the water table and all carbonate deposits.

¹⁷¹ Strategic audit of the phosphate sector conducted by Snowden/Africa Label.

between 4m and 6m high. The layer of overburden (barren rock), which can be as thick as 40m, is also excavated with bucket wheel excavators attached to conveyor belts. Although the design capacity of bucket wheel excavators should be between 1,000 and 1,200 metric tons per hour, the actual productivity of these machines is considerably lower owing to their poor condition and thus their low availability factor. The removal of the overburden is currently one of the major bottlenecks hindering more expansive mining operations.

7.6 The raw phosphate ore is then transported over approximately 30km to SNPT's beneficiation plant in Kpeme along the coast. SNPT transports this ore on its own railway line. The plant's capacity, if its five lines were operational, would be 3.5 million metric tons of concentrate per year. The end product (market-grade phosphate, concentrate) is transported by conveyor belt to dock loading facilities. Owing to the fact that the dock is not protected by a seawall, loading operations must be suspended during inclement weather, thus incurring demurrage charges for SNPT. The dock's foundations have not been inspected in at least 20 years and its structure is prone to increasingly perceptible vibrations. Although a modern system is used for weighing and sampling during loading operations, invoicing is based on the estimated ship's tonnage, resulting in significant inaccuracies.¹⁷²

7.7 SNPT's operations consume substantial amounts of energy, including electricity, with consumption ranging from 26 million kWh in 2007 to a peak of 72 million kWh in 1998. Owing to Togo's recurring electricity supply problems, CEB, the national electricity company, has systematically failed to meet SNPT's needs. As a result, SNPT is often forced to produce some of its own electricity by using its generators at the mine (approximately 25 percent of its needs over the last eight years, but at roughly three times the cost of electricity supplied by CEB). The treatment process, in particular drying, at the Kpeme plant is not only highly energy intensive (with high levels of fuel oil consumption), but also fails to comply with current environmental standards.

7.8 More generally, SNPT's assets—mining and transport equipment or the beneficiation plant—are antiquated, obsolete, and in a state of disrepair. More than 50 percent of the bucket wheel excavators are over 20 years old, twice the normal shelf life of this type of equipment. The most recently acquired excavation equipment (excavators in 2007) is also quite inefficient, having been purchased second-hand. Total production of the seven bucket wheels used to remove overburden reaches an average of just about 1,300 m³/hour, while typical production of a modern excavator used in most mines around the world is 4,000 m³/hour. Half of the bulldozers and dumpers are not operational and fewer than 10 percent of the wheeled or crawler loaders at the mine are in working condition. Only the equivalent of 2.5 (out of 5) production lines is operational at the Kpeme beneficiation plant. As most of the equipment was installed prior to 1971 and has not been upgraded or replaced since that time, the plant is in a state of dilapidation and disrepair, operating barely within acceptable safety standards and is in dire need of a comprehensive rehabilitation program. The metallic structure of the Kpeme plant itself must be renovated. The obsolescence of the equipment has also led to abnormally high costs for numerous spare parts. As many of the machines are no longer manufactured around the

¹⁷² The April 2009 provisional audit report from the Africa Label Group makes mention of a loss of up to 70,000 metric tons, worth US\$1.7 million in 2008.

world, SNPT is forced to either turn to small suppliers to specifically manufacture spare parts under nontransparent conditions or, failing that, strip other machines.

7.9 Following the launch of the staff reduction program in 2008, SNPT's permanent staff complement was reduced to 1,649 persons (as of December 31, 2008), which included 86 executives, 459 supervisory and technical staff, and 1,104 support staff. There are also some 419 employees with fixed-term contracts. Other staff cuts are planned for 2009 (357 redundancies currently scheduled). Without a substantial increase in volume production, SNPT's total staff complement would still be too high relative to standard mining industry ratios,¹⁷³ even after this additional adjustment program is implemented. With respect to the technical skills of the staff, no rigorous, thorough, and independent review of capacities has been conducted to help benchmark human resources, including SNPT executives. The general consensus of SNPT's management and various prominent Togolese figures is that the gap in the skills of the company's technical staff has not been significantly reduced in relation to the global industry average, despite technical cooperation programs and SNPT's participation in international mining events and activities.¹⁷⁴ In its technical analyses section, the April 2009 provisional audit report from the Africa Label Group places greater emphasis on technical, procedural, and organizational problems, and fails to cover in detail aspects of human resource skills. A comprehensive and in-depth human resources assessment program would be appropriate to determine the areas in which expertise would need strengthening.

SNPT's Exports and Position in the Global Market

7.10 As indicated in Table 7.1, Togo's phosphate exports volume declined from a peak of 3.3 million metric tons per year in the late 1980s to under 700,000 metric tons in 2009. The steady decline essentially reflects growing production problems in terms of volume and regularity of deliveries. Having regular deliveries is important to the clients—phosphoric acid producers—to enable them to organize their production and optimally calibrate their facilities. The essential problem with Togo's phosphate, still considered a high-quality phosphate,¹⁷⁵ is not a lack of attractiveness. Although it was the world's 5th leading phosphate producer prior to 2000, Togo had fallen to 14th place by 2005, accounting for just under 1 percent of global production. By way of comparison, Morocco (world leader), Tunisia, and Jordan have consistently increased their production and developed or consolidated their global market share. In terms of resources, Togo still ranks among the top 10 countries based on size of phosphate reserves and resources. In terms of quality, Togolese phosphate is still rated among the best, with a high phosphorus content that allows for high productivity in phosphoric acid plants (downstream processing stage, prior to actual production of fertilizers).

¹⁷³ With a production level of 800,000 metric tons as of 2008 and a total staff complement of 2,100, productivity was below 500 metric tons/person/year, compared to between 1,100 and 1,500 metric tons/person/year usually produced in phosphate mines around the world.

¹⁷⁴ Togo benefited in the past from technical cooperation with OCP of Morocco, which helped train a number of executives and technical staff from the former OTP. This cooperation ended in 1994. Some contact and various exchanges with the OCP resumed in 2008.

¹⁷⁵ Its cadmium content exceeds the new standards proposed by the European Union; however, the global leader in phosphates, OCP of Morocco, is contesting the EU's position, arguing that most of the phosphates extracted from around the world could then not be used in phosphoric acid plants, unless costly stages were added to the processing operation.

7.11 At present, SNPT is essentially exporting its market-grade phosphate to markets in Africa, Asia, and the United States. However, approximately 60 to 70 percent of sales are currently conducted through a single agent, thus limiting the possibility of obtaining high prices for the lion's share of its exports when world prices are high.¹⁷⁶ The two biggest clients accounted for 29 percent of SNPT's sales in 2008. This heavy concentration of clients poses a significant commercial risk. This prevailing situation differs considerably from that of the 1990s, when OTP exports were distributed among a larger number of key clients, including some who have since been lost owing to problems of irregular supply. The Foskor processing plant in South Africa, a current major consumer of SNPT's phosphate, combines SNPT's phosphate with market-grade phosphate from its own mine. Togo's phosphate sales to Western countries, especially in Europe, have slowed considerably, owing in part to technical problems at the mines but also to environmental considerations pertaining to their high cadmium content. The fact is, however, that the high cadmium content does not place Togo in a position of weakness because most of its competitors are grappling with the same problem. In the medium and long term, Togo should nevertheless endeavor to reduce the cadmium content of its phosphate to regain a competitive advantage relative to the other exporters (or at least remain at the same level as its competitors who will pursue the same strategy).

7.12 Table 7.1 shows that up to 2007, Togo's phosphate export prices varied slightly, as did global market-grade phosphate prices, between a high of US\$44/metric ton in 1999 and a low of US\$31/metric ton in 1994-95. Owing to the fact that these price fluctuations contribute to the significant variations in production volumes, the value of Togo's phosphate exports varied considerably, ranging from US\$25 million in 2007 to US\$144 million in 1989. Prices changed significantly in 2008, peaking at US\$350/metric ton and reaching an average of US\$163/metric ton. This made it possible for SNPT's export revenues to recover and total US\$112 million, despite having one of the lowest production volumes. Although the sudden hike in market-grade phosphate prices reflected strong demand, it was probably also indicative of some degree of speculation. Phosphate prices subsequently plunged again, at first to around US\$130/metric ton and then to roughly US\$90/metric ton in mid-2009, a reflection of low demand and excess supply. However, a number of indices—in particular the return of certain buyers to the market—show that prices may now have bottomed out at US\$90/metric ton and that Togo could still expect an average price of US\$100/metric ton in the years ahead. With such prices, SNPT can still bank on a certain profit margin,¹⁷⁷ even with low production and export volumes. However, if prices were to fall well below US\$90-100/metric ton over an extended period, SNPT earnings would suffer considerably if the company failed to immediately increase its production to cover its high fixed costs. This shortcoming on the part of SNPT is exacerbated by the fact that, unlike most of its competitors (in Morocco, Tunisia, and Senegal), the company is not diversified downstream with respect to processing into phosphoric acid and fertilizers. Competition on world markets could increasingly be determined by downstream activities in the future.

7.13 It is expected that following a slight decline in global consumption in 2008 (and probably also in 2009), global demand will continue to rise steadily, particularly because of the growing use of fertilizers in China and India. Total global phosphate production could reach 250

¹⁷⁶ In 2008, for example, sales through this agent only earned an average of US\$160/metric ton while the global average price varied between US\$250 and US\$350/metric ton.

¹⁷⁷ In its 2009 budget, SNPT estimates production costs of US\$74/metric ton for a level of production of only 850,000 metric tons.

million metric tons in 2020, compared to 147 million in 2007. An increase in global mining extraction capacity that could outstrip the increased demand, as well as additional productivity by key actors such as the OCP, could drive prices down. SNPT must prepare for this eventuality by seeking to reduce its cost price, preferably to around US\$40-50/metric ton. It should also, as a matter of urgency, improve its strategy and business approach by reducing its heavy reliance on a smaller number of major clients, by immediately reestablishing contact with past lost clients and finding new [clients]. It should also canvass and gain direct access to end clients, and reduce the size of its exclusivity contracts with some of its trader agents, once its position in the markets has been strengthened. SNPT's management recently took steps in that direction.

The Economic Impact of Phosphates

7.14 The most significant impact of phosphates on Togo's economy is evident in the balance of payments. As indicated in Table 7.2, this impact has varied considerably. After peaking in 1993 at 42 percent of the value of the country's total exports, this percentage declined to between 4 and 7 percent between 2003 and 2007. The 2008 hike in phosphate prices once again increased the share of phosphates to 19.2 percent of the value of exports. Based on an average price of US\$110/metric ton and a sales volume equivalent to the production of 850,000 metric tons, total FOB phosphate exports are projected to have totaled approximately US\$86 million, or roughly 13 percent of the total value of exports in 2009.¹⁷⁸

7.15 When currently known ore reserves are taken into account, Togo should, in the short term, be able to increase phosphate production and exports to at least 3 million metric tons per year. With global prices hovering between US\$80 and US\$120/metric ton, the value of exports could therefore hit between US\$240 and US\$360 million per year. In the medium term, the production of 6 million metric tons each year is feasible. Over the longer term, phosphate production levels of 10 million metric tons, of which 4 million metric tons would be processed into 1 million metric tons of phosphoric acid, are conceivable. In this possibly optimistic, but not unrealistic, scenario, Togo's exports could reach US\$800 million and the sector's value added could amount to US\$310 million.¹⁷⁹

7.16 The net impact of SNPT's operations on Togo's balance of payments has not been precisely calculated recently. Rough estimates can be provided for 2008, bearing in mind that most of the physical inputs (fuels, spare parts, and other consumables) are in fact imported and assuming that a certain percentage of services purchased is also paid in foreign exchange. Based on FOB exports of CFAF 48.588 billion, the net foreign exchange gain for Togo in 2008 would therefore be approximately CFAF 36 billion.¹⁸⁰ As is the case with most mining operations around the world, net effects are therefore extremely important (even with low export volumes in

¹⁷⁸ Based on total exports of CFAF 355 billion.

¹⁷⁹ Based on a conservative projected price for phosphate of US\$50/metric ton, with a value added of 20 percent, and a price for phosphoric acid of US\$500/metric ton, with a value added of 50 percent. Snowden/Africa Label Study.

¹⁸⁰ It bears noting, however, that in 2008 SNPT did not import new equipment, purchase other assets, or pay financial charges on foreign exchange loans. Such expenditures will have an impact on the net foreign exchange balance when Togo once again invests heavily in phosphate extraction and processing.

2008), and could be much greater¹⁸¹ if production and export volumes, as well as export values, were higher.

7.17 SNPT's value added rose to CFAF 28.860 billion in 2008 (2 percent of GDP).¹⁸² This is significantly higher than in 2007, when the value added of phosphate companies (IFG and later SNPT) was virtually zero for sales amounting to CFAF 16.3 billion. In 2008, wages rose to CFAF 7.376 billion, accounting for approximately 32 percent of direct costs. The various taxes (including customs duties and the mining royalty, which is equivalent to 5 percent of the value of mine head production), excluding corporate taxes, rose to CFAF 2.432 billion. Corporate taxes (37 percent) also increased to CFAF 2.754 million. Total direct revenues for the State would be even higher than the total aforementioned taxes (CFAF 5.186 billion) if SNPT were also able to actually pay dividends, as some authorities have recommended in light of the company's encouraging results (it bears noting that this is the accounting income) posted in 2008.

¹⁸¹ With a projected export volume of 1.5 million metric tons at a price of US\$110/metric ton, the same variable unit costs in energy, consumables, and spare parts, the foreign exchange credit balance would be around CFAF 60 billion.

¹⁸² Based on a GDP of CFAF 1,400 billion.

Table 7.3: Results and Other Financial Information for Phosphate Companies, 2002-2008
(In billions of CFAF)

	2002	2003	2004	2005	2006	2007 IFG (5 months)	2007 SNPT (7 months)	2008 SNPT (actual)	2009 SNPT (budget)
Sales	25.721	26.921	22.058	19.118	21.220	7.722	8.599	48.587	46.750
Total sales volume	26.108	27.442	22.453	19.556	22.009	7.840	8.802	48.990	47.285
Wages	8.484	8.633	6.837	6.385	6.744	3.063	2.871	8.745	4.500
Value added	11.652	4.674	4.216	2.905	266	-2.413	2.416	28.860	24.000
Gross operating surplus	3.168	-3.959	-2.621	-3.581	-6.478	-5.495	-455	20.115	19.500
Amortizations and provisions	1.528	4.147	4.490	4.434	5.140	2.203	589	10.100	3.000
Operating results	1.640	-3.624	-4.180	-6.757	-6.340	-3.416	-1.044	18.614	15.732
Net result	51	-10.877	-8.909	-10.258	-10.286	-9.538	-1.284	7.962	11.013
Taxes on earnings	251	180	150	110	150	40	40	4.673	4.720
Other taxes	1.689	1.918	1.438	1.437	1.376	1.236	654	3.496	4.590
Self-financing	1.219	- 6.730	-4.762	-5.768	-5.146	-7.335	-455	18.062	14.013
Capital assets	15.110	17.890	13.722	10.840	5.537	4.991	11.651	13.908	
Total balance sheet	37.147	35.732	24.023	26.992	29.758	31.916	29.223	59.580	
Equity capital	4.551	-1.827	-5.477	-12.427	-19.209	-22.624	12.216	28.766	
Total debt	32.596	37.559	29.000	39.419	48.967	54.558	17.707	30.814	
Current assets & cash	21.703	22.388	12.539	16.713	28.457	31.606	17.561	45.648	
Short-term liabilities	11.146	18.227	9.578	20.994	33.340	36.718	15.505	30.778	
Working capital	10.557	4.161	2.865	-3.462	3.090	-1.411	557	14.870	

Source: Data for the period 2002-2007 are based on corrected financial statements (pages 71 to 73) of Report No.7 of the audit report from the Africa Label Group. These data represent significant modifications to the raw data of the financial statements prior to adjustments on pages 64 to 67. Data for SNPT were taken from SNPT's financial statements.

Financial Results of Phosphate Companies and SNPT's Current Situation

7.18 The results of companies that have successively mined phosphate in Togo in recent years have been heavily influenced by low production levels (see Table 7.3). Only high export prices in 2008 helped offset low activity levels. Togo's phosphate cost structure includes a relatively high share of fixed costs—the beneficiation plant, infrastructure and transport equipment, and numerous other assets that were constructed or purchased to produce at least 3 million metric tons annually. Togo's phosphate results are therefore severely hampered by low production levels and, with the exception of 2008, results since 2002 have been disappointing.

7.19 The financial results from phosphate activities remained disappointing even after their revival by the IFG consortium.¹⁸³ During the period 2002-2007, annual losses varied from one year to the next by between 40 and 60 percent of the sales volume, amounting to an average of CFAF 10 billion! Even worse is the fact that the cash flow systematically remained negative, oscillating between CFAF -4.8 billion and CFAF -7.3 billion. The cumulative cash flow and net accounting loss for IFG-Togo during the six-year period between 2002 and 2007 was therefore CFAF 28.5 billion and CFAF 49.9 billion, respectively, reflecting catastrophic losses for the company. This hemorrhaging is illustrated by the decapitalization of IFG-Togo, whose equity capital declined from CFAF 4.5 billion (in relation to total assets of CFAF 37.1 billion at end-2002) to CFAF -22.6 billion¹⁸⁴ (relative to total assets of CFAF 31.9 billion) at end-May 2007, the last month of its accounting life. Up until that date, IFG operations were essentially financed by substantial debt amounting to CFAF 54.5 billion. A major financial overhaul was thus inevitable during the establishment of the new company (SNPT), with a substantial write-off of IFG's debt and initial capitalization¹⁸⁵ of CFAF 13.5 billion for the new company. While the real cost to Togo's economy of canceling IFG's debt (primarily owed to local entities) cannot be stated with any degree of certainty, it is undoubtedly considerable.¹⁸⁶

7.20 The establishment of the new SNPT with an improved financial structure, with a total debt of CFAF 15.5 billion (or 56 percent of the total balance sheet of CFAF 27.7 billion as of December 31, 2007), was a first step in the right direction. The new company's accounting income for FY2008 was largely positive, with a net profit of CFAF 7.96 billion and a cash-flow of CFAF 18 billion¹⁸⁷ from sales totaling CFAF 48.6 billion. These results helped improve SNPT's capital structure, by raising its equity capital to CFAF 28.8 billion, or 48 percent of the total balance sheet of CFAF 59.6 billion, with total debt therefore being slightly reduced (52 percent of the total balance sheet).¹⁸⁸ These results also helped launch the initial emergency equipment rehabilitation program.

¹⁸³ Table based on data for the period 2002-2007 from Report No. 7 of the Audit Report from the Africa Label Group, corrected IFG financial statements (pages 71 to 73) following extensive modifications to the raw data from the financial statements on pages 64 to 67.

¹⁸⁴ The difference from the uncorrected data bears noting: equity capital of CFAF -17.5 billion for total assets of CFAF 37 billion as of May 2007.

¹⁸⁵ By the Togolese State; in addition to this sum of CFAF 13.5 billion, an uncalled amount of CFAF 1.5 billion as of December 31, 2008 was still available.

¹⁸⁶ A total figure of CFAF 40 billion is sometimes indicated.

¹⁸⁷ Based on corporate taxes of CFAF 4.67 billion and prior to potential dividend distribution.

¹⁸⁸ This, however, is not yet a very sound balance-sheet structure if the company must incur debt in the future in order to make substantial investments.

7.21 It is quite possible that results from mining operations will continue to improve at a moderate pace during FY2009. In its 2009 budget,¹⁸⁹ SNPT projects profits of CFAF 11 billion and a cash flow of CFAF 14 billion. It bears noting, nonetheless, that these optimistic projections are based on a sales volume of CFAF 46.75 billion (slightly lower than 2008) and a moderate increase in production costs. These projected sales volumes are based on: (i) undoubtedly overly optimistic production and sales projections of 850,000 metric tons; (ii) an average per metric ton sale price of CFAF 55,000, corresponding to an international price of US\$110/metric ton; and (iii) an exchange rate of CFAF 500/US\$1. With respect to the first point, it remains to be seen whether the dilapidated condition of the equipment will help achieve this level of production, in view of the fact that the initial effects of the equipment upgrade program may not be felt for some time. In the case of the second point, the steady decline in the price of raw materials since mid-2008 and the impact of the global economic recession are allowing uncertainty to persist regarding the actual average sale price of phosphates during all of 2009. Doubts also remain regarding production costs, given that it is difficult to predict: (i) whether the positive effects of the recent or ongoing rehabilitation of some of the equipment will not be nullified by growing problems being experienced by other even more obsolete and unreliable equipment; and (ii) the energy costs, a key component of the cost price. SNPT's profit margin will remain low if: (i) production and sales volumes remain low and its cost price is not reduced (the total provisional per metric ton production cost for SNPT at end-2008 hovered between US\$86 and US\$95/metric ton); (ii) global phosphate prices (which have steadily declined from US\$125/metric ton in April 2009 and appeared to have leveled off at around US\$90/metric ton) do not recover; and (iii) the exchange rate remains at around CFAF 450/US\$1.

Improving SNPT's Short-Term Performance

7.22 As long as the production threshold remains well below three million metric tons per year, SNPT's financial equilibrium and profitability will remain weak, dependent on favorable prices for phosphate. The associated fixed costs are no longer covered when production drops well below this nominal capacity. Moreover, a significant share of SNPT's variable costs is linked to energy, the price over which it has no control. Only a reduction in its own energy consumption can reduce its vulnerability to rising global energy prices and its loss of competitiveness relative to competitors, who are working tirelessly to try to reduce their energy consumption.

7.23 A simplified review of SNPT's production costs quickly highlights the following two areas of weakness in its operations: a level of production that must definitely be exceeded and the high share of energy in variable costs. According to the cost structure derived from the 2008 provisional financial statements and the 2009 budget, for a level of production of just 800,000 metric tons fixed costs would represent between 73-74 percent of total costs while variable expenses would account for just between 26-27 percent (see Table 7.4). Within this range of 26-27 percent for variable expenses, energy (fuels and electricity) and lubricants account for between 21 and 23 percent, with other consumables and external purchases as well as a percentage of wages accounting for the remainder. SNPT's current obsolescent equipment

¹⁸⁹ The major differences relative to 2008 being significantly lower amortizations (CFAF 3 billion instead of CFAF 10 billion) and a sharp reduction in wage-related expenses (CFAF 4.5 billion instead of CFAF 8.7 billion).

prevents it from controlling its energy consumption or increasing its production to spread the burden of substantial fixed costs over larger volumes.

7.24 A simplified simulation, which is summarized in Table 7.4, shows the potential costs¹⁹⁰ in 2010 and 2011 with increased production of 1.2 million and 1.5 million metric tons, respectively, with urgent investments¹⁹¹ in equipment replacement in 2009 and 2010. SNPT could self-finance these investments or, for the time being, only make use of limited amount loans, thanks to the excellent pre-tax results and the cash flow posted in 2008 and pre-tax revenue amounting to CFAF 15 billion in 2009 (feasible if phosphate prices do not dip further). This simulation reveals that a reduction in the cost price of between CFAF 37,000 and CFAF 41,500/metric ton in 2008-2009 to CFAF 32,000/metric ton in 2010 and CFAF 29,000/metric ton in 2011¹⁹² would be feasible. The pre-tax profit would be significant, between CFAF 12 billion and CFAF 23 billion in 2010 and 2011, respectively, compared to 2009.¹⁹³ From a different perspective, such a reduction in cost prices would allow SNPT to remain profitable in a less favorable sale price scenario, provided phosphate prices remain above US\$80/metric ton.

¹⁹⁰ The average specific costs for 2008 (provisional results) and 2009 (budget) extrapolated with minor modifications, primarily a slight increase in amortizations and financial costs associated with equipment replacement (some of SNPT's current assets are fully amortized or have amortizations calculated on the basis of historically low accounting values).

¹⁹¹ For this extremely conservative simulation, a total investment amount of CFAF 45 billion was used: SNPT executives had estimated that the desired investment amounts for 2009 and 2010 would be CFAF 23 billion and CFAF 25 billion, respectively.

¹⁹² Or a reduction from CFAF US\$83-73/metric ton for 2008-09 to US\$63/metric ton and then US\$58/metric ton in 2010 and 2011.

¹⁹³ Earnings estimated at CFAF 15.8 billion if sales were to amount to 850,000 metric tons with an average sale price of US\$110/metric ton.

**Table 7.4: SNPT Production Costs and Estimated Results
(Based on the Production Level and Investments Made (in millions of CFAF))**

	2008 (provisional data)	2009 (budget forecasts)	2010 (forecasts)	2011 (forecasts)
Production ('000 metric tons)	842	850	1,200	1,500
<i>Sale price (\$/metric ton)</i>	<i>142</i>	<i>110</i>	<i>110</i>	<i>110</i>
Sale price ('000 CFAF/metric ton)	70,93	55	55	55
Sales ('000 metric tons)	686	850	1,200	1,500
Sales (millions of CFAF)	48,657	46,750	66,000	82,500
Direct costs (millions of CFAF)	21,582	23,177		
Other products	5,704	535	535	535
Gross margin	32,148	24,108		
Other costs (including amortizations, etc.)	13,377	8,375		
Total costs	34,960	31,552		
<i>Total cost/metric ton Produced in '000 CFAF</i>	<i>41.5</i>	<i>37.1</i>	<i>31.7</i>	<i>29.0</i>
Pre-tax earnings	18,770	15,773		
Investments in upgrading (millions of CFAF)		20,000	25,000	10,000
Energy costs	7,446	7,143		
Other variable costs ¹⁹⁴	1,844	1,125		
Total variable costs	9,290	8,268	12,000	15,000
<i>Variable costs/metric ton ('000 CFAF)</i>	<i>11.0</i>	<i>9.7</i>	<i>10</i>	<i>10</i>
<i>Total variable costs (as a % of total costs)</i>	<i>27%</i>	<i>26%</i>		
<i>Energy costs (as a % of total costs)</i>	<i>21%</i>	<i>23%</i>		
Fixed costs	25,670	23,284	26,000	28,500
<i>Including additional amortizations</i> ¹⁹⁵			2,000	4,500
Total costs	34,960	31,552	38,000	43,500
New pre-tax earnings (post-investment)			28,000	39,000
<i>Improvement in results compared to 2009</i>			<i>12,267</i>	<i>23,267</i>

7.25 For FY2008 and FY2009, it is therefore clear that the most prudent strategy for SNPT is to use the company's profits and cash flow to finance urgently needed investments in equipment upgrades and modernization, rather than distribute them in the form of dividends. In the same vein, SNPT recently launched an initial rehabilitation program for which expenditure in 2009 is expected to exceed CFAF 20 billion. Its executives are thus seeking to increase production gradually to 1 million metric tons by 2010 and 1.5 million metric tons by 2012. While this is a first step in the right direction, it does not represent a genuine break with the past. This initiative is too limited in scope and inadequate for both the short term (from the standpoint of technical modernization, and governance and management practices) and the long term, for

¹⁹⁴ External purchases plus 25 percent of wages.

¹⁹⁵ Average amortization over 10 years for upgraded equipment, to be added to fixed costs from previous fiscal years.

which a genuine strategy must now be prepared. To fully establish its competitiveness in the medium term and protect itself against a significant reduction in phosphate prices, it is essential that SNPT immediately go much further, by quickly boosting its production capacity to 3 million metric tons per year and mirroring its competitors by targeting cost prices of US\$40-45/metric ton. SNPT must then once again corner a significant share of world markets by mining its carbonate ore reserves long before the deposit of loose ore is exhausted.

7.26 To that end, a coherent priority investment program must be adopted and executed as quickly as possible. Such a program must prioritize the various components: repair, replacement, and modernization efforts must be carefully scheduled over time (phasing), ever mindful of the need to optimize the cost/benefit ratio at each stage and remove, in a prompt and cohesive manner, the various bottlenecks hindering very rapid production increase and cost reduction. By way of example, an initial measure would be the replacement of bucket wheel extractors with draglines (as in Senegal) for surface stripping, which is a more prudent step than reconditioning these obsolete bucket wheel excavators. In any case, this initial ambitious program should already also include all the preparatory components that would facilitate the rapid transition to the second phase at a capacity of 6 million metric tons, including mining of carbonate ores,¹⁹⁶ and to a third phase at 10 million metric tons, in addition to downstream industrialization as set forth in the strategy outlined below. This initial investment program should be part of a comprehensive business plan that incorporates all the other aforementioned aspects of the enterprise restructuring process, for example, in terms of appropriate staffing (social plan), commercial actions, internal organization, and improved management of purchases, including spare parts, as indicated above.

Medium- and Long-Term Development Strategy for Togo's Phosphates

7.27 In light of the growth opportunities for world markets and faced with aggressive developing strategies implemented by competitor countries, it will be difficult for Togo to avoid rushing headlong into a strategy based on (re)gaining larger market shares if it hopes to derive more benefits from its phosphate resources. Regaining market shares will be based first on an increase in volumes sold and on production for diversified exports downstream, beginning with phosphoric acid. While initiating the implementation of the first phase of this business plan, SNPT must immediately finalize, in coordination with the Government, a medium- and long-term development strategy based on: (i) the introduction of carbonate mining; and (ii) the establishment of a downstream chemical industry (phosphoric acid and then fertilizers). This aggressive and pragmatic strategy would have three phases, with two development phases following the first phase (upgrading) at an accelerated pace. This strategy is summarized as follows:

- **Phase 1: Upgrading.** Executed during the period 2010-2011 with a view to achieving a production level of 3 million metric tons per year by 2012, with an estimated investment of CFAF 24 billion, financed essentially with equity capital (through a tax moratorium). For this complete operations overhaul (mining, rail, Kpeme complex, loading facilities), repairs and replacement investments will be carefully selected and scheduled over time, with highly specialized technical assistance. It also includes the effective implementation

¹⁹⁶ For example, the modernization of beneficiation facilities could already include equipment to also process carbonate ores (calcination).

of measures to improve management and governance in the broadest sense. At the same time, SNPT is refocusing efforts entirely on its core activity by outsourcing related services.

- **Phase 2: Increase in and Shift to Carbonate Production.** Executed during the period 2012-2014. Acquisition of equipment and facilities to mine carbonate phosphate with a view to achieving, by end-2014, production levels of 6 million metric tons per year, of which at least 50 percent is carbonate. Investments would amount to approximately CFAF 38 billion and be funded through self-financing and external sources. For this phase, SNPT should ideally have already secured support from a strategic international partner.
- **Phase 3: Industrialization.** Executed during the period 2015-2016 and comprising: (i) investments in mining, logistical, and plant equipment for market-grade phosphate (investments of approximately CFAF 25 billion); (ii) construction of a phosphoric acid plant (very preliminary investment estimate of CFAF 130 billion). Production capacity would thus be increased to 10 million metric tons per year by 2017, of which approximately 30 percent of loose ore and 70 percent of carbonate. It facilitates the marketing of 6 million metric tons/year of market-grade phosphate and 1 million metric tons of phosphoric acid stemming from the processing of between 3.5 and 4 million metric tons of raw phosphate into phosphoric acid. A strategic industrial partner was selected and is actively participating in this phase (execution, financing, and industrial production technique).

7.28 The marketing of sizeable quantities of phosphate and the launch of phosphoric acid production by 2017 at the latest will make it possible for Togo to secure a well established position in the phosphate market prior to peak global demand projected for the period 2030-2050.

7.29 The introduction of carbonate mining with an increase in mining production exceeding 3 million metric tons/year and reaching 6 million metric tons/year should not involve a difficult decision-making process. The final decision to increase production to 6 million metric tons/year should be made following the conduct of in-depth studies of markets that SNPT should conquer. The decision regarding downstream diversification in the chemical industry and subsequently fertilizer production will pose complex challenges, including in terms of a strategy pertaining to the industry, marketing, phasing, financing, a strategic partnership, etc. To that end, thorough studies are of paramount importance and should be immediately launched by SNPT with support¹⁹⁷ from high-level strategic consulting firms (that have provided similar services in the mining sector and particularly in the fertilizer industry). At the same time, SNPT and the Government should increase contact with Togo's partners,¹⁹⁸ with a view to determining their interest in participating in the funding of the future development phases of Togolese phosphate.

7.30 One extremely important strategic issue is in fact the search for industrial partners/investors. SNPT should be in a position to implement the first phase (upgrading) without a new partner-investor if it is receiving highly specialized technical assistance from

¹⁹⁷ Or even with potential strategic partners if they are promptly identified.

¹⁹⁸ Including the IDB, whose previous financing proposal, if it contains the degree of concessionality required under the HIPC Initiative, would be of significant interest to SNPT.

carefully selected external experts. However, for the third phase (downstream diversification), it must be assisted by a strategic global operator partner experienced in the area of phosphoric acid production. The participation of such a partner would already be beneficial for the second phase—the introduction of carbonate ore mining. In the wake of the negative experience with IFG-Togo and the lack of concrete results from the exchanges with OCP Morocco in recent years, it is understandable that Togo would be reticent or at least skeptical about the prospects for success and the sustainable benefits of an association with an external partner. It will nonetheless be absolutely critical for Phase 3. Recent relevant examples in this regard are Senegal and Tunisia. Analyses to be conducted with support from a strategic consulting firm should bring these examples to Togo’s attention, propose a list of potential partners for SNPT, analyze their respective positions and interest with regard to a partnership, recommend the best options for Togo, and propose an approach and negotiation strategy with the best potential candidates. The World Bank could provide support to Togo with this approach.

7.31 At the outset of the first phase, implementation of the strategy should be accompanied by additional measures aimed at enhancing SNPT’s effectiveness and promoting good governance and better management practices. These measures should be undertaken as soon as possible, especially to make SNPT more attractive to a strategic partner. They should include, in particular: (i) the continuation of efforts to introduce procedures manuals; (ii) the separation of the purchasing department in order to transform it into an independent service that meets international procurement standards; (iii) computerization of the storage and inventory system for spare parts; (iv) the adoption of a maintenance scheduling system that accords priority to regular maintenance and preventive replacement in order to reduce as much as possible emergency repairs; and (v) strengthening of financial controls and the role of statutory auditors. Other measures are: (i) the review of the organizational structure and optimization of the use of human resources, including reassignment, and skills upgrading and development of personnel with a view to boosting productivity; and (ii) the introduction of social accountability standards and community development programs aimed at meeting the expectations of the populations affected by mining operations.

7.32 Particular attention should also be paid to financial aspects, including issues pertaining to cash management forecasting and supplier accounts. Arrears owed to suppliers and other creditors should be settled as quickly as possible.¹⁹⁹ A financial model should be refined²⁰⁰ and used routinely to monitor self-financing and investment expenditure, and seek financing for the phase. Moreover, in order to help the company generate as much cash flow as possible to finance its own investments, the extent to which the tax burden can be lightened must be determined—for example, by establishing exceptional provisions for major repairs.²⁰¹ At the same time, consideration should be given to improved governance of SNPT, by potentially eliminating a monitoring council and a board of directors, which was not included under the OHADA system.

¹⁹⁹ Including company debt amounting to CFAF 3.6 billion, in addition to CFAF 16 billion owed to local suppliers as of December 31, 2008.

²⁰⁰ Based, for example, on the preliminary financial model submitted with the Africa-Label study.

²⁰¹ Thereby reducing earnings subject to corporate taxes.

C. The Clinker and Cement industry

Local Resources and Export Potential

7.33 Togo is one of the few countries in West Africa to have large high-quality limestone deposits for the production of clinker, an intermediary product for the manufacture of Portland cement.²⁰² This major asset therefore makes it possible for Togo to produce clinker and cement not only for the local market, but also for export to the sub-region. Clinker is a heavy product that is costly to transport by road. However, sea transportation costs of large bulk clinker cargo have remained reasonable, thereby facilitating long distance trade. It is traded globally in relatively high volumes, particularly from countries that now have surplus production capacity (following a slowdown in construction) or, increasingly, from energy producing and exporting countries.²⁰³ In a sub-region that lacks cement-quality limestone, Togo can export its product by sea within a large radius while remaining competitive despite distances, particularly owing to the fact that the export process is currently economical from the Lomé deepwater port, which is well equipped to handle bulk cargo. The location of large limestone reserves at a reasonable distance from a port is therefore a major comparative advantage for clinker and cement production in Togo, given that the required energy is available at affordable rates.

7.34 **Four large limestone deposits have to date been discovered in Togo:** Mango (north), Pagala (central region), and Aveta and Tabligbo (south). A thorough prospection of the deposits in Mango and Pagala has not been carried out; however, the Pagala deposit's suitability for clinker production has been confirmed. The Aveta limestone deposit is partially contaminated by phosphates, but clinker production from such a deposit should be possible, as is the case in Uganda. The Tabligbo deposit, located 45 km from the coast, has been mined since 1980, first by CIMAO and subsequently by WACEM. Its current known reserves are estimated at 200 million metric tons.

CIMAO and WACEM

7.35 **Based on the potential described above,** a number of partners decided to launch the CIMAO (West Africa Cement Company) project in the 1970s to mine the Tabligbo deposit. This regional project, which was designed under ECOWAS, brought together Togo, Côte d'Ivoire, and Ghana, whose governments had to hold equal shares in the new company, CIMAO. A clinker production complex with a nominal capacity²⁰⁴ of 1.2 million metric tons was therefore constructed on the Tabligbo site located 80 km from Lomé. Clinker had to be dispatched to and processed into cement by plants that each partner would establish, usually in or close to its port areas. The project included: (i) the Tabligbo plant with a quarry, two dry process clinker production lines using heavy fuel oil and storage and loading facilities; (ii) a new railway line linking the plant to the Lomé port and the associated rolling stock; (iii) the loading terminal at the Lomé port; and (iv) electric power transmission lines and a housing development. This

²⁰² For the final stage of the cement manufacturing process, clinker is ground and then mixed with smaller amounts of limestone and gypsum (in respective proportions of 90 percent, 5 percent and 5 percent, or 67 percent, 28 percent and 5 percent, depending on the quality of the cement).

²⁰³ Each metric ton of cement produced requires between 60 and 130 kg of fuel oil (or its equivalent) and an average of 110 kWh of electricity. The price of energy can account for two-thirds of variable costs.

²⁰⁴ Many facilities had been designed with substantial reserve capacity; thanks to this over-sizing, actual capacity was greater than 1.2 million metric tons/year, but at the expense of a more costly investment.

ambitious project, which was at that time viewed as a model of regional cooperation, benefited from support from virtually all active donors in the sub-region, including IDA. IDA played a key role and provided financing amounting to US\$49.5 million in 1978, and a supplement totaling US\$15 million in 1983 to restructure the project.²⁰⁵ This financing increased Togo's indebtedness, with the attendant consequences during the initial failure of the project.

**Table 7.5: Clinker and Cement Production by WACEM and FORTIA
(in thousands of metric tons)**

Year	Total clinker production by WACEM	Clinker imports by WACEM	Clinker used for cement production ²⁰⁶ by WACEM and FORTIA	Local clinker sales to CIMTOGO	Clinker exports by WACEM
1997	196	-			
1998	719		43	705	
1999	1,184		52	361	775
2000	616		484		79
2001	763		772		15
2002	944	215	769		282
2003	1,427	224	513	176	1,020
2004	1,437	84	482	28	1,074
2005	1,507	189	453		1,208
2006	1,307	417	448		1,301
2007	1,162	758	464		1,343
2008	906	1,180	437		1,289

7.36 Following its inception in 1980, the clinker plant had to close its doors five years later, when a drought, which affected Ghana's Akosombo dam, deprived it of electricity. However, CIMAO was also plagued from the outset by other problems: problems relating to demand (the financial crisis had rocked the three shareholder countries just as the project was getting off the ground, precipitating a serious decline in activity in the building and public works sector), which had been overestimated for this period and thus producing only approximately one-third of its capacity, thereby making the cost price of clinker higher than that of imports, as well as problems pertaining to governance. The plant at which clinker is ground into cement and which was installed separately at Lomé port (CIMTOGO) has continued to operate using imported clinker. CIMTOGO, which belongs to the Scandinavian Group SCANCEM, sold its cement on the local market but exported primarily to the sub-region. During that period, the Tabligbo complex facilities had been completely shut down and deteriorated rapidly, while Togo searched unsuccessfully for a buyer.²⁰⁷ The general prevailing situation in Togo, the large size and poor condition of the Tabligbo facilities, the clinker/cement market (at that time limited) in the sub-region, and the relatively low price of clinker in the global market for a number of years were all dissuasive factors preventing prospective candidates from taking over the old CIMAO operation. The SCANCEM Group itself showed no interest despite the supply needs of its cement plant in Lomé.

²⁰⁵ The project's total cost was US\$316.7 million, including US\$72.6 million for infrastructure.

²⁰⁶ Corresponds to 1.5 or 1.1 metric tons of cement (end product), depending on the quality of the cement.

²⁰⁷ Other options explored were the dismantling of the plant and reconstructing it in another country, or worse, the stripping of the equipment and its resale as scrap metal.

7.37 **In 1996, an Indian cement producing group (also active in other industrial activities such as steel) bought out all of the physical assets belonging to the former CIMAO.**²⁰⁸ It resumed mining of the limestone deposit and clinker production under the name West Africa Cement (WACEM), and the Togolese State received 10 percent of the company's capital. The prompt rehabilitation of the plant helped increase clinker production to 1.18 million metric tons in 1999 and later to initiate on-site cement production. WACEM delivered clinker to CIMTOGO in Lomé for its processing into cement, an arrangement that lasted only two years following disagreements between the two groups (including about prices and quality). CIMTOGO proceeded to operate with imported clinker, while WACEM depended entirely on exporting its clinker as a large new grinding plant had not been constructed in Togo. These facilities were rapidly constructed in Tabligbo, right beside the clinker production complex. Since 2003, these facilities, which belong to FORTIA (a joint WACEM-SCANCEM venture, but managed by WACEM), have been producing between 500,000 and 600,000 metric tons of cement per year for the local market and for export.

**Table 7.6: Cement Production by WACEM and FORTIA
(in thousands of metric tons)**

Year	WACEM	FORTIA
1998	48	
1999	58	
2000	538	
2001	568	
2002	507	
2003	46	562
2004	32	564
2005		547
2006		561
2007		600

7.38 **In Tabligbo, the WACEM Group undertook significant investments:** the replacement of the entire energy supply system of the kilns, which were using imported heavy fuel oil, with coal that was also imported but more economical; the renovation of the kiln on production line No. 2 with a more efficient and environmentally friendly filtering system; the construction of a production plant to manufacture polypropylene bags for cement and other heavy materials; and the construction of a heavy fuel oil-fired 30 MW power plant to make the industrial complex autonomous and provide protection against breakdowns in the Togolese electricity system. Added to this entire investment worth CFAF 38,300 million is the sum of CFAF 3,700 million invested in the FORTIA cement plant. Investments that were already made will help boost the production capacity of line No. 2 to 1.2 million metric tons per year, and similar investments could help quickly introduce the same level of improvement with line No.1. Total clinker capacity is projected to reach 2.4 million metric tons per year, virtually double CIMAO's initial capacity.

7.39 **From Tabligbo, the WACEM Group was able to successfully launch an ambitious development policy in the sub-region,** to become one of the leading cement groups operating in West Africa, thanks in large measure to Togolese clinker and cement exports. WACEM

²⁰⁸ The buyout price was US\$5 million, but WACEM had to invest US\$30 million in rehabilitation.

constructed a large clinker grinding plant (1 million metric tons/year) in Ghana (Diamond Cement), located close to the border with Togo and essentially supplied with clinker from WACEM. This clinker is currently transported by heavy trucks through Lomé; however, owing to the cost to and deterioration of Lomé's road network as a result of this heavy goods vehicle traffic, plans are in place to quickly construct a rail connection linking Diamond Cement to the Togolese railway network.²⁰⁹ WACEM also bought a bankrupt 450,000 metric tons/year capacity clinker grinding plant in Burkina Faso. Last but not least, WACEM announced its intention to build an integrated plant (clinker and cement) in Mali, with an initial capacity of 600,000 metric tons/year. This country had not produced for the local market since the closure of the old IMACO plant in 1997 and was entirely dependent on imports, particularly from Senegal.

7.40 One of Togo's strengths is the existence of facilities, which had been constructed by CIMAO, to load, unload, and store heavy materials at the Lomé port. Large quantities of clinker, and now coal as a fuel, can be imported and exported in bulk at these facilities, which belong to WACEM, but are also in operation for CIMTOGO, whose grinding plant located beside the port is linked to the port by conveyor belts. CIMTOGO produces 700,000 metric tons of cement per year, of which approximately half are for the local market and the remainder for export (Niger, Burkina Faso, and Benin). The trend in clinker and cement production and sales (local and exports)²¹⁰ for WACEM and FORTIA between 1997 and 2008 is outlined in Tables 7.6 and 7.7.

Impact of the Cement Industry on Togo's Economy

7.41 While they are key materials for local construction (housing and other buildings, public works), cement and upstream clinker also have a major impact on Togo's exports. These exports are exported not only to Ghana and Burkina Faso, but also, in the case of cement, to Mali, Niger, and Benin. Total clinker and cement exports from Togo (WACEM, FORTIA, and CIMTOGO) for 2002-2007 are provided in Table 7.7. In 2003, exports peaked in terms of tonnage²¹¹ and value at CFAF 70.6 billion, or 39 percent of the country's total exports, to fall again to CFAF 57-58 billion for the period 2006-2007, or between 40 and 43 percent of the country's total exports. With the decline in phosphate production, the clinker and cement sector easily became Togo's leading exporter.²¹² The export of polypropylene bags from WACEM, which exceeded CFAF 1 billion in 2008, also bears noting. It should also be underscored that a portion of the cement sold locally in Togo is exported as retail to other countries, in particular Benin, where cement shortages are common. The volumes of these informal exports are not known.

²⁰⁹ WACEM also has a concession for a section of the Togolese railway network via TogoRail, in which close to CFAF 7 billion has been or is being invested.

²¹⁰ WACEM statistics for gross exports, including the re-export of clinker unloaded at the Lomé port for Diamond Cement Ghana and Diamond Cement Burkina.

²¹¹ These customs statistics differ from WACEM data primarily owing to the fact that they do not include clinker imported through Lomé and re-exported to Ghana.

²¹² With the boom in phosphate prices in 2008, this year was an exception.

Table 7.7: Cement and Clinker Exports

Year	Clinker exports ('000 metric tons)	Clinker exports (millions of CFAF)	Clinker: share of total exports	Cement exports ('000 metric tons)	Cement exports (millions of CFAF)	Cement: share of total exports
2002	151	8,481	4.9%	804	37,450	21.6%
2003	1,562	27,995	11.6%	770	42,596	17.6%
2004	1,071	26,150	12.1%	597	35,546	16.5%
2005	1,060	30,955	16.3%	433	21,164	11.1%
2006	917	30,329	21.6%	460	26,475	18.8%
2007	727	25,694	19.2%	521	32,411	24.3%

7.42 **WACEM enjoys free zone status, which is surprising and questionable.** Its production for export—clinker and cement—is the result of the mining and processing of limestone, a local raw material, with very limited blending of imported elements. If this local raw material were not processed into clinker on-site, it would not be exportable. This is why the global cement industry does not usually enjoy free zone status, as is normally the case with export activities based on first-stage processing. It also bears noting that the two cement producing companies in Togo, FORTIA and CIMTOGO, do not have free zone status.

7.43 **WACEM contributes to the State budget, primarily through corporate taxes (CFAF 1,185 million in 2007),** mining royalties (10 percent of the mine head price of limestone), and dividends paid for the 10 percent of WACEM capital held by the State. As the cement industry is, first and foremost, capital intensive, WACEM's impact on employment is not as significant as its sales volumes (which peaked at CFAF 45.6 billion in 2007). Total employment with respect to direct jobs is on the order of 1,865 persons (plus 270 at FORTIA), in addition to contract employees working under outsourcing arrangements, particularly at the quarry. The value added was CFAF 13,700 million in 2007, or roughly 1 percent of GDP.

7.44 **As indicated above, one important advantage of having a local cement industry is the availability—generally on favorable terms—of cement in reasonable quantities** for national enterprises and individuals in the country involved in construction. This is important not only with respect to speedy completion and particularly the price of buildings and all types of public work projects, but also for the construction of individual houses, including simple “permanent” dwellings. The price of cement is a determining factor for the cost of concrete blocks, a key component for permanent housing that population groups emerging from poverty in particular are constructing. From the standpoint of availability and price, cement is therefore also perceived as a social asset; governments therefore seek to ensure that there is no cement shortage and that market retail prices for cement remain stable and affordable. In that regard, despite the existence of two independent and separate cement producing plants in Togo (FORTIA and CIMTOGO), the country still periodically experiences pressures²¹³ in terms of cement availability for individuals, the main causes of which are cement exports, often by

²¹³ The term shortage (serious and protracted) is without a doubt not entirely appropriate.

business persons,²¹⁴ to neighboring countries—especially Benin—and some speculation. Frequent shortages in Benin and, in particular, higher cement prices in this country than in Togo are the key factors accounting for informal cement shipments from Togo to Benin. This practice has led the Togolese Government to adopt measures to limit official exports and ban exports outside of the formal export channel of the two Togolese producers. These relatively effective measures cannot have the same impact as steps taken with respect to prices.

7.45 Cement prices on the Togolese market have very frequently been and remain among the lowest along the West African coast. Maximum prices are established by the Government. In the wake of the July 2008 increase, these official retail prices rose to CFAF 81,000-92,000/metric ton (depending on quality) and CFAF 77,000/metric ton for cement from CIMTOGO and FORTIA,²¹⁵ respectively. While this last increase brought Togo's prices closer to those of Benin, these rates—an appreciable economic advantage for Togo—remain well below prices in other countries in the sub-region (between CFAF 120,000 and CFAF 140,000 in Mali, for example), encumbered by a lack of local production and substantial transportation costs for imported cement. A comparison of prices throughout the region reveals that Togolese consumers fare quite well, paying retail prices, all taxes included,²¹⁶ equivalent to US\$140-152/metric ton, compared to US\$127-145/metric ton in Ghana, US\$160/metric ton in Côte d'Ivoire, and US\$250/metric ton in Nigeria.

7.46 It bears noting that official price setting by the State at an economically optimal level is a difficult exercise because it is supposed to take into account relatively distinct objectives. On one hand, it seeks low prices for the end user, while on the other it aims to ensure a sufficiently high level so that (i) distributors do not resell cement to neighboring countries where prices are higher; and (ii) the ex-factory price remains adequately profitable for local producers²¹⁷ to enable them to continue to produce sufficient quantities to prevent shortages. In the same vein, the price of cement manufactured from locally produced clinker must be adequate so that following the deduction of a reasonable margin for clinker grinding, the clinker transfer price provides a satisfactory profit for its producers to dissuade them from selling their entire stock on far more profitable export markets. This margin for the grinding stage will be contingent on electricity costs, which account for the most significant share of the cost price. On the whole, the average attractive export price for Togolese clinker²¹⁸ and the satisfactory transfer price for clinker from WACEM to FORTIA helped WACEM post a positive operating profit of CFAF 8.8 billion on sales of 44.7 billion in 2007.

7.47 The existence of two different cement producers in Togo helped sustain healthy competition, with both companies holding roughly equal market shares.²¹⁹ This competition is beneficial, in comparison to other countries, where either a single local producer (and only

²¹⁴ Some distributors do not ship to destination any cement that is delivered to them for regions where they are accredited; others create temporary artificial shortages in order to be in a position to resell their cement stock at a higher price; while others illegally export cement to neighboring countries where the cement price is higher than in Togo.

²¹⁵ The differences essentially reflect types/different quality of cement.

²¹⁶ It bears noting that VAT and BIC (tax on industrial and commercial profits) are not the same in all countries.

²¹⁷ According to one of the producers, official prices prior to July 2008 would lead to a loss for cement produced using imported clinker, during a period when FOB prices for clinker and/or maritime freight were high.

²¹⁸ This had reached CFAF 35,000/metric ton in 2007 (in comparison to an average cement export price of CFAF 62,000/metric ton); currently CFAF 46,000/metric ton FOB factory for Burkina Faso.

²¹⁹ Local sales estimated at 330,000 metric tons and 350,000 metric tons, respectively, compared to exports of 370,000 metric tons by CIMTOGO and 250,000 metric tons by WACEM in 2007.

partially) faces competition only from imports, or several producers comprise a cartel²²⁰ in which there is a solid agreement regarding market shares and prices, or several producers—each one based in a different region—establish a de facto monopoly locally in their region. This type of competition in the cement industry in Togo was possible despite the fact that an equivalent competitive balance did not exist for the supply of clinker, one of the factors controlling all local clinker production. This does not necessarily mean that competition in the local clinker industry is also desirable.

The Future of Togo's Cement Industry

7.48 **The cement industry is without a doubt being called upon to play an even greater role in Togo's economy in the future**, both in terms of clinker and cement exports and cement supplies to the country's construction sector. The vast underground limestone resources, a port infrastructure that is well suited for the shipment of heavy materials, and over two decades' production experience are all significant comparative advantages that make Togo one of West Africa's primary clinker and cement producers and exporters. Currently known quality limestone reserves²²¹ should suffice to help boost production considerably over the next 30 years. However, it must be borne in mind that these known reserves will eventually be exhausted. Togo should therefore ensure that it derives benefits from mining this non-renewable resource, which will optimize the various advantages for the country and its population.

7.49 **In taking over CIMAO's assets, WACEM had obtained a concession (mining permit) to mine a section of the east Tabligbo deposit**, containing a balance of 50 million metric tons, which it has mined since 1997 at a rate of between 1 and 2.2 million metric tons per year.²²² In 2005, it was granted a second permit for 75 additional metric tons. Strengthened by these reserves, WACEM, as indicated above, invested in improvements to its No. 2 line, boosting total capacity at first to 1.8 million metric tons/year of clinker, and launched a program to improve line No. 1 to increase the plant's total capacity to a minimum of 2.4 million metric tons/year. In addition, the CIMTOGO international shareholder group²²³ submitted an application to manufacture clinker locally from the Tabligbo limestone deposit as well. The Government recently broke the 2005 agreement with WACEM with regard to its second permit, and granted CIMTOGO a permit to mine a section of this same deposit, which contains reserves of between 50 and 60 million metric tons of limestone, thereby facilitating the construction of a plant with the potential to produce between 1 and 1.5 million metric tons of clinker per year for approximately 30 years, as well as cement, if grinding facilities are also built. WACEM also recently received a permit to mine 20 to 25 million metric tons from another section of the deposit.

²²⁰ Such cases are frequent and often sanctioned (as in the European Union) by authorities responsible for ensuring respect for competition.

²²¹ Not taking into account the fact that geological work should facilitate prospection of deposits or sections of deposits that are currently less known and possibly the confirmation of the existence of additional reserves.

²²² Or a cumulative tonnage of 18 million, of which 17 million metric tons were used to produce 12 million metric tons of clinker until 2008.

²²³ Has since become the German Group, Heidelberg Cement.

7.50 Through its project SCANTOGO, in which the State is expected to receive free capital totaling 10 percent,²²⁴ the CIMTOGO plant will be able to supply its own clinker produced in Togo—an advantage, as indicated above, previously enjoyed by WACEM-FORTIA. However, with an additional reserve of just 20-25 million metric tons (instead of 75 million), WACEM will only be able to produce a minimum of 2.4 million metric tons of clinker (target sought through its investments) for approximately 20-25 years. That would significantly reduce the expected benefits of current investment commitments as well as prospects for the direct supply of clinker to the WACEM Group plants in the other countries in the subregion.

7.51 These steps were taken in response to the concerns of authorities regarding the apparent cement shortage in the country. However, this problem of shortages is, in all likelihood, rooted more in the difference in the price of cement in Togo and neighboring countries,²²⁵ and the porous borders that facilitate buoyant trade in search of the best possible price. At any rate, the revocation²²⁶ of WACEM's second mining permit and the awarding process for the two new permits raise questions, and could generate inquiries from potential investors for new mining projects. These latest developments make a good case for modernizing and clarifying the mining code.

7.52 The existence of two clinker plants operating side by side on the same Tabligbo deposit may also give rise to difficulties pertaining to the sharing of transport infrastructure (the construction of a second railway line was not economically viable).²²⁷ While the current competition between two cement producers is undoubtedly advantageous to cement users in Togo as indicated above, the existence of two different clinker producers may not provide the direct benefits of increased competition²²⁸ to Togo. The SCANCEM project for the local production of clinker will significantly lower CIMTOGO's costs. However, an overall increase in fixed costs is likely, in view of the fact that the investment costs of two different plants are higher than those of a single plant with a capacity equal to that of the two plants.²²⁹ Prior to establishing contracts for permanent permits to mine unexploited Tabligbo reserves, the State should reexamine all the projected advantages for Togo and ensure²³⁰ the definitive investment commitment of confirmed investors. The State must also ensure that producers will actually pay for use of the infrastructure (including a fair price to cover the wear and tear and damage of the road network). In this regard, the project to construct 6.5 km of new cross-border railway line between Lomé and Aflou to transport 1.5 million metric tons of clinker to Ghana would provide the major advantage of eliminating the need for this heavy traffic on the roads. Financing could also be provided by Togo-Rail, and construction could be carried out quickly,

²²⁴ Moreover, the option of purchasing an additional maximum 20 percent of the company's capital is being offered to the State or the Togolese private sector.

²²⁵ Prior to the 2008 increase, market prices in Togo (between CFAF 66,000 and CFAF 69,000/metric ton) were considerably lower than prices in Benin. FORTIA's current ex-factory price is still on the order of US\$140/metric ton compared to US\$150/metric ton in Benin.

²²⁶ The mining code itself makes no mention of the terms for revoking this type of permit under the current circumstances.

²²⁷ In the event of probable conflicts among users, arbitration by the State may be essential.

²²⁸ Based on the transfer prices between plants in various countries, the international groups can often freely transfer the profits or other advantages derived from the reduction in cost prices to a particular country, based on individual tax benefits or strategic interests (for example, better positioning in a region, particularly with a view to weakening a competitor).

²²⁹ For example, the estimated cost for the construction of a new separate 1 million metric ton capacity plant is US\$ 115 million, while increasing the capacity of an existing plant from 2 million to 3 million metric tons is projected to cost US\$75 million.

²³⁰ With a credible threat to sanction the revocation of the entire license (if the investment effort is not initiated soon) or a part of the concession (if production capacity is achieved in part only).

once the State gives its approval and an appropriate solution is implemented for the Togo-Rail concession, as indicated in the chapter on transportation.

Other Mining Prospects in Togo

7.53 Little or very limited information exists on other mining prospects in Togo. Mining permit applications were submitted for various deposits, the level of knowledge of which varies: (i) manganese deposit in Nagéya, located 670 km from Lomé (estimated 15 million metric tons, with a 12-35 percent content); (ii) chromite deposits, about which very little is known, in Haito (20,000 metric tons, located 145 km from Lomé) and Farendé (30,000 metric tons, located 450 km from Lomé); and (iii) Agou bauxite deposit (1 million metric tons, located 100 km from Lomé). It is not clear to what extent permit applicants would quickly invest to facilitate industrial mining of these deposits. An application to mine a low content iron ore deposit (36 percent) in the Bassar region was submitted recently. The fundamental issue of the feasibility of economically mining such a deposit remains.

7.54 Other deposits for which applications were not received are: (i) the peat deposit in the Tabligbo region (5 million m³); (ii) glass sand in the coastal basin (3 million metric tons); (iii) attapulgite (20 million metric tons, in Avéta close to Lomé) and bentonite (300 million metric tons, 75 km from Lomé) clays; and (iv) various kaolinitic clay deposits that could be used to manufacture ceramics. The dolomitic marble deposits in Gnaoulou and Pagala were mined between 1970 and 1984 by SOTOMA, which was also responsible for marketing. The State is seeking a new partner to take over mining of these deposits.

7.55 With respect to prospecting and exploration, a number of anomalies had been identified over the years: (i) platinum and palladium (BGRM and UNDP) in the Soto Mountains; (ii) polymetals (zinc, copper, iron, nickel) in various locations (prospecting permits were submitted for some of these metals). Diamonds are frequently extracted from the alluvial deposits of the Wawa River and its tributaries; detailed prospecting would be necessary to discover an economically mineable deposit. A number of gold-bearing sites throughout the country were previously catalogued, but deposits that could be mined, including small-scale ones, have not yet been identified. These various factors demonstrate that new prospecting work should be undertaken. To that end, Togo should implement measures aimed at encouraging partners to invest in these efforts, as explained above.

Improvements to the Legal and Institutional Framework of State Services

7.56 These measures should cover the legal/institutional framework and strengthening of State services responsible for the mining sector. Togo does not have a modern institutional framework that is as attractive to investors in the mining sector as that of numerous other African countries. Similarly, the capacity of the services within the Ministry of Mining falls short of the current expected levels in a modern mining sector, from the standpoint of regulation and promotion. Programs to introduce measures to modernize legal and institutional frameworks and strengthen capacities were successfully implemented in several African countries, particularly with World Bank support. Togo could benefit greatly from such a program.

7.57 **With respect to the first point, this program could initially include an assessment of the mining policy and the regulatory, tax, and institutional frameworks governing the mining sector.** This would then help update and supplement the mining code, all of the legislation and regulations applicable to the sector, and the tax system, to transform Togo into a more attractive prospect for investments in the sector, including foreign investments. The capacity-building component would seek to place the services within the Ministry of Mining, beginning with the Directorate of Mining and Geology (as well as the State services responsible for the environment), in a better position to fulfill their function.

8. AGRICULTURE: FIRST PILLAR OF POVERTY REDUCTION

A. The Agricultural Sector in the National Economy

8.1 **The economy of Togo is still dominated by agriculture, which in 2007 represented 40 percent of total GDP**, as compared to 18 percent for the industrial sector and 42 percent for the services sector. Agriculture employs over 70 percent of the work force and is oriented strongly toward food crops and self-consumption, which account for over two-thirds of the Agricultural Gross Domestic Product from agriculture (GDPA). According to the results of the last general agricultural census (1996), the agricultural fabric is made up largely of small, fragmented holdings that are not technically sophisticated. The preponderance of family farms engaged in production more for their own needs than for the market poses a major challenge to modernizing Togolese agriculture and improving its competitiveness.

8.2 **Togo's major traditional exports are cotton, coffee, and cocoa.** While together, they contributed 11 percent to GDPA in 2004, they represented no more than 3 percent in 2008. Livestock farming plays a leading economic and social role in Togo, with the sector contributing 14 percent of GDPA over the past five years. Over 80 percent of Togolese farmers are engaged in this activity. There is little processing of agricultural products—with the exception of cotton, manioc, and palm oil products—and agroindustry, while representing nearly 40 percent of the industrial sector, is not well developed.

8.3 **Togo's agricultural potential is far from negligible, despite its limited land area.** The country is rich in terms of arable land (nearly 3.4 million hectares, of which only 45 percent is currently under cultivation). Its varied climate, spanning a number of different agro-ecological zones, allows for the production of a diversified range of crops. The land suitable for irrigation is estimated at 86,000 hectares, and the area of farmable bottomlands is estimated at 175,000 hectares. However, a growing number of areas are subject to land-use pressures, indicating that the phase of extensive growth is drawing to its close and that farming systems must now be focused on gradual intensification.

8.4 **The agricultural landscape is made up primarily of small holdings** that are: (i) fragmented (the average farm plot is smaller than 2 hectares); (ii) still largely focused on self-consumption and not monetized to a significant degree; (iii) technically unsophisticated (less than 3 percent of the area used to raise food crops is sown with selected seeds and barely 16 percent is fertilized, while 90 percent of the area under cultivation is worked by hand); and (iv) strongly oriented toward risk minimization. The preponderance of family farms, producing more for the family's own needs than for the market, poses a major challenge to modernizing Togolese agriculture and improving its competitiveness to a level that would enable it to be competitive on the domestic and export markets.

8.5 **The average rate of growth of the agricultural sector was 3.6 percent a year over the 1990-2005 period—markedly higher than the growth rate of overall GDP (1.5 percent).** This average growth masks highly contrasting sub-periods: 5.6 percent a year in 1991-1996,

stagnation at 0.5 percent a year in 1996-2000, and then a modest and irregular recovery to 2 percent a year in 2001-2008.²³¹

8.6 The liberalization of the agricultural sector (prices, public monopolies) was one of the focal points of the national agricultural development policy defined in 1996. The State divested itself of its interests in most of the public enterprises in the sector, and foreign trade regulation was eased with the elimination of export and import authorizations and the abolition of restrictions (except for food products). These main directions were confirmed in the Government's new strategy as set forth in the *Agricultural Policy Memorandum* and in the *Poverty Reduction Strategy Paper (PRSP)*. The *Agricultural Policy Memorandum* clearly indicates that the Government's priority should be to strengthen the legal and institutional framework of the sector and to provide essential public services, through the implementation of the following strategic actions:

- Completion of the liberalization of the agricultural sector
- Strengthening of the sanitary and quality control systems in the food area
- Support for the structuring of the rural world, for enhancing the professionalism of agricultural subsectors, and for the emergence of rural entrepreneurship
- Improvement of information and communications services
- Improved supply of agricultural services in response to demand from beneficiaries and with the opening of the market for support/advisory services to the private sector and NGOs

Developments regarding major crops

8.7 Food crops. The main food crops include cereals (corn, sorghum, millet, rice), root vegetables (manioc, yams), and leguminous plants (cowpea, soy). In recent years they have accounted for about two-thirds of agricultural GDP. Overall, food crop production appears to have increased at an annual average rate of 3.0 percent from 1990/91 to 2006/07, but with a pronounced slowdown after 1996 (the average rate declined from 4.8 percent between 1985 and 1996 to 1.2 percent from 1996 to 2005). However, food crop production appears to have rebounded between 2006 and 2009, with annual average growth estimated at 5.5 percent. Yields are low and production, which is largely rainfed, varies significantly from one year to the next depending on climatic conditions. Productivity gains are effectively concentrated in only two products—corn (which benefited from the aftereffects of fertilizer application to cotton) and paddy (thanks to the development of lowland farming)—while the yields for all other crops have been stationary or declining.

8.8 Traditional export crops. Togo's traditional main export crops are cotton, coffee, and cocoa. Their share in agricultural GDP has represented 9 percent on average in recent years (cotton: 5 percent; coffee: 3 percent; cocoa: 1 percent). The share dropped sharply with the collapse of cotton production, and in 2008 came to account for no more than 5 percent of GDP. Cotton production increased steadily until 2002/03, when it set a record of 187,000 metric tons of seed cotton. Since 2003/04 it has dropped off sharply, owing both to exogenous factors

(decline in the U.S. dollar price of cotton on the international market, drop in the CFAF/U.S. dollar exchange rate) and endogenous factors (poor management of SOTOCO, the national cotton company), which prompted producers to turn away from cotton farming in large numbers. The areas sown, as well as yields and production, dropped off dramatically, and production reached a low of 25,000 metric tons in 2009.

8.9 At independence, orchards included 54,000 hectares of coffee plants and 40,000 hectares of cocoa trees, as compared to 30,000 and 16,000 hectares respectively today. Both crops have declined over the past decade as a result of dropping international prices, the aging of the plant stock, the lack of plantation maintenance, and phytosanitary problems (miridae, swollen shoot). The aging planter population and the land use methods (share-cropping) and inheritance practices contributed to the poor maintenance or abandonment of plantations. Brush fires annually destroy significant orchard areas. The production of coffee dropped from 15,000 metric tons in 1996/97 to 7,200 metric tons in 2005/06 before rebounding to 9,500 metric tons in 2006/07. Cocoa production fell from 14,500 metric tons to 4,100 metric tons over the same period, but also rebounded to almost 8,000 metric tons in 2006/07.

8.10 Other cash crops and products of diversification. Cash crops also include: (i) oil palm and cocoa palm marketed on the domestic market; and (ii) the products of diversification generally intended for export, such as tropical fruits, some oleaginous plants (groundnuts, soy), shea nuts, off-season vegetables, spices and aromatic herbs, cashew and cola nuts, medicinal plants and essential oils, ornamental plants, and cut flowers.

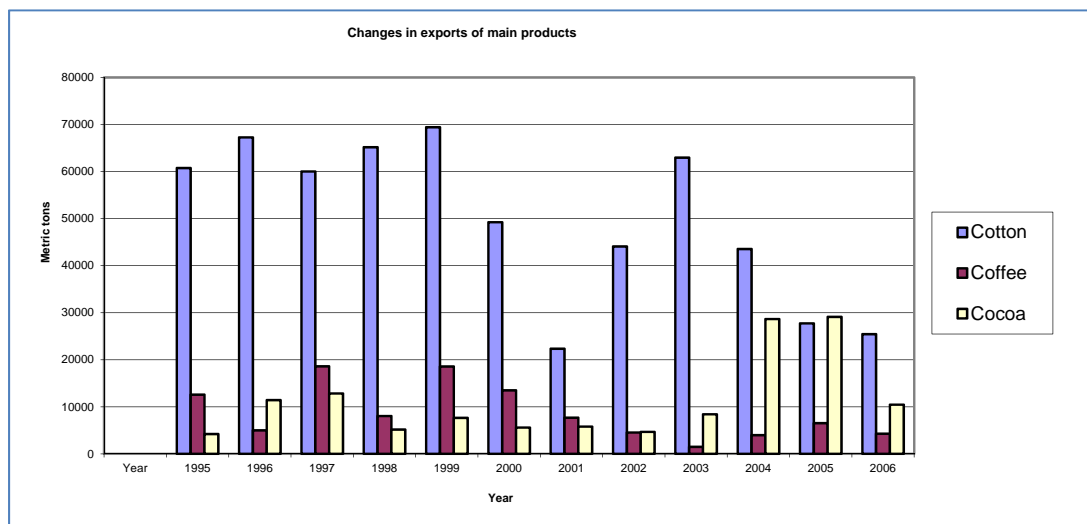
Developments in animal production

8.11 Livestock breeding. Stock farming plays an important economic and social role in Togo. The sector has contributed 14 percent of agricultural GDP and 6 percent of total GDP over the past five years. It is practiced by 90 percent of Togolese farms. In its agricultural development and food security policy, the Government has long emphasized the development of animals with a short production cycle, for which the country appears to have better growth prospects. This policy has been reflected in a rather high rate of growth for sheep and goats (3 percent annually on average) and especially for poultry (5 percent annually). The beef cattle herd has grown only slightly, and the swine herd has shrunk in large measure owing to the African swine flu epidemic occurring in the 2000s. In 2005, Togo produced 40,000 metric tons of meat and offal (with small ruminants and local poultry representing 42 percent and 30 percent of total production, respectively), and national production managed to satisfy about 80 percent of the country's meat consumption, with the balance covered by imports of fresh/frozen meat (poultry) or animals on the hoof (beef).

8.12 Fishery products. Over the past five years, fishing (for the most part non-industrial) has contributed 3 to 4 percent of GDPA. National production covers only 50 percent of national consumption, with the residual being imported in frozen form. This low rate of coverage risks becoming even lower in the future, but the potential for growth is extremely limited. Indeed, the growth potential for maritime and river/lake fishing is very limited. Fish farming, which is currently marginal, does have a non-negligible growth potential. It should therefore be promoted, which will require the rehabilitation of abandoned ponds, adequate technical supervision, the

introduction of exotic fish species, and the dissemination of new techniques that could improve yields.

Chart 8.1: Changes in Cotton, Coffee, and Cocoa Exports: 1996-2006 (in metric tons)



8.13 **Agricultural trade.** Overall, the agricultural trade balance remained positive over the 1995-2006 period, during which it registered an average annual value of CFAF 9.3 billion, this despite significant imports of rice and a 3 percent annual drop in exports from the coffee and cocoa sectors since 1997 and, more recently, the sharp drop in cotton exports. Chart 8.1 shows the changes over time in exports of the three main cash crops (cotton, coffee, and cocoa).

8.14 **Exports.** Agricultural exports declined sharply between 1999 (CFAF 72 billion) and 2008 (CFAF 14 billion), largely explained by the drastic fall-off in the country's traditional exports, particularly cotton. Indeed, cotton exports declined from 70,000 metric tons to 27,000 metric tons between 1999 and 2005. Exports of coffee and cocoa fell respectively from 19,000 metric tons to 9,000 metric tons, and from 7,000 metric tons to 4,200 metric tons during the same period.²³² Exports of agricultural products from diversification, on the other hand, developed quite positively in value terms (130 percent between 1998 and 2003) and their share in export proceeds has been comparable to that of coffee and cocoa since 2001 (3 to 4 percent). Togo officially exports only extremely small amounts of foodstuffs, although this does not reflect informal flows.

8.15 **Imports.** In 2005, purchases of agricultural goods amounted to about CFAF 32 billion, including CFAF 22 billion in food products (fish, meat, and rice), with the balance accounted for by imports of beverages and tobacco. Rice imports rose sharply, increasing from 12,000 metric tons in 1995 to 104,000 metric tons in 2006, though it bears noting that a less than negligible share of these imports was intended for re-export to land-locked countries. The national consumption of rice, which is associated with urbanization, increased at a pace of 6 percent a

²³² Cocoa exports increased to 29,000 metric tons in 2005, but it is likely that nearly 25,000 metric tons of this amount (or over 80 percent of shipments) constituted Ivorian or Ghanaian cocoa transshipped through Togo.

year, a rate substantially higher than the growth of national production (2 percent a year at most). The country's production currently covers only 50 percent of national consumption. The present level of rice consumption in Togo—about 17 kg per inhabitant—is still low in comparison to the sub-regional average, and consumption increases are expected to persist in the medium term. Absent a rapid increase in production, the country's rice shortfall could continue to deepen.

8.16 Imports of meat or meat equivalents (meat, eggs, milk, fish) represent two-thirds of Togo's food imports. Total meat consumption in 2005 was estimated at 110,000 metric tons (45 percent of which was fish) and national production at 71,000 tons, meaning that imports cover a third of total consumption. In the 1990s, European exports of subsidized meat partly supplanted those of the Sahelian countries in supplying the coastal countries of West Africa—including Togo—with beef, partially because of the overvaluation of the CFA franc.²³³ After the Sahelian countries mobilized a response on the impact of this dumping on their economies, the European Union revised its export subsidy policy and, with the devaluation of the CFA franc, imports of beef meat from outside Africa have declined since 1995. However, this decline was more than offset by extremely high growth in imports of poultry, especially of (i) by-products of meat-cutting (wing drumlets, rumps), which are of very little value on the European market, and (ii) whole frozen chickens from Latin America (Brazil), where production costs are extremely low. Competition from imported poultry products is quite intense, in particular for the modern branches focused on meat chicken, which is generally consumed in sauces and not cooked by grilling (in the latter case, domestically raised chicken is still preferred to imported chicken).

8.17 Total meat imports at present may thus be estimated at about 15,000 metric tons per year, to which fish imports (of 25,000 to 30,000 metric tons) should be added. In view of the paucity of maritime resources and the overfishing of lake resources, it is likely that fish imports will continue to increase. In contrast, with regard to meat production, given the country's pastureland resources and achievable productivity gains, it seems possible to increase production significantly and thereby displace some imports. The sector thus offers a significant source of growth.

Food security

8.18 All in all, Togo enjoys relative food security as regards plant production. The country is self-sufficient in the basic food products, namely cereals, root vegetables, and leguminous plants (except in the case of rice), and structural surpluses have even been achieved for root vegetables and leguminous plants. As noted above, the country has sizable shortfalls in livestock breeding and fisheries products. The assessment of food availability shows an average caloric ration of 2,284 kcal in 2000/01, which is roughly equivalent to the minimum recommended amount. This national average, however, masks sizable regional disparities and large seasonal fluctuations. A substantial portion of the population suffers from food insecurity and malnutrition.²³⁴ The situation is of greatest concern in rural areas, particularly in the north of Togo (dry savannah zone in the north, the mountainous area east of southern Atakora, and the pre-coastal and coastal dry zone). The cereal markets experience wide seasonal price swings,

²³³ The imports were of pieces known as the "fifth quarter," or, more generally, offal, by-products of the European meat-cutting industry.

²³⁴ According to the WFP, 47 percent of the population is currently suffering from food insecurity, while 23 percent of children under age 5 suffer from chronic malnutrition and 13 percent from severe malnutrition.

significantly less pronounced at harvest time and rebounding thereafter, reaching high levels during the fallow period and moving prices outside the reach of the poorest.

B. A Pro-Poor Agricultural Strategy

Objective

8.19 **The Government has adopted the strategic objective of reducing the number of poor by half by 2020.** Simulations have shown that the Government's goal would require overall annual growth of 6 percent (a 3.6 percent rate of per capita GDP growth) and agricultural growth of about 7 percent a year.²³⁵ The majority of the poor are members of agricultural households, and agricultural growth also has significant locomotive effects on the rural economy, making it possible to reduce poverty not only in rural areas but in urban areas as well. The Government's strategy for rapidly and sustainably relaunching steady growth in the agricultural sector will have to focus on a priority basis on products that: (i) owing to their weight in total GDPA, allow for a rapid increase in value added in the sector; (ii) take advantage of clear opportunities on the domestic, regional, or international market; and (iii) are produced by a large number of agricultural households and are of interest to the poorest regions of the country. Finally, the strategy should be predicated on a productive base that is as diversified as possible, as there are synergies between sectors (for example, between livestock breeding and corn).

Weight in GDPA

8.20 **In the short and medium terms, the weights of food crops (two-thirds of GDPA) and of livestock breeding (13 percent) make them key sectors.** The traditional cash crops—coffee, cocoa, and cotton—now represent only 5 percent of GDPA. There would have to be immense growth for their impact on the agricultural sector to be significant (20 percent a year would result in just 1 percent total growth). Their importance stems more from the fact that they are not constrained by the limits of the domestic market and thus can achieve higher growth rates. Moreover, the number of agricultural households concerned is significant (there were 250,000 cotton producers and 40,000 coffee-cocoa producers at one time), and in the case of cotton there are spillover effects on growth in other subsectors (food crops). Finally, the promotion of crops from diversification is important for the medium and long terms. While their relative share in total GDPA is still small (2 percent), they are generally products with high value added and their sustained growth will make it possible to attenuate the sector's vulnerability to market risks.

Impact on poverty

8.21 **Table 8.1 cross-tabulates Togo's regional poverty profile and the agricultural potential of each region.** It indicates that, for agricultural growth to fully participate in reducing poverty, the Government's agricultural development strategy should place particular emphasis on: (i) food crops and particularly corn, manioc, and rice; (ii) cotton, which potentially involves some 250,000 producers; (iii) coffee and cocoa; and (iv) livestock breeding, in particular of animals with a short production cycle (small ruminants and poultry) that are produced in a

²³⁵ *Togo: Croissance Agricole, Réduction de la Pauvreté et Sécurité Alimentaire: Performance Récente et Perspectives* [Togo: Agricultural Growth, Poverty Reduction, and Food Security: Recent Performance and Outlook]; RESSAKS, 2009.

substantial proportion of the country. At the same time, the private sector could develop any other crop it deems of interest and should be encouraged to do so.

Table 8.1: Agriculture and Poverty—the Regional Dimension

Regions	Population and poverty	Principal crops
Coastal/ maritime zone	- 21% of total population - High population density - Intensive poverty (70%)	Corn, manioc, cotton, palm oil, peri-urban livestock (poultry, swine), market gardening.
Western forest plateau	- 23% of total population (with the Eastern Plateau Region) - Middling density - Moderate poverty (50%)	Diversified agriculture: coffee, cocoa, palm oil in the southeast (Kpalimé), corn, manioc, yams, bottomland rice, fruits, small ruminants, traditional poultry.
Eastern plateau	- Low population density - Intensive poverty (60%)	Cotton, corn, cowpea, groundnuts, bottomland rice, beef cattle, small ruminants, traditional poultry.
Central	- 10% of total population - Low density - Intensive poverty (75%)	Cotton, corn, sorghum, millet, rice, manioc, yams, cowpea, groundnuts, soy, beef cattle, small ruminants, traditional poultry.
Savannah	- 13% of total population - High population density - Extremely widespread poverty (90%)	Cotton, sorghum, millet, rice, yams, groundnut, cowpea, beef cattle, small ruminants, traditional poultry

Market demand

8.22 National market: a necessary but insufficient base. Demand from the national market will focus in the medium term on foodstuffs and meat products. The resumption of strong economic growth will support an increase in household demand at a pace outstripping population growth itself (2.5 percent a year), especially for basic commodities such as meat, rice, and fresh products, for which the income elasticity is sizable. Moreover, for some foodstuff products there are other outlets, such as the demand for livestock feed and even, for manioc, the possibility of partially replacing imported wheat flour for making bread. Finally, with the import substitution possibility, the domestic market offers considerable growth prospects for the production of rice and meat, commodities for which Togo has sizable deficits and has significant possibilities. Overall, the demand for foodstuffs could increase at an annual pace of about 5 percent a year.

8.23 Regional market: promising but highly competitive. The population of the ECOWAS area should reach 382 million by 2020 and continuing urbanization will lead to a complete reversal of the rural and urban shares of the people, from 61/39 in 2000 to 37/63 in 2020.²³⁶ This explosion in the number of urban dwellers offers at one and the same time an extraordinary opportunity and a major challenge to agriculture in the region, and hence in Togo. To benefit fully from this, Togolese agriculture will have to be competitive (prices, quality) with imported products or products offered by the other countries of the sub-region. Within the ECOWAS space, it is estimated that internal agricultural trade represents less than 5 percent of the total agricultural exports of the countries in the economic zone. Increased intra-ECOWAS trade would represent a considerable growth source. Regional trade entails different dynamics: (i) the complementarity of agricultural production between countries (the case of cattle flows from the

²³⁶ West Africa Long-Term Perspective Study (WALTPS), OECD-Club du Sahel.

Sahel countries to coastal countries, but in the South to North direction); (ii) disparities in national trade policies at the borders with the international market, which results in re-export flows between “open” countries like Togo and “more protected” countries (Nigeria); (iii) disparities in monetary and exchange rate policies; and (iv) disparities in the purchasing power of the people. Generally speaking, trade entailing complementarities between production systems and consumption structures has a tendency to increase, whereas, under the impact of the regional integration dynamic, trade based on the opportunities created by disparities in the level of protection is tending to decline.

8.24 International market: largely open. The international prices of Togo’s main export products and substitution products (rice), which have been depressed since the early 2000s, have recently been moving upward significantly. They now provide significant incentives, which should remain the case in the medium term.

Table 8.2: Projected Changes in International Prices (current prices)

	'09	'10	'11	'12	'15	'20
Beverages						
Cocoa, ¢/kg	289	300	240	180	175	170
Coffee, arabica, ¢/kg	317	270	255	250	255	230
Coffee, robusta, ¢/kg	164	178	177	175	180	150
Fats						
Copra oil, \$/mt	725	750	750	800	850	715
Palm oil, \$/mt	683	660	670	700	780	715
Cereals						
Corn, \$/mt	166	166	167	168	174	175
Rice, Thailand, 5%, \$/mt	555	460	462	464	470	483
Other food						
Beef, US, ¢/kg	264	265	270	275	290	325
Chicken, ¢/kg	172	169	171	174	181	197
Other commodities						
Cotton, ¢/kg	138	137	135	138	145	140

8.25 The international prices of food products have risen spectacularly over the last two years. This sharp rise has certainly scaled back in 2010, but prices are expected to remain high in the medium term because of the economic recovery and, in particular, strong demand from the emerging economies (China and India).

8.26 The prices for Togo’s principal cash crops should also remain favorable in the medium term. The price of *cotton* should even continue to move upward.²³⁷ It is likely that *coffee* prices peaked in 2008. Production from Vietnam and Indonesia should continue to increase, exerting downward pressure on prices. The price of *cocoa* reached its highest point in over thirty years in 2009 and is expected to remain attractive in coming years. Indeed, stocks are extremely low after the substantial deficits registered in the last two years. In the longer term, prices should decline under the impact of increased production anticipated in the major producing countries (Côte

²³⁷ The result of decreased competition from synthetic fabrics owing to the higher price for their raw material (oil) and to the replacement of cotton crops by corn and other bio-fuel sources in the United States.

d'Ivoire, Ghana, Indonesia, and Brazil) where the use of fertilizer is becoming more widespread and governments have launched replanting programs using highly productive hybrid stock. Overall, the international market prospects for Togo's main export products are favorable in the short and medium terms, although mention must be made of the decisive influence of developments in the exchange rate between the CFA franc/euro and the U.S. dollar, which are difficult to predict.²³⁸

8.27 The sanitary (public health) and quality (private standards) regulations imposed by markets in the North will constitute important constraints on access to the international market. Sanitary and quality problems have yet to pose a serious issue for Togo's principal agricultural exports (cotton, coffee, cocoa), which are not subject to sanitary constraints but instead to marketing standards—prices, grades—or to environmental and social considerations largely governed by the private sector. However, phytosanitary and zoo-sanitary problems have already been posed much more seriously for some of its nontraditional exports (fisheries products) and will become more pressing in the medium term with the development and diversification of the country's exports and the strengthening of controls on the part of Togo's client countries, not only on the international market but on the regional market as well.

C. Principal products with promising growth potential

8.28 There are three categories of products with promising growth potential: (i) products intended for the national market that have high income elasticity (meat products, horticultural products) or can replace imports (or do both at the same time): rice, meat; (ii) nontraditional export products intended for the international or regional markets; and (iii) Togo's traditional exports: cotton, coffee, and cocoa.

Import substitution

Rice

8.29 Rice consumption is on the rise in Togo, even in rural areas. Annual per capita rice consumption increased from 12.0 kg in 1990 to 18 kg in 2005, a growth rate of over 3 percent a year. Given population growth at a 2.5 percent rate, consumption thus rose at an annual rate of about 6 percent, rising to 110,000 metric tons in 2005. Production, however, increased by only 1 percent a year. In 2005 it was estimated at 45,000 metric tons (75,000 metric tons of paddy), or only about 40 percent of national consumption. The shortfall is covered by rising imports, which increased from 12,000 metric tons in 1995 to over 80,000 metric tons in 2005. Per capita rice consumption in Togo is still low in comparison with the sub-regional average and is expected to increase in the medium term.²³⁹ There is certainly a risk that imports will intensify if domestic production fails to increase in a sustained manner.

²³⁸ Any weakness in the dollar penalizes the agricultural sector of the WAEMU countries (and hence Togo), whose currency is pegged to the euro at a fixed rate.

²³⁹ Rice consumption levels vary widely from one country to the next within the ECOWAS space, from 12 to 14 kg per person per year in Benin, to 30 kg for Nigeria, 60 kg in Côte d'Ivoire, and over 90 kg in Guinea.

8.30 **Rice is cultivated in all five regions of Togo**, and for the most part is rainfed (25 percent of the total) or raised in lowlands (65 percent), with a small share (10 percent) produced in the small number of irrigated perimeters in the country. The crop is not intensive and yields are low (1.0 mt/ha for rainfed, 2.0 mt/ha in lowlands, and 3.0-4.0 mt/ha under irrigation), which severely hampers the competitiveness of local production. At current border-equivalent prices, however, rice farming does still have appreciable margins.²⁴⁰ The retail price (Lomé) is currently CFAF 520/kg. While this price does penalize the consumer, it is a strong incentive for local production. The operating account for irrigated rice (Tové) indicates a net profit margin of CFAF 200,000/ha. Production does benefit from subsidies (inputs and perimeter management), but even without them the profit margin may be estimated at CFAF 100,000/ha. Moreover, the potential productivity gains are considerable for irrigated production (6 mt/ha), rainfed production (2 mt/ha) or bottomland production (3 to 4 mt/ha), and rice cultivation offers appreciable incentives to local producers even without subsidies. The main constraints, more than access to a market that is well served by a network of relatively competitive traders, are: (i) access to selected seeds, and (ii) access to credit for procuring inputs.

8.31 **Togo's National Institute for Agronomic Research (ITRA) has, with ADRAO, launched a program for the selection of rice varieties**—rainfed and irrigated—that are well adapted to conditions in the country, and there is already a sizable stock of highly productive varieties that are ready to be multiplied and disseminated to producers. The special “*Emergency Rice Initiative*” program experimented in 2008 with 10,000 rice growers, and will continue its efforts and gradually open up to a larger number of producers. The Government has also drawn up a program for tapping the potential for irrigation so as to increase productivity and reduce the impact of unpredictable climatic conditions. The extremely high cost of these investments (CFAF 7 to 10 million/ha) is such, however, that extremely high productivity is required to make them profitable, and this has not been achieved; yields and crop density have remained too low, and diversification toward crops with high value added (market gardening) has not occurred. Owing to the failure to keep recurrent costs under control and to ensure the accountability and participation of direct producers, these facilities are now in a state of advanced deterioration. These problems should be resolved before the Government embarks on continued costly improvements with questionable profitability. It would perhaps appear judicious to accord priority to the improvement of lowlands, which are less costly and more easily manageable by producers.

Meat

8.32 **Total consumption of meat equivalents (including fish) may be estimated at 110,000 metric tons** in 2005, and the consumption of meat proper at 55,000 metric tons (of which 15,000 metric tons were imported). Based on an estimated population of 6.2 million in 2005, per capita consumption of meat equivalent was thus 18 kg/person/year (including 9 kg of fish), which is below the minimum threshold of 22 kg advocated by the FAO and much further below (at only

²⁴⁰ The international market price of rice (25 percent broken) is currently US\$520/metric ton and should remain in the vicinity of US\$500/metric ton (25 percent broken) for the next several years. This corresponds to a c.i.f. price of about US\$550/mt, or CFAF 260,000/mt. Imports are subject to a tariff of 10 percent (Category 1 of the CET) and to VAT (18 percent), for an overall taxation of about 32 percent of the c.i.f. price, and a price clear of the customs barrier of about CFAF 340/kg at present.

43 percent) the recommended optimum of 42 kg. Generally speaking, demand is determined principally by five factors: (i) population growth; (ii) household income developments and the income elasticity of demand; (iii) price developments and the price elasticity of demand; (iv) changes in lifestyles and consumer preferences; and (v) the price of other sources of animal protein (other meats and fish). Based on consumption trends in similar countries (Cameroon), it may be estimated that the national demand for meat and offal will double by 2020 to reach approximately 112,000 metric tons, for a growth of 4.7 percent a year. If it is assumed that the demand for poultry will rise more rapidly than the average for meat and offal, as in the past, the demand for poultry meat could increase by 6 to 7 percent a year, more than doubling by 2020 to 38,000 metric tons.²⁴¹

8.33 It is uncertain whether the country can be competitive (trypanosomiasis, climate) with imports from major beef-producing countries in the sub-region or from other continents. In contrast, the small ruminant and poultry sector appears to be more promising. Togo has *sheep/goat* breeds that are well adapted to the environment and a feed balance that is, overall, favorable to rearing them. Livestock rearing is largely traditional and productivity extremely low because of the management method (low degree of integration with agriculture, free-range grazing for forage, no supplementary feeding, poor health conditions, and lack of use of vaccination). The potential for increasing herd production is quite large by means of simple steps involving health coverage (vaccination campaigns, access to veterinary care and products), advisory services (which are not currently available), and improved access to inputs and improved breeding stock.

Poultry

8.34 The strong growth in poultry production recorded in the past could continue, or even increase, in particular for traditional breeding and the modern rearing of laying hens and egg production, areas that are both profitable and competitive. In contrast, modern rearing of meat poultry has sharply less favorable profitability outlooks. Traditional poultry farming has extremely great potential for improvement without the need for sizable investments or supplementary feeding: improved sheltering and watering conditions and regular health monitoring (vaccination against Newcastle disease and external parasite treatment) would make it possible to lower the mortality rate considerably and greatly enhance productivity. One interesting alternative would be to promote a poultry rearing model with runs, constituting an intermediate stage between traditional and commercial poultry farming, where the animals have a poultry house and controlled run area, together with a small amount of supplementary feed. This system has the advantage of severely limiting losses through predation and makes it possible to use improved hybrid breeds without excessive feeding costs. Such a program should also include interventions aiming at: (i) improving the structuring and organization of small producers; (ii) facilitating access to investment (microcredit); (iii) encouraging intensification

²⁴¹ These estimates should be interpreted with caution owing to the uncertainties that could significantly modify the development of future demand for meat: (i) less satisfactory economic performance than forecast, which would dampen demand, principally in urban areas; (ii) changes in trade and customs policies, which would alter the development of demand; and (iii) health crises that would destabilize the global market and affect both the demand for and supply of products (slaughtering, drop in demand, including in regions not directly affected by the crisis, market closures).

and improving practices; and (iv) opening up access to markets and facilitating the channeling of production toward urban centers.

8.35 Modern aviculture currently accounts for less than 5 percent of national production of poultry meat, but about 75 percent of egg production. It is focused largely on the rearing of laying hens, with meat production being accessory through the sale of spent layers. The rearing of meat chickens has virtually disappeared, owing to the lack of competitiveness with imports from outside Africa. The sector is well structured, has an active professional organization (*Association Nationale des Producteurs Avicoles du Togo* ANPAT), and has attractive growth potential if a number of constraints are lifted. Indeed, current productivity levels could be improved significantly: the shelter structures and runs are still poorly adapted and breeding practices are not very rigorous (poor quality control of chicks, unbalanced feeding, poor growth control, poor health coverage of birds). In 2007, ANPAT drew up a strategy for improving the productivity and competitiveness of the sector:²⁴² access to medium-term credit for improving the production infrastructure; better organization for providing supplies of day-old chicks; improvement of feed mills in order to technically and economically optimize feed rations; improved health coverage; support for poultry breeding practices by strengthening the technical and commercial capacities of operators.²⁴³ These efforts should not be made one by one, but rather by seeking economies of scale (in particular in the area of providing feed inputs) through a strengthened structuring and functional organization of the sector (ANPAT): group purchase of inputs, input purchase/storage; sales organizations, price transparency, etc. Moreover, it is essential to facilitate access to credit on the part of operators. Finance and microfinance currently play no role in the sector. ANPAT, in collaboration with the authorities, should open up a dialogue with banking institutions order to give serious consideration to actions that would make it possible for banks to invest in commercial aviculture.

Non-traditional exports

8.36 It is difficult to draw up a comprehensive list of the nontraditional products that might be exported, especially at the sub-regional level. The criteria that determine their potential include: (i) the existence of promising demand; (ii) the existence of a comparative advantage that suggests competitiveness and satisfactory profitability for producers; and (iii) private investors with the necessary interest and skills. Among the potential candidates, mention may be made of:

- ***Products potentially exportable within the sub-region:*** cereals (corn), oleaginous plants (soy, cotton and palm oil), starchy foods (gari, tapioca, root vegetables, and yam flour), vegetables (okra, carrots), fruits (avocados).
- ***Products that could be exported to countries outside Africa*** (Europe, America, Japan): oleaginous plants (seed cotton, shea butter), starchy foods (gari, tapioca, curd grain), vegetables (dried okra, pimento, sweet peppers, peppers), fruits (avocados, pineapple,

²⁴² Study on the competitiveness of the poultry sector; ANPAT/European Union, April 2007.

²⁴³ Implementation of this recovery strategy should include a strong component devoted to the training and professionalization of producers. Indeed, the poultry farmers, the major actors in the sector, are poorly informed and trained about their area of activity; nearly half of owners have never received any vocational training in poultry farming.

organic dried fruits), fisheries products (crustaceans, mollusks), new products (spices, aromatic herbs, ornamental flowers and plants, medicinal herbs, essential oils, other organic products, fair trade products).

Corn

8.37 Corn is a rainfed crop in every region of the world and, to a lesser degree, is raised in lowlands in the off season. Yields are growing slowly and remain low (1.2 mt/ha). Official exports of corn are extremely low; it is likely, however, that the volume of informal trade is far from negligible, in particular toward Ghana and Burkina Faso. Demand on the regional market is expected to develop rapidly, in particular for livestock feed and industrial uses. The existence of already well established circuits is a strength that would make it possible for Togo to position itself as a regular exporter of corn to the sub-region. The Government has long endeavored to stabilize the prices of corn, which is a very sensitive product given its weight in household budgets, and to control (and sometimes prohibit) exports of corn. The various state entities created to this end have proven inefficient,²⁴⁴ as the resources deployed, while constituting a significant burden on the government budget, are negligible in comparison with total production, especially because of the porosity of the borders.

8.38 A different approach would be to promote the production of corn and make the country a structural exporter, to eliminate all obstacles to trade so as to promote the integration and efficiency of markets, and to support Togolese producers in the effort to penetrate the regional market. This will be more compatible with the open nature of the Togolese economy and the free trade principles of WAEMU and ECOWAS. Estimates indicate that, for the WAEMU countries alone, the shortfall in corn by 2020 could exceed 1.3 million metric tons. Two of the decisive factors will be the growth of the poultry industry and the expansion of industrial uses of corn, especially in the major consumer countries such as Nigeria. The fact that production is used more and more for purposes other than human consumption increases the possibilities for substitution of imported corn by locally produced corn. It is therefore important for national production to be competitive with the corn available on the world market. It is necessary to increase agricultural productivity and resolve the problems impeding the modernization of farming systems: (i) the low availability of improved seed and other inputs (fertilizers, phytosanitary products); and (ii) the lack of access to credit for purchasing inputs. In 2008, the Government launched a national program for the promotion of corn farming. One of the decisive factors in the future growth of corn production will be recovery in cotton production. Corn is generally raised in rotation with cotton and further benefits from the fertilizers made available to farmers for producing cotton, from appropriate technical advisory services, and from marketing (storage) mechanisms that are already well structured.

Manioc

8.39 Manioc is the major food crop in Togo. It is grown in all parts of the country and plays an essential role in the nutrition and food security of the population. Approximately 60 percent of production is processed into gari for subsequent use in the manufacture of cookies, donuts,

²⁴⁴ The Food Products Office (TOGOGRAIN), replaced by the Togo Food Security Office (OSAT) and recently by the Togolese National Food Security Agency (ANSAT).

bread, and into manioc root. The production of manioc appears to be highly profitable when it is processed into gari by the producer himself (net profit of about CFAF 400,000/ha). Processing into gari is generally carried out by women in the production areas before the product is removed toward urban areas. The introduction of the motorized grater has greatly reduced the arduousness of this process and reduced the labor requirements. A small proportion of production is exported to other countries in the sub-region (Nigeria, Gabon, Niger) and even to Europe (manioc root for cattle feed). Demand on the national and regional market for human consumption should increase at a pace slightly higher than the population growth rate (4 percent a year, assuming that household income rises by 2 percent a year). The use of manioc flour for making bread would offer a not insignificant additional outlet.²⁴⁵ However, the most promising opportunities are for industrial uses (starch, alcohol)²⁴⁶ and as cattle feed. The use of manioc for animal feed constitutes a potentially very important outlet (as in Asia or Europe). The demand for medical alcohol in the countries of West Africa has risen to 50,000 metric tons a year, although few production units are currently operational.²⁴⁷

8.40 One of the fundamental factors for the development of Togolese exports on the regional or international market will be its competitiveness.²⁴⁸ For the moment it is extremely low, both in terms of agricultural yields and the efficiency of processing, including in comparison with the competitiveness of Ghanaian and Nigerian products. Yields are low: 9.0 mt/ha on average, as compared with over 35 mt/ha possible with high-performance varieties, good growing practices, and the use of fertilizer. The priority would therefore be to: (i) multiply and distribute highly productive varieties and disseminate good growing practices, so as to double or triple agricultural yields; and (ii) to implement a cohesive development program for the sector, supporting the promotion of technical innovation and focused on the demand from the national and regional market, not only for human consumption but also for industrial uses (livestock feed, starch, alcohol, etc.).

Other crops

8.41 Oil palm. The market outlook is mediocre for industrial plantations, the performance of which is clearly less satisfactory than in Côte d'Ivoire, the major WAEMU area competitor, which has better rainfall. However, prospects are better for the non-industrial sector (supplied by natural palm trees), which targets a specific local market; however, the coverage of natural palms is decreasing owing to brush fires, land pressures, the development of food crops, and the production of alcohol.

8.42 Coconut. This product has a market (for consumption by mouth, about 30 percent, and the non-industrial production of oil, approximately 70 percent), which is both remunerative and growing at a pace approaching that of urban population growth (5 percent). The land areas under cultivation are growing steadily at about 2 percent a year, in particular in conjunction with food

²⁴⁵ It is possible to replace up to 20 percent of the wheat flour used in producing bread.

²⁴⁶ The demand for medical alcohol in the countries of West Africa amounts to 50,000 mt/year, although few production units are currently operational.

²⁴⁷ Only Ghana and Nigeria have introduced development strategies for high value products such as starch.

²⁴⁸ The international market, dominated by Thailand in particular, is even more competitive. A study on the export of manioc root from Benin to Europe has shown that yields would need to be increased by a factor of four in order to be competitive.

crops. This pace could be stepped up by introducing more productive plant stock that is resistant to yellow stunting disorder.

8.43 *Shea nut.* Shea is highly valued on the international market, providing a substitute for cocoa butter but also for its cosmetic qualities. Shea production (of about 21,000 metric tons) is still at the hand-gathering stage in Togo, limiting the possible growth rate. Some 15 percent of the kernels gathered are processed by NIOTO (the oilseed plant operating in Togo) and are exported in their entirety.

8.44 *Soybean.* Cultivating soybean is in its infancy in Togo. A portion of the amount produced is processed locally into mustard, flour, and oil. In recent years, an export activity targeting seed exports to Benin has developed.

8.45 *Fruits and vegetables.* The national market should offer interesting opportunities for market garden and fruit production. Demand appears to have grown rapidly in recent years, driven by urbanization and despite the economic crisis. A return to economic growth would trigger an increase in this demand, perhaps to as much as 10 to 15 percent a year. Togo has port and airport infrastructures that would permit the export of fresh products. However, the consumer markets of the developed countries are quite stringent with respect to quality. Exporting to these markets requires complete control of the logistical and quality problems, which are difficult to master. At the present time, only small amounts (of pineapples in particular) are exported to Europe. However, development of production for the national market will help Togolese producers overcome these constraints and prepare them for penetrating the markets of the North.

8.46 *Spices, aromatic plants, and flowers.* There are a number of export products of which production is still marginal but for which there are genuine development potentials, given the comparative advantages that Togo could take advantage of (good sunshine conditions, limited logistical constraints, and the existence of a free zone). Although they are extremely marginal for the moment, these crops offer interesting opportunities for diversification. In the past, spices and aromatic herbs were produced and exported after fast freezing by a company doing business in the free zone. Ornamental flowers and plants are produced by two companies, also operating in the free zone, and exported to Europe.

D. Traditional Export Sectors

Coffee-Cocoa Sector

8.47 **Coffee and cocoa are two agricultural exports that have had a profound impact on Togo's economy.** The zone favorable to their production is relatively limited (in the Plateau and Central regions), but their production has great social importance as it involves some 40,000 producers (10 percent of all Togolese farmers) and a population of 300,000 persons. The area covered by plantations reached 94,000 hectares in the early 1970s, but after a long period of decline the area under cultivation is now estimated at less than 46,000 hectares, of which 30,000 ha are in coffee plants and 16,000 ha in cocoa plants. Cocoa production thus dropped off from 15,000 metric tons in 1996/97 to 4,000 metric tons in 2005/06; during the same period, coffee output declined from 19,000 metric tons to 7,000 metric tons. The shrinkage of the area under

cultivation began before the liberalization of the sector in 1996 but appears to have accelerated after the Government stopped supporting the sector. The aging of the plant stock, the lack of maintenance or abandonment of plantations, plantation destruction by brush fires and recurrent diseases, facilitated by the reduction in phytosanitary treatments, have had a considerable impact on their productive potential. This said, however, the newly higher international market prices and the availability of new hybrid varieties that are swollen-shoot tolerant appear to have spurred a resurgence of interest among planters in raising cocoa.

8.48 The main constraints to replanting the cultivated area, whether with coffee or cocoa, are the advancing age of planters and the shortage of labor, the land tenure system (share-cropping is widespread and provides no incentive for intensification), the availability of plant stock, and planter training and organization. Nevertheless, revitalization of the coffee/cocoa sector does seem possible. Reasonable objectives for the sector could be stated as follows: (i) **Coffee:** establishment of 1,000 hectares of new plantations per year; increase in the grafted areas of aging robusta plantations by 1,000 hectares a year thanks to promotion efforts, more intensive maintenance, and moderate fertilization could result in total coffee production of about 20,000 metric tons by 2020 as compared to 10,000 metric tons in 2009 (7 percent annual growth over the period); (ii) **Cocoa:** annual planting/replanting of about 4,000 hectares with swollen shoot resistant hybrid cocoa, more systematic treatments, and limited fertilization would increase cocoa production from 8,000 metric tons in 2009 to 30,000 metric tons in 2020, or an annual increase of 15 percent.

Developments in the institutional framework

8.49 The general organization of the sector has long been characterized by an extremely high level of State involvement, until it was liberalized in 1996 as part of the structural reforms introduced to end state involvement in the productive sector. The 1996 liberalization had contrasting effects. Its downstream impact in the various sectors (marketing, packaging, exports) was positive overall. In particular, the liberalization made it possible to improve planter incomes considerably. At present, planters are receiving on average over 70 percent of the f.o.b. price, as compared to 55 percent prior to liberalization. The same does not hold true for the impact of liberalization on production. The institutions established following liberalization were inefficient in the absence of reliable technical extension services for coffee and cocoa and the absence of adequate resources. Consequently, over 60 percent of planters were cut off from any extension activities. The elimination of the production supports that planters systematically received from the State structures (plant stock, phytosanitary treatments, advisory services) and the drop in international market prices over a long period triggered a profound crisis in the coffee and cocoa sector.

8.50 Created in June 1996, the Coffee and Cocoa Sector Coordination Committee (CCFCC) plays a decisive role in the management of the liberalized sector. Its mission is to supervise marketing and carry out essentially administrative tasks: (i) annual authorization of coffee and cocoa exporters; (ii) determination and publication of benchmark prices in light of international prices; (iii) gathering statistics on production and exports; (iv) informing partners of the new measures and decisions taken on the international level; and (v) participation in the activities of the international coffee and cocoa organizations. Moving into the vacuum created by the discontinuation of State involvement, the CCFCC has taken steps to support production and

marketing activities ever since the initial years of its existence. CCFCC support has made it possible to: (i) replant over 3,000 hectares with cocoa; (ii) graft over 3,000 hectares of coffee plants; and (iii) maintain and rehabilitate rural access roads. The latter activity had to be discontinued owing to resource shortages at the CCFCC.²⁴⁹

The various activities throughout the value chain are as follows:

- ***Setting the producer price.*** A target producer price is established and published every two weeks by the CCFCC on the basis of world price trends. It thus closely tracks international price changes. This target price must not be lower than 70 percent of the f.o.b. price of the product. As a general rule, it has been found that the prices actually paid to producers are at least equal to, and generally higher than, the target price published by the CCFCC, indicating that there is a satisfactory degree of competition among buyers/exporters.
- ***Marketing.*** The products are exported by private exporters authorized by the CCFCC. At present there are some twenty authorized exporters, but five of them account for the marketing of about 80 percent of the total. Exporters are free to obtain coffee/cocoa supplies from all production regions. To date, the producers' Unions market about 30 percent of the coffee/cocoa but do not export the products directly. The exporters thus finance coffee/cocoa buyers and, less frequently, some Unions. The main problem relates to the lack of financing for the crop season from the national banking sector, which is extremely reluctant to get involved in sectors that it regards as being highly risky. The largest exporters obtain financing offshore from parent companies or European importers, but the smallest ones can function only using their own capital, which, in the absence of a warrant mechanism, considerably limits the volume of their activities. The Unions finance purchases of the product from their members through the Mutual Association of Coffee and Cocoa Producer Groups (MGPPC) before selling them to exporters.
- ***Advisory services to producers.*** Since the end of external financing, the vast majority of producers have received no technical support. The support activities carried out by the regional Groups and Unions, gathered together within the Federation of Unions of Coffee/Cocoa Producers of Togo (FUPROCAT), are focused largely on marketing. The MAEP recently decided to revitalize its technical support to the coffee/cocoa sector. To this end, it created a Coffee/Cocoa Technical Unit (UTCC) within ICAT and tasked it with implementing a support program for coffee/cocoa producers. It remains necessary now to define UTCC modes of action that will make it possible simultaneously to: (i) be effective and attentive to planters' needs; and (ii) ensure its sustainable financing. One option would be for the UTCC to provide its technical support under annual or multiyear contracts entered into with FUPROCAT and/or the regional Unions, with the work programs being defined by the latter and with financing provided by ICAT (wages) and FUPROCAT/Unions (operating costs of activities other than direct wages).

²⁴⁹ CCFCC resources come from fees collected when products are exported. From 1997 to 2007, the cost of the actions in support of the sector came to CFAF 485 million, or roughly 50 percent of the total royalties collected, with the balance being used for the operations of the CCFCC secretariat and for contributions to the international coffee and cocoa organizations.

- ***Plant stock and plantation rehabilitation.*** At present, ITRA/CRAF manages the only Coffee Cutting Center (CBC) and the only cocoa seed propagation field still in operation in Togo. It recently developed hybrid cocoa varieties that are swollen-shoot tolerant, which constitutes a major step forward. Demand from planters appears to be high: CRAF sold 30,000 pods of tolerant hybrids in 2007/08, enough to establish 700 hectares of plantings, and 60,000 pods (1,400 hectares) in 2008/09. FUPROCAT estimates demand for the new hybrid varieties from its members alone (some one-third of planters) to be at least 2,000 to 3,000 hectares a year. There are also individual planters who obtain plant stock from Ghana. It thus seems reasonable that total demand may approach 4,000 to 5,000 hectares a year of new plantations. This would suggest that ITRA/CRAF should expand the capacity of its seed propagation field. To ensure that its activities are sustainable, it is recommended that ITRA/CRAF sell the pods at cost (CFAF 150). Finally, it would be important to support the planting of new areas with robusta coffee and the regrafting of aging plantations, but the constraints are significant. In view of the shortage of family labor, many planters have to turn to paid labor, a financial burden that few of them are able to sustain in the absence of an appropriate credit mechanism. It would therefore be advisable to explore the timeliness of launching a regrafting aid program similar to the one successfully implemented in Ghana, just next door (subsidy of about CFAF 80,000/ha).
- ***Inputs.*** The quantity of inputs used on plantations is quite small.²⁵⁰ Neither the suppliers of inputs nor the banks extend production credit to producers or to Professional Agricultural Organizations (OPAs). The Mutual Association of Coffee and Cocoa Producer Groups (MGPCC) extends credit to OPAs for marketing coffee and cocoa but only to a limited extent for obtaining agricultural inputs. Some regional Unions have initiated fertilizer distribution programs for their members, programs financed on the basis of their marketing margin. The lack of credit severely limits the possibilities for the necessary crop treatments, particularly in the case of cocoa. Parasite attacks are the major obstacle to increasing production. Furthermore, treatment is not effective if it is limited to only a few individual plantations; it must be generalized in order to eradicate the sources of recontamination, namely the neighboring plantations. In the short term the emphasis must be redirected to collective treatments before moving on to individual initiatives. Collective phytosanitary treatment campaigns will probably have to be conducted by specialized enterprises financed either by the CCFCC or by public funds.

8.51 **Major pillars of a sector development program.** The Togolese Government recently initiated the preparation of an emergency recovery program for the coffee/cocoa sector. The details of this program will be established after a study ongoing in 2010 with financing from the World Bank. However, it is expected to revolve around the four following components:

- ***Rehabilitation of aging plantations and increasing the area under cultivation with robusta and hybrid cocoa varieties.*** This involves combating diseases and parasites, making improved plant stock available to planters, and facilitating access to fertilizers and phytosanitary products.

²⁵⁰ Potentially, the market for coffee fertilizer may be estimated at 8,000 metric tons (40,000 ha x 200 kg).

- ***Introduction of an efficient support arrangement*** to assist with replanting/grafting and with expanding areas under cultivation, as well as improving plantation maintenance and cultivation practices, including the improvement of quality. This involves: (i) operationalization of the recently created Coffee/Cocoa Technical Unit; (ii) support for research programs; and (iii) promotion of the establishment of a private network for the distribution of inputs.
- ***Strengthening of the institutional framework*** by introducing: (i) a structure to define and ensure compliance with the regulatory framework for the sector and to follow up on the sector's development policy; (ii) an interprofessional body responsible for coordinating the actions of sector stakeholders and managing common assets; and (iii) the strengthening of grassroots cooperatives, regional Unions, and FUPROCAT.
- ***Strengthening of infrastructure***, through: (i) the construction and rehabilitation of rural access roads; and (ii) support for the establishment of storage infrastructure and equipment.

8.52 **One of the essential components of the recovery program will be to strengthen the structuring of the sector.** To this end, it would now be appropriate formally to convert the CCFCC into a genuine interprofessional organization managed by the professionals making it up, and responsible for: (i) discussion among the stakeholders in the sector; (ii) representing these stakeholders' interests vis-à-vis the State; and (iii) management of the shared assets of the sector in the context of clearly accepted rules of the game. The State should be kept out of the interprofessional group; it should complete its refocusing on its public service missions and withdraw from the operational management of the sector. By contrast, all the operators involved in the sectors and who are not represented in the CCFCC (agricultural research, ACDR, buyers, suppliers of inputs, hullers) should become involved (at a minimum with observer status). The State should then ensure: (i) maintenance of equilibrium among the various types of operators; (ii) compliance with regulations; and (iii) financial support for the development efforts of the sector. A framework agreement between the State and the interprofessional group should precisely define the roles of the two partners as well as their respective responsibilities, particularly in financial respects. Ultimately, the interprofessional group should be able to finance these activities, largely from the royalties collected from the sector. At present, however, production volumes are low and the sector's endogenous financing capacities are therefore reduced, at least in the short term. Some of the priority actions for boosting production should therefore receive financial support from the State, either because of their "public good" nature (especially quality control, agricultural research, and health treatments in the general interest) or, in the short term, because of the sector's currently low financing capacity.

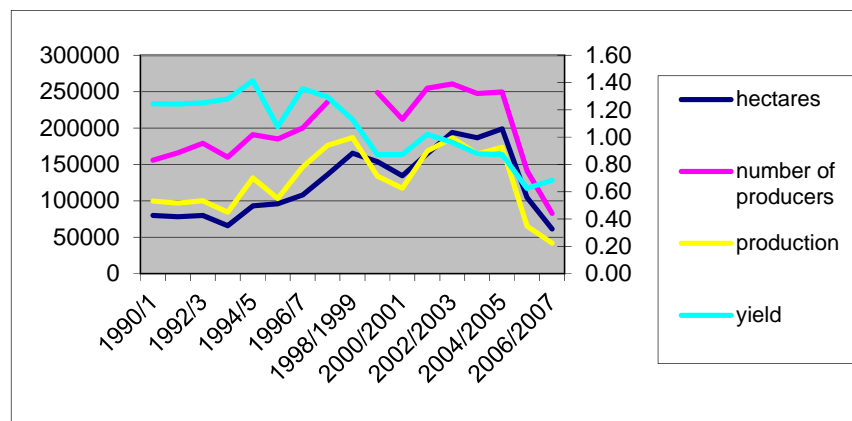
Cotton Sector

8.53 **Cotton plays a primary role in the rural economy of Togo and in poverty reduction;** with 250,000 producers at the start of the decade, it contributed to providing income to at least 1.5 million rural residents, or 50 percent of the rural population. In addition, it provided seasonal employment to some 100,000 additional workers. This means that it distributed significant monetary flows to the rural environment, thereby contributing to the monetarization of the rural economy as a whole. Cotton is also a crop that drives foodstuff production, thanks to the indirect impact of the fertilizer used. Traditionally, cotton has accounted for over 60 percent of agricultural exports and 17 to 20 percent of the country's export proceeds.

8.54 **There is no alternative to cotton, the only cash crop that is widely produced throughout Togo.** For producers it has sure markets, predictable income flows, and access to agricultural inputs. Cereals, which are regarded as the natural alternative in most zones, have a limited market, and because of unpredictable conditions for rainfed agriculture, are subject to sharp swings in production and price levels, which detract considerably from producer interest once self-consumption needs have been met. Consequently, cotton must be regarded as a strategic activity for rural development and poverty reduction in Togo, all of which stresses the urgency of revitalizing growth in this area.

8.55 **Cotton production grew on a sustained basis until the early 2000s.** It tripled in 14 years, from 63,000 metric tons of seed cotton in 1985 to 188,000 metric tons in 1999, before dropping off sharply in 2004. Production of 65,000 metric tons was recorded in 2005/06, and only 30,000 metric tons were produced in 2009/10. The absence of seed cotton payments to producers in crop years 2003/04 and 2004/05 was a damper on their confidence and led to switching to food crops. Moreover, producers' lack of access to inputs (fertilizers, insecticides) resulted in a sharp drop in yields (from 1,300 kg/ha to 650 kg/ha). To a great extent, the drop-off in production is the direct consequence of deterioration in the internal management of SOTOCO.

Chart 8.2: Changes in the Cotton Sector



Short- and medium-term outlook

8.56 **However, agro-climatic conditions in Togo are favorable for raising cotton and there is nothing standing in the way of a return to cultivating the same areas** as earlier in the decade within a few years, and even exceeding them. The development of draft animal assisted crop rearing, reducing the labor constraint, would make it possible to increase cotton cultivation in areas where land tenure pressures are still limited. Current yields are substantially below those achieved in the mid-1990s, leaving ample scope for improving productivity. The outlook on the international market has also improved, and it would appear that the fiber price should hold at about US\$1.70/kg, or CFAF 750/kg. This should make it possible to offer a seed cotton price of about CFAF 200/kg,²⁵¹ which should be attractive to producers even with the current high cost of inputs. Given that cotton is an annual crop, the rebound in production could be quite rapid. In the

²⁵¹ US\$1.70/kg; US\$1.00=CFAF 450; Producer price equal to 60 percent of f.o.b. price. Ginning coefficient of 43 percent.

context of a rehabilitated sector, total production could rise to 200,000 metric tons by 2015/16, or a growth rate of over 20 percent a year.

8.57 In addition, because it is not landlocked, Togo has an advantage over Burkina Faso and Mali in terms of transport costs. The production potential is certainly not unlimited, however, given the land tenure pressures in the North and competition with other crops in the South, along with higher production costs in the South than in Sahelian regions owing to greater pressures from parasites and greater labor time requirements. However, these extra costs are largely offset by the competitive advantage the zone derives from its proximity to the port.²⁵²

8.58 The Government has recently initiated restructuring of the sector. The option selected is to: (i) maintain a sector integrated around a single operator, responsible for providing inputs for and marketing cotton and seed (this option was selected as the only one feasible at this stage in order to permit producer access to input credit and because the current size of the sector does not leave room for multiple operators to coexist profitably); (ii) dissolve SOTOCO and create a new cotton company, first in the form of a mixed capital company bringing together the State (60 percent) and the Federation of Cotton Producers (FNGPC, 40 percent) but with opening the capital within three years to a private reference partner with a majority interest in the capital; (iii) restructure the new company financially and implement a social plan enabling it to rescale itself and enhance the professionalism of its staff; and (iv) introduce an institutional and regulatory framework that is clear and participatory: devise and adopt a new mechanism for setting the price of seed cotton; create an interprofessional group, and draw up an interprofessional agreement establishing the roles of the various stakeholders as well as the rules of the game, and finally, prepare a framework for mutual obligations between the State and the private reference operator.

8.59 The restructuring of the sector has largely been initiated. SOTOCO was liquidated in early 2009 and the New Cotton Company of Togo (NSCT) established, with its capital (CFAF 2 billion) fully paid by the State and the FNGPC.²⁵³ Its financial position is thus rehabilitated. The social plan and the lay-offs of staff not picked up in the new company took place in September 2009. The seed cotton price setting mechanism was devised and approved by the sector stakeholders in February 2009, setting the farmgate price at the equivalent of 60 percent of the f.o.b. price of cotton (making it possible to share market risks and obligating the NSCT to function with a gross margin determined by the market). Current prices and those projected for the medium term would suggest that the NSCT could well operate profitably with such a margin.²⁵⁴ Arrears to producers have been paid off in their entirety.

8.60 New institutional framework. In the new institutional framework, the advisory function will once again be provided by ICAT in areas decided in collaboration with the interprofessional

²⁵² This permits, all other things being equal, savings in transport costs of about CFAF 45/kg of fiber, or CFAF 19/kg of seed cotton.

²⁵³ For the latter, thanks to a subsidy with Stabex financing, equal to the funds provided by the Federation.

²⁵⁴ The NSCT would collect 40 percent of an f.o.b. price of about CFAF 750/kg, or CFAF 300/kg. During crop year 2004/05 (the last season for which SOTOCO plants worked at full capacity), SOTOCO's costs (excluding the purchase of seed cotton) came to roughly CFAF 310/kg. Eliminating the excess costs paid against operating costs in recent years could reduce the industrial costs of the NSCT to about CFAF 250/kg. This would make the NSCT competitive at the forecast medium-term price on the international market.

body (“Interprofession”). Similarly, supporting research will be carried out by ITRA on the basis of priorities defined by the Interprofession. The services sought from ICAT and ITRA will, in the short term, be financed by the State, but could ultimately be taken over in part or in their entirety by the sector itself. Moreover, ITRA will be responsible for providing basic seed, depending on the forecast needs for the crop season, with seed multiplication being the responsibility of the cotton company. The varietal range and the selection of varieties to be disseminated will be decided by the Interprofession on the proposal of the cotton company. Finally, the maintenance of rural access roads will be financed by the State.

8.61 For this recovery to be effective, the NSCT will have to be able to restore confidence on the part of the producers and convince them, through an appropriate communication policy, that it is not a simple continuation of the former SOTOCO, which is largely in disrepute, but rather a new enterprise working in the common interest of the partners in the sector to achieve sustainable recovery in cotton production in Togo. It will also be necessary for the NSCT to attract a sound private partner in the company’s capital. This will require that: (i) the business climate, and the social and political climate as well, be conducive to that end; and (ii) the company demonstrate that it has been able to move beyond the culture of a State company (the status of the former SOTOCO) to that of a commercial enterprise built on performance and efficiency in the cost area, and can clearly operate as a private company, free of all interference from the public authorities. Finally, it will be necessary to build the capacities of the small farmer organizations that have suffered severely during the recent crisis years. A support project with Stabex financing was approved in 2008, but there were delays in its launch and it comes to an end in late 2010. It is essential that it be followed by other support as soon as possible.

8.62 Strengthening producer organizations. There are about 2,700 Cotton Producer Groups (GPCs) at the village level, grouped into 27 Prefectural Unions, five Regional Unions, and one National Federation, the FNGPC. An assessment in 2007 identified many weaknesses, which can only have become more severe since that time.

- The GPCs are suffering from a reduction in the support they received from SOTOCO and/or ICAT. Most of them are no longer able to perform their appropriate tasks in the management of cotton growing seasons owing to the lack of competent leadership and internal cohesion. Directors were often not renewed, depriving them of legitimacy.
- Some of them have, for several years, not received the rebates (CFAF 5/kg of seed cotton) corresponding to the cost of organizing harvest markets, which has put them in an extremely difficult financial position.
- The easygoing attitude of the groups (and the weakness of the control carried out by SOTOCO) in granting input credit to their members was at the origin of an accumulation of group debts. The impossibility of repaying them was one cause behind the abandonment of cotton farming by many producers, and threatens the very cohesion of the GPCs because of the joint surety obligating good producers to repay for poor payers.
- Owing to the considerable reduction in the number of cotton growers, it is plausible that genuine cotton producers are no longer in a majority in most of the groups, which then are no longer representative of the interests of the sector.

8.63 The Prefectural and Regional Unions and the National Federation are also suffering from a lack of resources, which so far has paralyzed them. Unlike the producer organizations in

neighboring countries, they have scarcely received any support or training in recent years. In particular, they have been unable to conduct the information campaigns that would have been necessary to ensure that the ongoing reforms are understood and restore confidence to producers in the sector. Evidently, the Federation, which is an outgrowth of the Prefectural Unions, is also no longer able to properly play its role within the NSCT. A restructuring and capacity-building effort for the GPCs, their unions, and the Federation, is therefore necessary.

8.64 Creation of the Inter-profession and regulatory framework. In view of the monopoly granted to the new cotton company, it is advisable to strengthen the role of producers in management of the sector so as to ensure equitable sharing of risks and benefits. Management of the sector will be entrusted to an inter-professional association bringing together the cotton company and the Producers Federation. The Inter-profession should in particular be responsible for managing matters of common interest, such as the setting of producer prices, the policy on providing inputs, the definition of research programs, advisory services to producers, and quality control. In order for producer organizations to fully play their role in co-management through the Inter-profession, it would be advisable to: (i) ensure that their decision-making bodies are representative; and (ii) build their technical and management capacities. In the longer term, the producer associations should be capable of gradually taking over the functions of providing advisory services to producers (advice on the organization and management of the grassroots groups) and of providing inputs, essential functions that the producers themselves should control in order to no longer depend on the monopoly power exercised by the cotton company. Finally, before opening the NSCT to a private operator (and as a core component of the bidding materials), a framework for mutual obligations between the State and the future reference operator should be defined, corresponding to a veritable concession contract.

8.65 Conclusion and possible growth. Rehabilitation of the cotton sector should constitute the top priority for a poverty reduction strategy in Togo. The sector remains the principal source - potentially, if not in actual fact - of incomes for small farmers in the poorest regions. It is still in crisis in 2010, but could return to and even exceed its historical production record over the next five years if the strategy for sector recovery is implemented effectively and without delay. Table 8.3 shows the possible path for cotton production, with an annual growth rate of 35 percent between 2010 and 2015.

Table 8.3: Possible Growth Path for the Cotton Sector

	2010-11	2011-12	2015-16	Potential
Area cultivated (ha)	60,000	100,000	200,000	250,000
Yield (kg/ha)	700	900	1,200	1,400
Production (mt)	42,000	90,000	240,000	350,000
Fiber (mt)	22,000	39,000	103,000	150,000

E. Principal cross-cutting constraints

Natural resources

8.66 Climatic conditions in Togo are favorable overall to the development of a broad range of agricultural crops, and the natural resources (water, soil, vegetation) have considerable

potential for development. In order for this potential to be tapped effectively, a number of steps need to be taken, in particular in the area of land management and the control of water resources.

Land resources

8.67 With its 3.4 million hectares of arable land (or 60 percent of its total land area), Togo still has sufficient land resources: only 41 percent of the land suitable for agriculture is actually under cultivation. Some zones with strong potential are under-exploited as they are still geographically isolated. There is, however, growing land pressure in zones where rural activity is intense. This phenomenon aggravates soil susceptibility to erosion and runoff, and leads to a downward trend in soil fertility to the point where it is becoming a source of concern in some zones that calls for immediate action. It would be necessary to implement an action plan on the integrated management of soil fertility that involves all parties concerned.

8.68 Conservation of the country's natural base and the modernization of agriculture involve a suitable agricultural land reform so as to guarantee secure land tenure to farmers. Indeed, insecure access to land is a significant constraint on investment (perennial crops, land improvements, maintenance of soil fertility). At present, there is a dual land tenure system, with traditional systems overlapping with the legal ("modern") land tenure system introduced by the *Ordinance of February 6, 1974* reforming the agricultural land system, which was aimed at promoting the harmonious economic development of the country by regulating agricultural land regimes and the conditions for transferring property rights. It focused in particular on the following aspects: (i) the classification of land and its intended use; and (ii) the introduction of rural leases and the organization of indirect establishment of rights. Under the new land tenure law, all land should belong to clearly identified owners (individuals, communities, the State). A number of problem areas—noninvolvement of customary authorities in the drafting of the legal texts and the excessive degree of incompatibility of the new law with the customary rules in force, as well as application of the law that is often poorly explained or used arbitrarily—have sometimes impeded the effective application of the reform. At present, it is still customary law that continues broadly to govern land access in Togo. However, under the combined effects of population pressure and the pressure of developing commercial agriculture, customary land tenure practices are evolving rapidly toward the development of individual approaches, which, largely unstructured and often contested, make a significant share of farmers directly or indirectly insecure, in particular the most vulnerable population groups.

8.69 In response to the increase in land insecurity, an inter-ministerial focus group was established and made responsible for formulating land tenure policy on the basis of the following general principles: (i) the recognition and securing of rights originating under customary law, allowing them gradually to evolve toward greater individualization while protecting the rights of vulnerable groups; (ii) the establishment of land tenure markets (for ownership or leasing) that are transparent and efficient; and (iii) greater decentralization and participation of local people and customary institutions in the area of land tenure management and conflict management. Several initiatives have been launched aimed at capacity-building of local populations, taking a global approach to land management, ensuring streamlined, consensual, and sustainable management of natural resources. The evaluation of these pilot activities should make it possible to revise land tenure legislation and strengthen the administrations responsible for land tenure in the interest of implementing the new legislation. This program should be carried out as soon as

possible. The appropriateness of effectively reconstituting the national land holdings should be contemplated only with the active involvement of the customary authorities.

Control of water supply

8.70 Controlling the water supply is an essential factor in the development of intensive agriculture with high value added. In the past, the Government's efforts have focused on a priority basis on the construction of large irrigation perimeters. At present, there are some 2,300 hectares of improved perimeters, of which 1,200 hectares are effectively irrigated. Despite the high level of financing extended, the overall results are disappointing. The rehabilitation of the large irrigated perimeters and the development of new ones should not be envisaged until a participatory assessment and environmental impact evaluation of those improved areas have been conducted. The intervention strategy should include the prior clarification of the land tenure status of the land in question, enhancing the accountability of grassroots communities for all decisions related to site placement and the type of improvement to be made, and the effective involvement of farmers in the management, financing, and maintenance of works. Recently, more sustained attention has been paid to the development of lowland potentials, as these are largely under-exploited, less costly to improve, and easier to upgrade. The experience of other countries, including those in the sub-region, shows that it is possible to improve these lowlands or develop small water catchments at a reduced cost and then use these spaces to raise a great variety of crops, including rice and market garden products. The development of small village-level improved spaces (6 to 10 hectares in size) seems to be an approach to favor, with an accent on grassroots organizations and small farmer support.

Access to markets

8.71 Transport infrastructure. Togo benefits from its geographically favorable location, as it is situated in the heart of the WAEMU market near promising markets. It has a seacoast with a deepwater port and two airports (in Lomé and Niamtougou in the Kara region) with international service. The Lomé airport has an air terminal that includes, among other things, freight hangars and refrigerated warehouses. The road network has, in theory, one of the highest densities in the West African sub-region. However, because of the economic crisis, road maintenance, especially that of the rural access roads, has fallen into neglect for many years. The scant resources of the Road Maintenance Fund have been devoted on a priority basis to the national highways and urban streets. Only about 200 to 300 km of rural access roads (5 percent of the network) are rehabilitated each year. SOTOCO and the SRCC, which in the 1980s and 1990s were responsible for opening and maintaining rural access roads in their intervention zones, have also ceased such activities. Many service roads are not passable all year long, and some zones with great agricultural potential are still isolated.²⁵⁵

8.72 The rehabilitation and maintenance of rural access roads is one of the high priority investments for agricultural recovery. Since 2007, STABEX financing has been making it possible to finance the maintenance of the rural access roads in zones with high cotton and coffee/cocoa production. It would be advisable to identify the resources necessary for carrying out a priority program focused on isolated populations and zones with under-exploited

²⁵⁵ For example, in the zones of Mandouri, Plaine du Mo, Adélé, Est Mono, and Est Sotouboua.

development potential. A recent study has made it possible to identify some 1,000 km in priority rural access roads that should be the subject of an emergency program (at a cost of about CFAF 22.0 billion). The Ministry of Public Works estimates that about CFAF 300 billion is required for the rehabilitation and maintenance of earthen roads and rural access roads.

8.73 Information on markets. There are two public market information systems (SIMs) which gather and analyze agricultural statistics and disseminate information on supply and demand (largely for food crops), but these systems—which have excessively long dissemination lags and do not cover inputs or technologies, regional markets, sanitary or quality standards, or the provisions of international trade agreements—do not properly match the requirements of private operators. However, there are more operational information systems under development, either commercial ones like the “TRADENET” regional internet platform (which in real time places buyers and sellers of agricultural products in touch with one another), or interprofessional ones such as the information system on coffee and cocoa managed by the Coffee-Cocoa Sector Coordination Committee (CCFCC), which provides producers with target prices based on international prices in order to facilitate negotiations in the field. These private systems have highly operational objectives, respond efficiently to real needs, and are becoming more and more valuable to operators.

8.74 The real time dissemination of market information is limited by the poor coverage of the national territory by the telecommunications networks. However, telephone and internet access is now growing rapidly, in particular thanks to the expansion of cell phone usage (the number of subscribers increased from 170,000 in 2002 to 710,000 in 2006). Internet access has expanded in tandem (320,000 subscribers in 2006). Despite the encouraging development of information and communications technologies, major efforts remain to be made to improve information access in all regions and reduce its cost. The State should speed up investment, especially in mobile telephony and internet access, and promote the development of agricultural SIMs providing real time access by operators to the information they need in order to take advantage of market opportunities and enhance their productivity and competitiveness. Finally, the State should encourage the emergence of “electronic exchanges” for agricultural products, along the lines of what is currently being done in the majority of Southern African countries.

Productivity and support services

8.75 Agricultural productivity is generally low. Only 25 percent of exports had extension services in the early 2000s, especially cotton operations, and the share of farmers receiving them now is probably much lower. The rate of use of inputs is negligible for food crops: less than 3 percent of food crop surfaces use selected seeds and less than 16 percent of the areas under cultivation receive fertilizer. The land is worked basically by hand (only 10 percent of agricultural land is plowed using draft livestock, and 1 percent using motorized equipment). Cotton yields recently dropped by almost half since the 1990s, while coffee and cocoa yields are about half those obtained in Ghana and Côte d’Ivoire. This said, low current productivity constitutes a source of sizable potential growth. A significant improvement in current yields is thus possible, as shown in Table 8.4.

Table 8.4: Possible Productivity Gains for Main Crops (kg/ha)

	Cotton	Cocoa	Coffee	Corn	Manioc	Paddy
Current yields	650	250	200	1,200	8,618	2,745
Possible yields (small farmer environment)	1,100	800	500	2,000	11,000	3,500
Possible improvement	69%	220%	150%	67%	28%	28%

8.76 **For all crops, current yields are well below the yields obtained in the small-farmer environment in neighboring countries** with the same agro-climatic conditions, and even farther below potential yields if the proper technical paths are followed correctly. There have already been productivity gains for corn in recent years thanks to the spillover effects of fertilizing cotton production, and there is a sizable potential for further improvement through the generalized use of improved seeds and fertilizer, as well as improvement in farming practices. For paddy, improved performance will entail the use of high performance varieties (such as New Rice for Africa—NERICA) and fertilizer, improved farming practices (such as replanting), and simple techniques for water retention and control in lowlands. For manioc, improvements would stem basically from the use of improved seeds and from reduction in post-harvest losses, thanks to the dissemination of improved preservation and processing techniques. For all crops, it is critical to disseminate the available techniques for restoring or maintaining soil fertility. The modernization of Togolese agriculture of necessity involves providing the rural world with high-quality services with respect to the availability of high performance seeds, plants, and animal stock, as well as advisory, research and development, phytosanitary supervision and animal health services along with training and support for small farmer organizations. The various assessments made have indicated that all these services are currently ineffective.

8.77 **One essential component of agricultural intensification and competitiveness is making improved genetic material available to producers.** It is estimated that only 10 to 20 percent of the land under cultivation, depending on the crop, is currently receiving improved seeds (only 5 percent in the case of corn). The reasons adduced by farmers for this non-use are the distance from points of sale, the purchase price, the absence of crop credit, and especially the doubtful quality of the seed. Currently Togo has no national policy, legislation, or regulatory framework (approval structure) with respect to seed. In the absence of regulatory texts and inspections by public agencies, the sector is truly in disorder and the quality of the seeds produced is very often poor. Seed production was opened up to private operators in 1985; the public sector (ITRA) produces pre-base and base seed, while the private sector (NGOs, OPAs, and individuals) handles the multiplication of certified seeds. However, the Sotouboua seed farm is no longer providing quality services, this due, among other reasons, to its rather bureaucratic management resulting from a lack of administrative and financial autonomy. In the absence of seed legislation, most of the seed operators (producers and distributors) are operating without any control from technical agencies. The quality of the seeds produced is often highly doubtful. It is urgent to reorganize the national seed sector in order to ensure the production of high quality plant material, restore confidence on the part of farmers, and encourage rapid growth in the use of selected seeds.

8.78 Advisory services and research. The Ministry of Agriculture, Livestock, and Fisheries (MAEP), ITRA, and ICAT were restructured in 1997, but the economic crisis and the discontinuation of external support made it impossible to put this institutional restructuring in place. Capacity-building at the MAEP needs to be continued, especially in the areas of training, the adoption and dissemination of legislative texts, monitoring and evaluation, and the replacement of equipment. ICAT and ITRA, which are responsible for advisory services and agricultural and livestock research, were until 2008 mixed capital companies with 40 percent of their equity held by the State and 60 percent by partners in the sector. Their activities were to be financed in the same proportions with decreasing external bridge financing. As they were unable to benefit from the initially projected levels of support, the intervention capacities of these structures are now severely reduced. Since 2009, ICAT and ITRA have again become public establishments, and it is to be feared that the incentives for close involvement of producers in defining priorities and assessing results have been severely diminished.

8.79 In the livestock farming area, much of ITRA's research activities are devoted to modern poultry farming. The research programs on beef and small ruminants have been scaled back severely, while the advisory activities of ICAT are focused exclusively on zootechnics and hygiene. As a general rule, the "polyvalent" extension concept adopted by ICAT appears not to be such as to enable it to provide the focused extension services that livestock farmers desire. In addition, 42 of Togo's private veterinarians are concentrated in the Maritime Region (poultry breeding), representing 50 percent of the total. However, these veterinarians do not currently benefit from a "health mandate" that would enable them to participate in health actions in the public interest (vaccinations, surveillance of epidemics, veterinary inspections). The private sector should increasingly provide efforts on the ground as the public sector's disengagement continues. The participation of private veterinarians and phyto-pathologists in health activities in the public interest should be clearly delineated in a health mandate, specifying the role of private operators while ensuring compensation for services rendered.

8.80 The export crop sector has recently experienced divergent institutional changes. The New Cotton Company of Togo (NSCT) recently regained from ICAT the function of providing advisory support to cotton farmers. Similarly, technical support to coffee/cocoa planters, previously entrusted to a private associative structure, has quite recently been transferred to a Coffee/Cocoa Technical Unit newly created within ICAT. However, both the NSCT and the Technical Unit will need significant and sustained financing in order to successfully carry out their producer support mission. If the ongoing difficulties of the NSCT are not resolved rapidly, and the chronic financing problems of ICAT and ITRA are not satisfactorily addressed, it is to be feared that these institutional changes may not make it possible to improve producer access to services. Finally, these changes, which are apparently moving in opposite directions (one is decentralizing responsibility for advisory services to a company being privatized, and the other is recentralizing activities within a public institution), appear more to be opportunistic responses than the outgrowth of a long-term vision for changing the agricultural support systems while closely involving users in the definition of priorities and in the financing and oversight of activities.

8.81 There is an urgent need to reaffirm and implement a national strategy for the provision of agricultural services built around very clear guiding principles: (i) involvement of service recipients with the definition, financing, and assessment of services; (ii) private sector

participation in providing services; and (iii) decoupling of service financing from the entities responsible for providing those services, who will instead be involved as compensated service providers. By way of example, the new Coffee/Cocoa Technical Unit of ICAT should provide its services under contracts that include performance criteria with the CCFCC and/or FUPRICOT. The latter would define the type and content of the necessary support, and the cost of that support should be shared between the State and the recipients.

8.82 The rate of fertilizer use is very low in Togo. It is estimated that the average dosage in Togo is 6 kg/ha as compared to 8 kg/ha in Africa, 100 kg/ha in India, and 150 kg/ha in the developed world. Cotton accounts for over 75 percent of fertilizer distribution, and is the de facto monopoly of SOTOCO. The State controls the vast majority of this market, as the private sector share is estimated at 10 or 15 percent of the total. The market is dependent exclusively on imports for its supply. In 2006, the MAEP created a Fertilizers and Pesticides Office (OFEP), which recently became the Central Office for Purchase and Management of Agricultural Inputs (CAGIA) to manage the procurement and distribution of fertilizers on behalf of the State, largely to support food crop production. Fertilizer prices, which follow the rise in oil prices, are regarded as too high by small farmers, despite the fact that using them would appear to be financially advantageous. The lack of credit access is an additional disincentive for the use of fertilizers.

8.83 The Government has therefore decided to subsidize the price of fertilizers (CFAF 250/kg instead of a market price of about CFAF 4000/kg), and justifies this decision by the strategic nature of fertilizer use for growth in the agricultural sector and improved food security in the country.²⁵⁶ Such subsidy programs may have serious drawbacks, at least as regards the manner in which they are implemented. The direct involvement of government agencies in the provision and distribution of fertilizers is an impediment to the development of private distribution networks, which nonetheless remains one of the Government's medium- and long-term objectives. It perpetuates the State's presence in a commercial sector from which it ought normally to withdraw. Moreover, the severe budget constraints affecting the State sometimes are such that the fertilizers distributed by it are not available at the proper time. Farmers can then not obtain supplies from private distributors who have suspended operations because State programs are in place. Finally, the administrative distribution network often lacks transparency, creating certain risks that the fertilizer subsidized by the Government will not always reach its priority target, or may even become the subject of speculation and re-export to neighboring countries. The Government's fertilizer subsidy program, which has been in place in recent years, is not immune to such criticism.

8.84 To the extent that the Togolese Government decides to continue its subsidy program, it would be advisable: (i) immediately to undertake, as the Government of Ghana does on a regular basis, a detailed assessment of the program in order to determine its impact, identify the groups benefiting from it, and analyze its cost/benefit ratio; and (ii) to introduce a distribution system that favors the emergence of private distribution networks. This could be done by means of usage-based systems, as are used in many countries, involving instruments such as

²⁵⁶ It has been demonstrated, however, that subsidizing fertilizer is not the best use of public resources for promoting agricultural production. Use of these resources for improving access to agricultural zones, for example (not to mention for financing education or health), has a greater impact on productivity and agricultural production, and requires much less costly management and targeting.

“coupons/vouchers” distributed to target groups that can be used in purchasing subsidized fertilizer from private distributors.

8.85 The highest-consuming sectors for phytosanitary products are coffee, cocoa, and cotton, and, to a lesser extent, market garden crops. Deregulation of the sector began in the 1990s, and products are now imported directly by SOTOCO and by private companies licensed by MAEP. The state has refocused its sovereign functions on regulation and oversight. The largest consumer of phytosanitary products, and especially of insecticides, continues to be SOTOCO, whose market share is estimated at nearly 90 percent of the national market. Deregulation of the sector also has led to greater and greater trade in veterinary products (all of which are imported, either legally or via smuggling). Uncontrolled movements of such products are a serious threat to public health, and the control of veterinary medicines by the competent national authorities is essential to ensuring the availability of safe, effective, quality veterinary medications.

8.86 Access to credit by producers and their associations is currently quite low, and investment credit is nonexistent. In 2006, total credit to agriculture represented less than 0.6 percent of the banking system’s total exposure to the economy.²⁵⁷ Bank credit was concentrated among few borrowers and focused on short-term credit for marketing purposes. The DFCs target their financing basically to consumer loans for their members and extend little production credit, and do not venture into investment lending. There are no institutions providing venture capital which might enable operators to make promising investments without incurring an excessively large financial cost.

8.87 In the past, banks took part in financing the cotton sector through SOTOCO, and this credit enabled a great many farmers to have access to fertilizer and other inputs, not only for cotton but also for the associated food crops. The problems experienced by SOTOCO led to sharp cutbacks in this source. In the coffee/cocoa sector, the mutual association of coffee and cocoa producer groups (MGPCC) extends credit to OPAs for the purchase and marketing of their coffee and cocoa, but very little for providing their members with agricultural inputs. Some regional Unions have initiated fertilizer distribution programs for their members, financed against their own marketing margins. In addition, in the past, some buyers/exporters (OLAM, YENTOUM) endeavored to make fertilizer available for repayment during the crop year. Overall, these efforts failed. The environment would thus appear to be more favorable now for this kind of initiative, given the increased awareness of the importance of fertilization and other treatments, and a greater capacity on the part of the Unions and groups to manage services for their members. It thus seems advisable to promote Union/Exporter partnerships, either for storage and sale operations or for credit operations (perhaps with a partial credit risk guarantee, at least during the pilot phase).

8.88 The low rate of credit access by producers and their groups constitutes a major constraint to the development of agriculture. Given the diversity of needs, consideration should be given to introducing a number of instruments. The rebound in cotton production and the growth of input credit for coffee/cocoa cooperatives will, to some extent, make it possible to increase access to modern inputs. However, this will benefit only some producers and will leave

²⁵⁷ CFAF 115 million out of CFAF 140 billion (source: BCEAO Central Risk Office).

the financing of productive investment unaddressed. In order to ensure greater access to agricultural financing, the MAEP has proposed, in its Sectoral Agricultural Memorandum, the following: (i) establishment of the National Institutional Agricultural Support Foundation (FNAIA) and the Regional Interprofessional Agricultural Development Support Foundations (FRIDAs) to support the financing of productive investments; and (ii) support for DFCs in order to strengthen their operational capacities and develop their networks.

8.89 The strengthening of DFCs may indeed provide worthwhile support. However, the use of DFCs to finance investments by means of eternal credit lines, often tried in the past, has always proven to be extremely prejudicial to the financial integrity of these institutions by eroding their financial discipline. This option should be used with caution. The use of Agricultural Development Funds for granting loans is also not without its risks. These new institutions should demonstrate extremely high degrees of transparency and management rigor. Yet another unknown factor is the Government's capacity to mobilize the necessary resources. It would be advisable, in order to make an effort to mobilize resources from national and regional banks, to explore the possibility of using the FNAIAs/FRIDAs to: (i) grant partial subsidies for investments and primary beneficiaries in the agricultural development strategy; and (ii) offer partial guarantees for financing extended by the commercial banks. A portion of these subsidies and guarantees could be targeted toward production diversification and the expansion of exports.

Institutional and regulatory environment

Tariff policy

8.90 The Togolese economy is “open” to trade, both formally—within the context of WAEMU and ECOWAS—but also because of somewhat intensive informal cross-border trade. Exports of agricultural products are exempt from all duties and taxes. Zoosanitary products are exempt from customs duties and the VAT. Imports of fertilizers and phytosanitary products are subject to low tax levels: a common external tariff (CET) of 8 percent coupled with VAT exemption. Other inputs (such as day-old chicks for poultry farming) and agricultural equipment, are subject to a CET of 10 percent (Category 2) and are not exempt from VAT, thus making them subject to a cumulative levy of 29 percent, which is rather onerous and an impediment to the purchase of technologies that would make it possible to improve the competitiveness of Togolese producers.

8.91 Imports of agricultural and consumer products are classified either in Category 2, as in the case of rice, which is subject to a CET of 10 percent and a cumulative rate (including VAT) of 29 percent of their c.i.f. value, or in Category 3, as in the case of meat: a CET of 20 percent and a cumulative rate of over 43 percent of the c.i.f. price. These rates, when cumulated, would a priori appear to offer a reasonable degree of protection to Togolese producers. Raising them (for example by using the Safeguard Import Tariff mechanism) would penalize consumers. Moreover, for imports of rice or poultry, it is difficult to invoke the argument of subsidies granted by producer countries, as does happen to be the case of beef (rebates from the European Union), as these products receive none. They are poor quality products (broken rice, unconsumed poultry bits) or are produced by highly competitive countries (poultry from Brazil). The fact remains that Togo, like the other WAEMU countries, imports massive amounts of rice products and poultry meat, which discourage national production.

8.92 **It would thus perhaps be timely to give serious consideration to an appropriate policy** based on (i) a support program for national producers and allowing for structural gains in productivity; and (ii) temporary protection offering local producers a sufficiently high price level to promote the emergence of efficient producers, as is done in some countries in the sub-region.²⁵⁸ However, the problem should be addressed within the context of regional integration. The solution could reside in generalized application of the CET to the other ECOWAS countries, as new provisions are envisaged to make producers of the zone more competitive in the context of the common agricultural policy adopted in January 2005. An ECOWAS study to this end proposed: (i) the reclassification in Category 0 (0 percent customs duty) of all imports of agricultural seed, breeding stock, and inputs and equipment used in agriculture, fisheries, and forest exploitation; and (ii) reclassification in Category 3 (20 percent duty) for food or agroindustrial imports that compete with West African production.

8.93 **The nontariff barriers to exports and imports, as well as export fees, have been abolished, except as regards food products,** for which exports are still constrained by a number of regulatory provisions. Indeed, the Government intervenes on the cereals market with a view to improving the country's food security. In addition to ANSAT's purchase and resale operations on the national market aimed at attenuating price swings during the year, operations that are ineffective and costly, exports of food products remain subject to prior authorization (from ANSAT). Finally, in the event of a real or presumed cereal shortage, the government may, upon recommendation from OSAT, decide temporarily to prohibit exports of so-called "sensitive" food products, such as corn or manioc. Quite beyond its incompatibility with the spirit, if not to say the letter, of the WAEMU/ECOWAS regional integration policy, this practice, while it may have some symbolic value, is highly inefficient in view of the magnitude the informal cross-border trade and the porosity of the borders.

8.94 **However, the possibility that the Government is able at any time to reach the decision to prohibit exports is regarded by merchants as a lack of visibility** that has an impact on their own decisions with regard to purchase and storage, that affects the producer price at harvest time, and that amplifies seasonal price swings. A formal export ban, rather than preventing exports, increases markups and depresses the producer prices of food products, preventing producers from profiting from attractive prices on external markets. For a country such as Togo, with its extremely small domestic market that is broadly open to the outside, the best strategy for price stabilization and food security is still trade liberalization. The Government's current practice, which works against increasing the production and incomes of producers without producing the effects sought for urban consumers, should be formally abandoned while deregulating the market for food products.²⁵⁹

²⁵⁸ With respect to rice, for example, a distinction could be drawn between at least two categories: broken and "deluxe" rice in Category 3. For poultry meat and offal, Cameroon and Côte d'Ivoire, as well as other countries, use either a benchmark price (since 2004 Cameroon has been using a benchmark price of CFAF 1,000/kg for imports of frozen meat and offal) or a specific supplementary duty (RCI, specific duty of CFAF 400/kg until 2005, and CFAF 1,000/kg beginning in May 2005).

²⁵⁹ On the other hand, like Malawi, Togo should look into the advisability of using market instruments/mechanisms such as futures contracts in order to anticipate and attenuate the impact of fluctuations in international prices.

Strengthened sanitary controls and quality promotion

8.95 **There are no regulations in Togo in the area of fertilizer importation and distribution.** Any party with the necessary financial resources may import fertilizer at will, fertilizer is not subject to any quality control at the time of import, and users in Togo have no means of checking the quality of the fertilizer they purchase. This gives rise to numerous cases of fraud and strongly damages the perception that producers have of the effectiveness/profitability of using fertilizer. In contrast, Togo has adopted a legislative and regulatory framework to control the importation and distribution of *phytosanitary and veterinary products*. There is a National Committee for the Approval of Phytosanitary Products and a National Committee for the Approval of Veterinary Products which authorize both importers and the products that can be imported.²⁶⁰ The approved products officially imported by approved operators are generally of good quality. However, they are resold to private distributors who themselves are not subject to any approval or control. There are thus illegal imports from neighboring countries that are of dubious quality and constitute a significant threat to public health and the environment. These practices are only rarely brought into check, owing to the absence of inspections in the field from the anti-smuggling units, which are woefully short on staff and resources. Finally, Togo has no national laboratories capable of performing the necessary analyses.

8.96 **Sanitary and quality problems are not yet a serious issue for Togo's agricultural exports,** which for the time being are small in amount and concern an extremely limited number of products that are generally not subject to health regulations but instead to commercial quality standards (prices, grades), and increasingly to environmental and social considerations, which are governed essentially by the private sector. However, sanitary problems will be of growing acuity in the medium term with the development of increased diversification of agricultural exports and the strengthening of controls on the part of Togo's client countries, not only on the international market but the regional market as well. Indeed, to protect their populations from health risks, an ever larger number of countries in the sub-region are introducing rigorous systems for controlling the quality of imported products.

8.97 **Togo is lagging somewhat in the area of health controls** and the establishment of a "quality infrastructure." There is no accredited laboratory in Togo and the quality of export products generally falls short of the ever stricter requirements of health standards. A recent study identified the presence of significant quantities of pesticide residues and heavy metals in fruits (pineapples) and of ochratoxin in coffee and cocoa. Very few Togolese enterprises have obtained (or sought to obtain) certification of their products, and existing national capacities to assist private operators with quality procedures (ISO22000, "agricultural and agroindustrial best practices," HACCP approach, EUROGAP certification) are extremely limited. In an effort to eliminate its lag in this area, since 2001 Togo has participated in the WAEMU Quality Program. Progress has thus been made, but falls far short of the mark. Togo needs to provide itself with

²⁶⁰ Approved products must be consistent with the rules established by WAEMU and the various international conventions such as those of Stockholm, Rotterdam, etc. It should be noted here that an already approved importer must currently request authorization to import an already approved product if he or she has not previously done so, which represents both an unnecessary administrative constraint, an excess cost for the importer, and the danger of interference in the commercial activities of private operators. This practice should be eliminated.

resources both to improve the management of the nutritional public health of its population and protection of the environment and to support the increase in its agricultural exports from the standpoint of sanitary and quality aspects, which are more and more decisive in gaining access to regional and international markets. This requires: (i) the adoption of standards and norms necessary to controlling the quality of agricultural products and inputs, imported or exported, and consistent with international standards; and (ii) the establishment of a mechanism for applying these standards (strengthening of sanitary, phytosanitary, veterinary, anti-smuggling units, and improvement/accreditation of analytical laboratories).

Structuring the rural world and professionalizing agriculture

8.98 The Professional Agricultural Organizations (OPAs) and their associations are called upon to play a major role in sectoral development and the professionalization of agriculture, as providers of services, representatives of farmer interests, or anchors for financing systems. Strengthening the OPAs should therefore be actively pursued, in particular by advisory services on management and organization and by support for the purchase of equipment. Strong OPAs will be necessary in particular in order to enable Togo to penetrate export markets, by providing their members with essential information and support. The State has a capital role to play in the structuring of the sector and the emergence of operators, OPAs, interprofessions, but also of service providers.

8.99 The rate of professional structuring is relatively high in Togo; it is estimated that about 25 percent of farmers belong to a group. Nationally, there are over 7,000 professional organizations, of which about 40 percent are groups of cotton and coffee/producers. The small farmer structures are organized at the level of each region into Regional Chambers of Agriculture, which currently are not very functional. The most structured sectors are the cash crop or export sectors, in particular cotton, coffee/cocoa, fisheries, poultry farming, and market gardening. They are structured into (prefectural, regional) Unions and/or into national umbrella organizations. In the other sectors, food crops in particular, the OPAs have extremely limited operational capacities. The cessation of Government support has, however, had a positive impact. By triggering the disappearance of organizations created artificially in order to benefit from State aid, it made it possible to sharply curtail the mentality of those on permanent assistance and to permit the emergence of genuine OPAS and umbrella organizations receiving almost no external assistance.

8.100 Togo also has a number of interprofessions or structures evolving in that direction (CCFCC, ANPAT). In a deregulated sector it is the operators themselves—within an Interprofession bringing together all stakeholders in the sector—who contractually govern the various problems raised in its operation, in accordance with clearly established rules of the game. It is thus the Interprofession that should be the preferred location for discussing solutions and making decisions without State involvement. Ultimately, the Interprofession should be able to finance its activities, at least in part, through royalties collected within the sector. The Interprofessions should be clearly dissociated from the regulatory and oversight body for the sector, as these are functions of the State. As the State cannot be both judge and party, it should totally disengage itself from the operational management of the sector and focus on: (i) alignment of the sector's objectives and operations with the national policy and strategies; (ii) compliance with the regulations in force; (iii) validation and observance of agreements between

the partners; (iv) maintenance of equilibrium between the various types of operators, ensuring in particular the protection of the interests of the weakest link; and (v) financial support. The promotion of such institutions has to be vigorously sustained. Indeed, the competitiveness and professionalization of agriculture will entail the creation of genuine interprofessions capable of managing the common assets of well organized sectors.

Box 8.1: Blue Skies – Success of Market Garden Exporting in Ghana

Blue Skies, near Accra in Ghana, prepares cut tropical fruits such as pineapples and papayas for export by air to Europe. The fruits are packaged in pre-labeled plastic containers provided by the buyers (European supermarket chains) in order to be placed directly on supermarket shelves. Blue Skies, of U.K. origin, is a successful example of a strategic alliance enabling African small farmers to penetrate markets that are customarily outside their reach. The company has gained the loyalty of its European buyers through rigorous quality control (it was one of the first African companies to gain the EUREP-GAP label) and maintains excellent relations with farmers and its local personnel:

- The company has small demonstration fields near its packing plant, but most of the pineapples come from small farmers, all of whom have EUREP-GAP certification.
- The products are carried by refrigerated trucks from the packing plant to the Accra airport. In 2003, the company was using between 50 percent and 60 percent of all the refrigerated air freight capacity between Accra and various European airports.
- All the production personnel and those working in the packing plant have good wages and excellent benefits as well as good health insurance. Staff motivation and loyalty are very strong.

8.101 The penetration of external markets is made even more difficult for Togo by the fact that there are very few enterprises with the technical and organizational capacities and size necessary to be competitive in competitive markets that have become more and more demanding in terms of quality and the observance of contract terms and delivery schedules. Except in the traditional export sectors, most exporters are part of the informal sector and not in a position, absent targeted support, to develop their operations outside traditional channels. Experience shows, moreover, that the development of nontraditional exports requires either the involvement of foreign investors with the requisite skills, business connections, and financing (see Box 8.1), or long-term support from the State in order to gradually meet all the conditions necessary: (i) build the capacities of individual operators and their associations; (ii) introduce the institutional and physical infrastructure; (iii) develop services (market information, assistance with preparing business plans and export plans, support for the quality approach); and (iv) provide financial support to project leaders.

An Investment Program in Support of the Agricultural Sector

8.102 The public expenditure allocated to agriculture has fallen off sharply over the past 20 years. Expenditure came to CFAF 15 billion on average toward the end of the 1980s, or 12 percent of the national budget, but truly collapsed beginning in the 1990s because of the sociopolitical difficulties and the withdrawal of external assistance. Budget allocations have flattened out at about CFAF 7 billion, or 3 percent of the State budget on average, which is much lower than the average level in Africa (5 percent) and Asia (10 percent). Indeed, real public expenditure in the sector did not exceed CFAF 4 billion between 2001 and 2004, and the share of agriculture in public expenditure declined to less than 2 percent. This collapse is even more

pronounced in the case of capital expenditure, since about 90 percent of public expenditure in the sector is made up of operating expenditures, largely wages. In the same way, nonagricultural public investment that is of capital importance for agriculture, such as the maintenance/rehabilitation of rural access roads, has also dropped off drastically.

8.103 It is certain that public expenditure, and particularly public investment in agriculture, will have to increase dramatically in order to be able to meet the Government's objectives in the area of agricultural growth and hence overall growth. Simulations have shown that, to achieve average annual agricultural growth of about 6 percent a year, the share of public expenditure in the sector should increase from the current rate of 3.2 percent to 20 percent.²⁶¹ Such predictions are quite risky, and the level of public expenditure obtained is unrealistic. However, a realistic objective could be the level of 10 percent of total public expenditure set at Maputo by the African Governments in connection with NEPAD. The Government reached such a level in the 2010 Budget Law. It will be important to maintain this exceptional effort for the years ahead, but also to improve the internal efficiency with which such public expenditure is implemented.

8.104 In order to address the requirements for agricultural development, the Government has prepared the National Agricultural Investment Program (PNIA). This program, evaluated at CFAF 812 billion for the period 2009-2015, incorporated the Priority Action Program of the PRSP (PAP-PRSP) in an amount estimated at CFAF 300 billion for 2009-2011. The PNIA was presented at the donors' round table in July 2009, where it received agreement in principle from the partners. This important initiative reflects the major thrusts of the PRSP and the Comprehensive Africa Agricultural Development Programme (CAADP) of NEPAD. The actions and reforms envisaged under the PNIA are: (i) the introduction of quality governance and a business-friendly climate; (ii) improvement in support services; (iii) the effective revitalization of agriculture, livestock breeding and fisheries, with the promotion of sectors for diversification and the development of agribusiness; (iv) institutional capacity-building; and (v) better organization of the rural world.

8.105 The PNIA and the PRSP benefited from the preliminary work on the sources of growth carried out for that diagnostic study. The analysis and findings of these three papers are consistent with one another. While the matrix of actions for the current study is less ambitious, it is proposed as a prioritization tool for the immediate future and the case in which not all the resources sought prove to be available.

8.106 Regardless of the level of public expenditure in the agricultural sector, a considerable effort should be made to improve the targeting and internal effectiveness of expenditure implementation. Priority will need to be accorded to investment (to which end the maximum operating expenditure of public agencies will need to be limited) and place special emphasis on: (i) activities that generate the most growth (on the basis of lessons learned in many countries: rural access roads, technological progress, small-scale irrigation); (ii) at least in the short term, the zones and sectors with high potential and where a rapid production response can be achieved; (iii) a decentralized and participatory approach for the identification and implementation of priority activities at the local level, so as to improve their relevance and ownership; and (iv) the

²⁶¹ Togo: Croissance Agricole, Réduction de la Pauvreté et Sécurité Alimentaire: Performance Récente et Perspectives; RESSAKS, 2009.

emergence of public/private partnerships using public investment to catalyze and mobilize private investment.

8.107 **It will be important for State actions to be guided by the relative importance of the various sectors in terms of their contribution to economic growth.** As shown in Table 8.5, cotton and cocoa have the best possibilities for achieving rapid growth over the next ten years. However, the share of food products in GDPA is so much greater that their contribution to global agricultural growth will probably be much larger, especially if exports to the sub-region are encouraged. In contrast, fruits and vegetables show interesting growth rates, but their production basis is so small that the sector's contribution will be minimal. With its limited resources, the State would be well advised to entrust the development of this sector to the private sector. In total, the growth of agricultural production (in quantity terms) could equal or exceed 6 percent a year over the next ten years if the main constraints to development of the sector are lifted.

Table 8.5: Growth Potential in Agricultural Subsectors

Product	Share in GDPA (%)	Annual rate of production growth (%)	Contribution to total production growth (%)
Food crops (national market only)	66	5	3.30
Food crops (incl. exports to regional market)		6	4.62
Cotton	5	20	1.00
Coffee	2	7	0.14
Cocoa	2	15	0.30
Livestock breeding	13	6	0.78
Fisheries	3	2	0.06
Fruits and vegetables	1	10	0.10
Other	8	3	0.24
Total	100		5.92-6.58

Source: Author's estimates.

9. FOREIGN TRADE CHARACTERISTICS AND POLICY

A. Introduction

9.1 **Trade has traditionally played a very important role in Togo's economy.** Trade covers exports of mining, manufacturing and agricultural products, along with imports for the domestic market. It also covered imports in transit trade for landlocked countries and imports for re-export trade by road or sea. Transit and re-export trade are dealt with in two other chapters. This chapter focuses on exports from Togo and imports to Togo. However, even this approach is complicated by the free zone, which is, by definition, deemed to be outside of Togo's customs territory. Consequently, the trade flows there are not tracked in the published official trade statistics. In order to give as full a description and breakdown as possible of Togo's foreign trade, this chapter includes exports from the free zone and makes the necessary adjustments to the statistics.

9.2 **This chapter will (i) describe the structure of Togo's foreign trade so as to grasp its particular features,** (ii) analyze the various components of Togo's trade policy, (iii) describe and analyze the operations and capacities of the institutions that implement this policy, and (iv) identify the needs and formulate recommendations for trade policy and the institutions responsible for its implementation. An appendix describes the statistical sources used (Togo Customs, BCEAO and IMF) and the problems relating to their interpretation.

B. Trade Characteristics

9.3 **Structurally, Togo has a very open economy.** The degree of openness is measured by the ratio of the "sum of imports and exports of goods and services to GDP" and has often been over 80 percent. It has exceeded 100 percent in recent years, which is in line with the African average.²⁶² The growing role of the free zone in exports and a relatively liberal import policy explain much of this high ratio. There are few local manufacturing businesses seeking protection in the form of tariff or non-tariff barriers to imports because of the narrow local market and, historically, the social and political influence of traders has outweighed that of industrial interests. Furthermore, the geographical layout of the country would make it hard to enforce a strict protectionist policy. There is no place in the country that is more than 50 kilometers from the border, and the capital, Lomé, which is home to the country's largest market in terms of purchasing power, is located right on the border with Ghana.

9.4 **Togo has a structural merchandise trade deficit.** However, the imbalance between imports for domestic consumption and exports is inflated by official imports intended for informal re-export, where the imports are recorded, but the exports are not.²⁶³ The import coverage ratio, which improved in 2003, as exports remained firm, fell to 39 percent in 2008.

²⁶² Source: UNCTAD, data published by the World Bank in the "World Development Indicators" database; 104 percent in 2006 and 2007, 107 percent in 2008. Normally, these rates should not include re-exports, but in this case the rate is calculated using the "mirror" data (i.e. data from trading partners) for some years. The "mirror" data are not reliable in the case of Togo and often include re-exports and imports intended for re-export.

²⁶³ On the other hand, unofficial and official re-exports (recorded by Customs) should not have a negative impact on the balance of payments. Quite the contrary, since the price charged for re-export includes a profit margin on top of the import price.

**Table 9.1: Togo's Balance of Trade (Merchandise) 2002-2008
(Billions of CFA Francs)**

	2002	2003	2004	2005	2006	2007	2008
Exports	161	225	184	193	196	187	167
Imports	240	246	267	308	374	378	430
Balance	79	-21	-83	-115	-178	-191	-263
Import coverage ratio	67%	91%	69%	63%	52%	49%	39%

Source: Customs, ASYCUDA statistics from different years. Total exports (direct and free zone), not including re-exports
Imports: total "C" imports for domestic consumption.

9.5 **Togo is also a net importer of services**, despite the many activities relating to the port (port services, banking, insurance, re-export trade, etc.) The crisis led to a drop in tourism and the income derived from tourism. Banking also made a smaller contribution to the balance of trade in services as Togo's banks lost their regional role.

**Table 9.2: Togo's Balance of Trade Services 2003-2006*
(Billions of CFA Francs)**

	2003	2004	2005	2006
Service exports	50	79	93	125
Service imports	107	126	147	173
Balance	-57	-47	-54	-48

Source: IMF statistics Balance of Payments (from World Bank DDP).

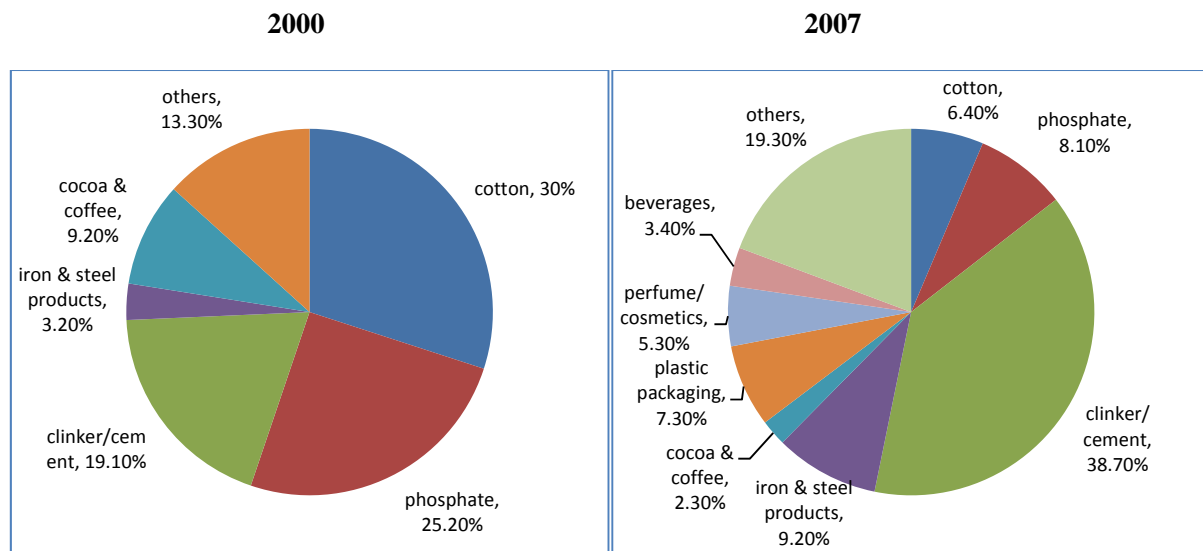
* The statistics for 2007 are available but have not yet been validated, so they are unofficial.

Export Structure (Merchandise)

9.6 **Togo's exports have changed substantially over the last two decades**, both in terms of structure by products and export destinations. Phosphates had been the foundation of Togo's economy since the nineteen-seventies. Towards the end of the nineteen-eighties, they accounted for more than half of Togo's export income. They still accounted for an average of 20 percent of export income in the period from 1994 to 1999. Cotton exports outstripped phosphate exports for the first time in 1995 and remained in the lead until 2001. Cotton and phosphate exports still accounted for 55 percent of total exports in 2000 (see Figure 9.1), while cocoa and coffee accounted for 9.2 percent. But the start-up of the clinker plant in 1999 and the ramping up of production coincided with serious problems in the phosphate and cotton industries that are described in the chapters dealing with mining and agriculture. Starting in 2002, clinker and cement exports²⁶⁴ took the lead, accounting for 27 percent of total exports, in front of phosphates, which had fallen to 15 percent of exports, and cotton, which had fallen to 14 percent. Since then, clinker and cement exports have continued to rank first, while cotton and phosphates have vied for second place, depending on the ups and downs of output and world prices.

²⁶⁴ The WAEMU customs tariff makes no distinction between these two products at the HS-4 level; heading 25.23 is entitled "hydraulic cements (including clinkers)". It is only at level HS-6 that a distinction is made between sub-heading 25.23.10 (Cement clinkers) and sub-headings 25.23.21 (White Portland cement) and 25.23.29 (Other Portland Cement).

Figure 9.1: Export Structure by Products



Source: Togo Customs, ASYCUDA statistics, direct exports (customs territory) and free zone, 2000 and 2007. Definition of “iron and steel products”: headings 72.08 to 72.29 and 73.01 to 73.18.

9.7 **The structure of Togo’s exports in 2007 has completely changed** compared to 2000 and even more so compared to the 1990s. Clinker and cement now account for more than one-third of total exports. Iron and steel products (sheet metal, reinforcing bars, angles, tubes, etc.) squeaked into second place with 9.2 percent of total exports, but Togo’s foreign trade publications seem to have overlooked this development.²⁶⁵ Phosphate and cotton have been relegated to third and fourth place with 8.1 percent and 6.4 percent of total exports respectively. Cocoa and coffee made a fairly minor contribution of 2.3 percent of total exports.

9.8 **The structure of exports has also become much more diversified** with the goods produced in the free zone, such as plastic packaging, perfumes and cosmetics, hairpieces, etc. There are also businesses within the customs territory that have managed to gain market share in the region (9.2 percent of iron and steel products and 3.4 percent of soft drinks and beer) as tariffs were dismantled within WAEMU and with the ECOWAS free-trade scheme.

9.9 **The structure of Togo’s exports can vary significantly** from one year to the next because it still depends on world output and world prices for phosphate and cotton. Soaring phosphate prices in 2008, combined with a slight increase in output, put phosphate exports in second place, in front of iron and steel products.²⁶⁶ But the overall trend seems to be towards a gradual reduction in the share of traditional exports (phosphate, cotton, cocoa and coffee) and an increase in the share of new products, which are primarily manufactured under the attractive tax rules of the free zone. This does not rule out a reversal of the trend if a determined policy to

²⁶⁵ This is largely due to the static presentation of statistics, which give coffee and cocoa a prominent place, even though they fell from 9.7 percent and 7.7 percent of exports 1990 to 2 percent and 1.7 percent in 2007, whereas iron and steel products, which rank second, are lumped together with the “others” category.

²⁶⁶ The unadjusted 2008 statistics were available when the information for this report was being gathered, but they are not used for the structure of exports here, because they seem to need some corrections and the Foreign Trade Statistics Committee has yet to validate them. However, they do show that the value of phosphate exports was greater than that of iron and steel products.

stimulate the phosphate industry were implemented, or if world cotton prices were to rise significantly at the same time as sweeping restructuring of the industry took place.

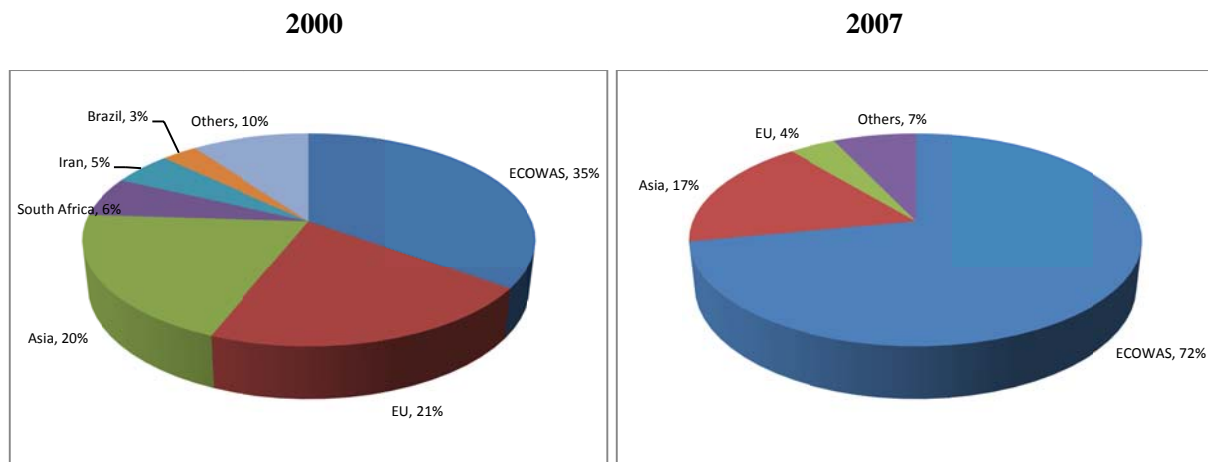
9.10 **Togo's exports are highly concentrated on West Africa.** In the seven years from 2000 to 2007, ECOWAS increased its share of Togo's exports from 35 percent to 72 percent.²⁶⁷ The change in the structure of export markets obviously stems from the change in the nature of the goods exported. The decrease in exports of such products as phosphate, cotton, coffee and cocoa leads to a decline in the corresponding export markets. The markets for phosphate exports have varied greatly over the years (Australia, New Zealand, South Africa and some European countries in certain years). In the most recent period, India has emerged as the leading export market for Togo's phosphate, averaging 60 percent of exports from 2005 to 2007. This does not mean that Asia's share of Togo's total exports has grown, however, since phosphate exports are declining.

9.11 **The markets for cotton exports are more diversified,** but are still primarily in East Asian countries that are major textile exporters, such as China, Taiwan, Indonesia and Thailand. Recently, Tunisia has emerged as an export market for Togo's cotton, accounting for one quarter of exports in 2006, but only 13 percent in 2007. Other cash crops, such as cocoa, coffee and edible oils were imported primarily by European countries. This export market has lost its importance since the collapse of Togo's exports of these products. On the other hand, exports of clinker, cement and other products from the free zone, such as cosmetics, plastic articles, hairpieces and concentrated milk, are going to markets in West Africa, as the ECOWAS countries' share of exports increases. The effective implementation of the ECOWAS scheme to liberalize trade has amplified this trend and boosted exports from the customs territory to ECOWAS countries.

9.12 **The structure of Togo's export markets does not put it in a very good position to take advantage of the substantial improvement** in access to markets in Europe and the United States stemming from Economic Partnership Agreements and the African Growth and Opportunity Act, which will be discussed later in this chapter. On the other hand, Togo's smaller exposure to developed countries' markets meant that it was spared most of the direct repercussions of the international crisis in 2008 and 2009, and that it felt only the indirect effects of weaker demand from ECOWAS countries. The main export markets for the companies located in the free zone are described separately in the chapter on the free zone.

²⁶⁷ These figures from BCEAO include clinker exports, but not the other exports from the free zone. The ECOWAS share would be even greater if these exports were included.

Figure 9.2: Export Markets



Source: UN Comtrade, consulted online on July 30, 2009, compatible with BCEAO and Customs statistics.²⁶⁸

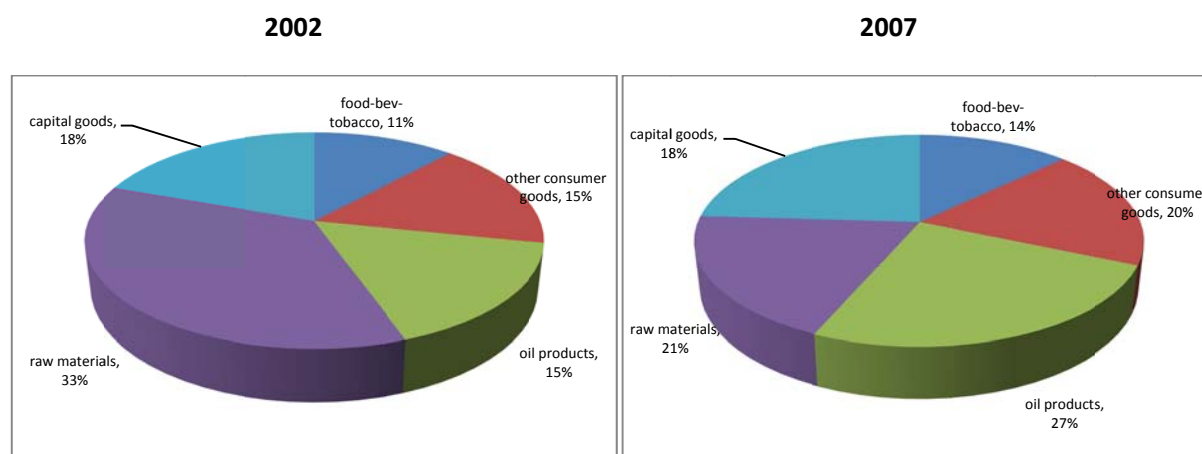
Import Structure (Merchandise)

9.13 In 2007, oil products accounted for more than one quarter of Togo's import bill at 26 percent, compared to only 15 percent in 2002. Consumer goods, which are broken down into food-beverages-tobacco and other consumer goods, also saw their combined share increase from 26 percent in 2002 to 34 percent in 2007.²⁶⁹ This increase is not only in the relative share, but in nominal value as well. The nominal value of food-beverages-tobacco imports rose by 64 percent over five years and that of other consumer goods was up by 77 percent (see table below). This import growth may seem surprising in a country with weak GDP growth, where the official statistics show that income per capita declined over the same period. It is possible that re-exports of goods that are imported and cleared through customs but not destined for the domestic market may explain this phenomenon.

²⁶⁸ The 2007 Comtrade statistics reflect the methodology change adopted by BCEAO and the Directorate General of Statistics and National Accounts in 2006, which entailed compliance with the definition of special trade and no longer including exports from the free zone, except for clinkers. Since most of the other free zone exports (except clinkers) are also headed for ECOWAS countries, the exclusion of the free zone in 2007 does not make a great deal of difference to the structure of exports. However, the value of exports tells a different story.

²⁶⁹ The averages for 2001-2003 and 2005-2007 follow the same trend.

Figure 9.3: Structure of Merchandise Imports by Category



Source: BCEAO 2007, based on the Classification by Broad Economic Categories of the (BEC) of the United Nations Statistics Division. The values in the table below are in millions of CFA Francs.

9.14 **On the other hand, the shares of commodities and capital goods in Togo's total imports have declined**, in contrast to prevailing trends in many developing countries. The decline in the relative shares of other categories of goods is simply the mathematical result of the increase in the share of oil products. But the following table shows that imports of commodities and capital goods have not declined in relative value only; they have also declined in absolute value, whereas the value of imports of consumer goods has increased significantly. This trend is either a sign that manufacturing activity is declining in Togo (competition from Asian goods?) or a sign of greater use of local commodities instead of imports (unlikely, since this explanation is not consistent with empirical observations, except for clinker and cement), or, most likely, it is a sign that most new manufacturing companies are located in the free zone and their imports of commodities are exempt and recorded under a special customs system. This means that they are not covered by the usual definition of imports (for domestic consumption). This trend will warrant a closer look and special attention from the authorities, if continues and strengthens in 2008.²⁷⁰ A better understanding of the trend will also require improvements in the presentation of foreign trade statistics for economic decision-makers (see recommendations below). The mediocre quality of statistics on imports, exports and domestic sales of companies located in the free zone, and the static presentation of foreign trade statistics, which usually shows annual variations rather than revealing medium-term trends, means that the official statistics may be overlooking some major developments in Togo's economy.

²⁷⁰ With regard to the share of oil products, it must be remembered that the average exchange rate of the CFA Franc in 2002 was 694 to a dollar, as opposed to 479 to a dollar in 2007, which helped attenuate the increase in the oil import bill in CFA Francs.

Table 9.3: Structure of Merchandise Imports by Broad Economic Categories*

(Current CFAF million)	2002	2007	% Imports	Variation 2007/02
Food – Beverage – Tobacco	31,531	51,613		+64%
Other consumer goods,	42,305	74,956		+77%
<i>Fabric and apparel</i>	15,973	31,641	8%	
<i>Pharmaceuticals</i>	10,582	23,111	6%	
Oil products	42,259	101,733		+140%
Raw materials,	91,250	81,784		-10%
<i>Wheat</i>	20,198	10,401	3%	
<i>Cement</i>	20,098	31,382	8%	
Capital goods **,	73,527	67,172		-9%
<i>Passenger cars, motorcycles</i>	15,764	12,805	3%	
TOTAL IMPORTS * * *	280,872	377,258		+34%

Source: BCEAO 2007.

* Excluding the imports of companies located in the free zone, which are not covered by the “for domestic consumption” category.

** This combination overstates the share of capital goods in Togo’s total imports because it includes consumer durables (passenger cars, motorcycles, household goods). If we strip out these consumer durables and reassign them to other consumer goods, industrial capital goods as a share of Togo’s imports would be much less than the 18 percent shown in the figure for 2007.

*** The total of these categories does not match total imports exactly because of classification problems and the “Goods not elsewhere specified” category.

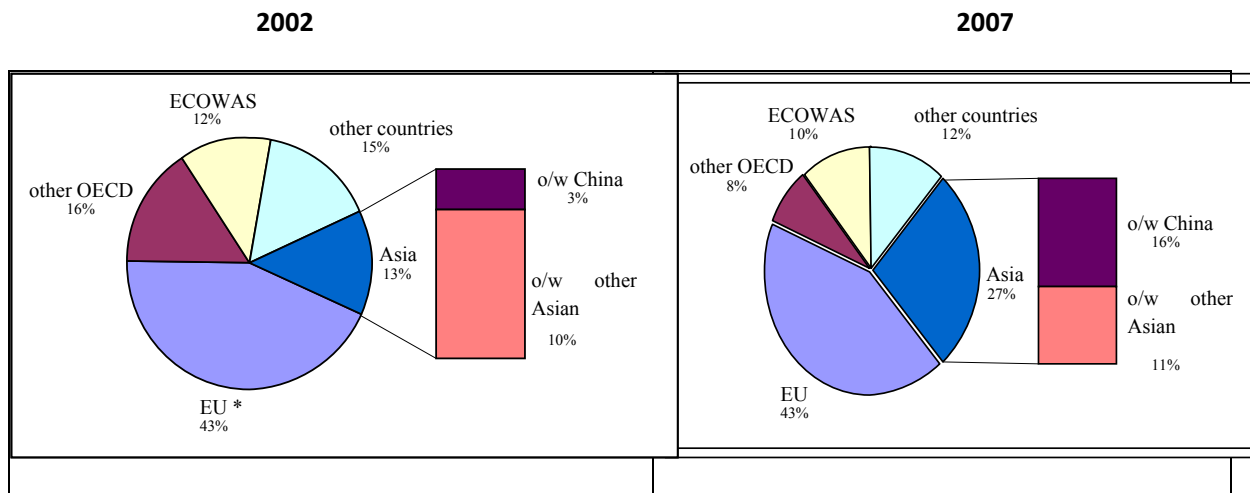
9.15 The origin of Togo’s imports has also changed, but not nearly as much as the structure of its export markets. The share of Togo’s imports from the European Union was relatively stable over the period. Togo’s leading European trading partner was still France, followed by the Netherlands, Italy and Belgium,²⁷¹ depending on the year. This finding is fairly counter-intuitive, because (1) it clashes with the visual impression that there are fewer and fewer European goods on the markets, and (2) it is contrary to the trend observed in most other countries in West and Central Africa, where the market share of the 27 EU countries has declined sharply. Even though the relative stability of Europe’s market share could stem from the fact that imports from Europe consist primarily of capital goods and commodities, the EU’s share of Togo’s imports should have decreased anyway, because the actual proportion of capital goods and commodities in Togo’s imports has declined in both relative and absolute terms. It would be worthwhile to gain a better understanding of the reasons for the apparent stability of the EU’s market share, since it could help provide a more accurate estimate of the potential scale of any trade deflection²⁷² and the repercussions for tax revenue under the Trade Liberalization Scheme set out in the Economic Partnership Agreements.²⁷³

²⁷¹ Most used cars come from Belgium.

²⁷² Creation and deflection of trade flows in foreign trade theory.

²⁷³ The data needed for this analysis (values by product and origin) are available from Sydonia or Comtrade. Such a level of detail was not within the scope of this report.

Figure 9.4: Changes in the Geographical Origins of Togo's Imports



Source: BCEAO 2007, excluding imports of companies located in the free zone.

* Excluding Poland, Hungary and the Czech Republic in 2002.

9.16 The share of imports from ECOWAS countries was down slightly. The decline can be fully attributed to Côte d'Ivoire, as its share of Togo's total imports slipped from 6.2 percent in 2002 to 2.6 percent in 2007. On the other hand, the share of other ECOWAS countries, and Ghana in particular, increased, which is a sign of the relative effectiveness of the Trade Liberalization Scheme and substantial progress in regional integration.

9.17 It is no surprise to anyone that Asia's share of Togo's imports doubled in just five years, rising from 13 percent to 27 percent, and that the lion's share is for China, which accounts for 16 percent of Togo's total imports.²⁷⁴ Asian countries have gained market share to the detriment of "other OECD countries" (Canada, Japan) and "other countries" not included in any of the groups above (EMCCA, Maghreb, countries that are not identified by name).

C. Trade Policy

9.18 The main trade policy instruments available to a country are (1) measures dealing with imports of goods and services, the most important of which are tariff policy and non-tariff trade restrictions, and (2) measures dealing with exports of goods and services, including export promotion measures, through tax breaks and other benefits, and preferential access to foreign markets under regional or multilateral agreements, or else trade restriction measures, such as export taxes, temporary export bans or licensing requirements for exports of certain products. A third trade policy instrument is the manipulation of foreign exchange rates. This important instrument is not available to Togo since the CFA Franc is pegged to the euro at a fixed rate under WAEMU.

9.19 Togo's trade policy regarding exports and imports is largely determined by (1) its membership of regional organizations, such as WAEMU and ECOWAS, and (2) its preferential trade relationships by virtue of belonging to groups of countries: ACP countries for access to the

²⁷⁴ The value of imports from China increased from CFAF 8 billion to CFAF 59 billion between 2002 and 2007.

European Union market, and Sub-Saharan African countries for access to the United States market under the terms of the African Growth and Opportunity Act (AGOA). Given the importance of regional bodies and preferential trade agreements for Togo's trade policy, their role will be dealt with separately from general import and export trade policies.

Import Trade Policy

Tariff System

9.20 **Togo has applied the WAEMU Common External Tariff (CET) since 2000.** The Tariff provides for four levels of customs duties based on a classification of goods:

- 0% Essential social goods on a restrictive list
- 5% Basic consumer goods, raw materials, capital goods, specific inputs
- 10% Inputs and intermediate consumption goods
- 20% Finished goods and other goods not elsewhere specified

9.21 **The tariff structure is based on the conventional approach of the degree of processing and tariff escalation,** but attenuated by consideration of social criteria in the case of essential social goods or basic consumer goods. This approach obviously leads to the problem of taxing basic consumer goods produced inside the customs union, since the markets for goods that are widely consumed within the region are precisely the ones that should naturally be served by local industries. Ultimately, the only way to reconcile the apparently conflicting goals of protecting local and regional industries and obtaining low prices for basic consumer goods is to improve the competitiveness of local industry.

9.22 **The following taxes are levied on all categories of goods,** in addition to the customs duties described above.

Statistical tax	1%
Community Solidarity Tax ⁽ⁱ⁾	1%
Community Tax ⁽ⁱⁱ⁾	1%
Customs stamp duty	4% (of the previous taxes)
Value Added Tax	18%

⁽ⁱ⁾ (PCS) levied on goods originating from outside WAEMU and collected on behalf of the WAEMU Commission.

⁽ⁱⁱ⁾ (PC) levied on goods originating from outside ECOWAS and collected on behalf of the ECOWAS Commission. Since these taxes are collected to finance both Commissions, they are cumulative, even if goods from outside ECOWAS are, by definition, also from outside WAEMU.

9.23 This means that the combined taxes for a finished consumer good (Category 4) from outside ECOWAS come to 46.2 percent.²⁷⁵ In addition to these taxes and duties on all goods, there may be specific taxes, such as consumption taxes or excise taxes on liquor, cigarettes, etc., and taxes on oil products.²⁷⁶ There are also some other taxes and national levies for industry bodies or quasi-governmental agencies, such as the tax of CFAF 300 per ton for Togo's Chamber of Commerce and Industry, the levy of CFAF 1200 per ton for the Infrastructure Protection Tax and the levy for the National Shippers Council, etc. The 0.75 percent charge for inspecting and verifying imported goods (RVI) had been collected on behalf of COTECNA up until very recently. It is now levied as a lump sum that the Government pays directly to the inspection company. Imports arriving at land border crossings are also subject to an advance on income tax set at 7 percent of the customs valuation for unregistered importers,²⁷⁷ and 2 percent in the case of registered importers. This advance is then deducted when the income tax is actually paid to the General Directorate of Taxes. It is actually a tax on "informal" traders, who are unable to deduct the 7 percent advance, since they do not file income tax returns. (For more details about the different taxes and duties stemming from the use of the port, see the chapter on Transport and Trade Facilitation).

9.24 The WAEMU Common External Tariff also provides for a Temporary Import Tax²⁷⁸ aimed at protecting Community production from erratic swings in international prices for certain goods and from unfair trading practices. The legal foundation for this tax is the Special Safeguard Clause of the WTO Agreement on Agriculture. It covers goods produced by agriculture and agri-food industry, livestock farming or fisheries when they are imported into the customs union, but not imports of goods from other countries in the Union.

9.25 The introduction of the WAEMU Common External Tariff in 2000 marked a substantial step forward in terms of rationalization of the tariff structure and harmonization of the member countries' tariffs. The maximum rate of 20 percent is one of the lowest in sub-Saharan Africa and lower than many other developing countries' maximum rates. The introduction of the Common External Tariff reduced the simple mean tariff (MFN)²⁷⁹ from 16.5 percent in 1998 to 11.9 percent in 2007, whereas the weighted mean tariff stood at 13.7 percent in 2007.²⁸⁰ However, when the Statistical Tax, Community Solidarity Tax, Community Tax and Customs Stamp Duty are included, the simple mean rate (excluding VAT) increases from 11.9 percent to around 15.5 percent. The tariff protection for agricultural produce is higher, as it is in most countries. The structure of the Common External Tariff, with its maximum rate of 20 percent and a simple mean rate of 11.9 percent, explains why there are no national "tariff peaks," which are defined as tariffs that are more than three times higher than the simple mean.

²⁷⁵ The calculation of duties and taxes is not cumulative. The 4 percent customs stamp duty is levied on the previous duties and taxes, not on the customs value of the imports. VAT is calculated on the customs value, plus all duties and taxes. Combined rate = $(100 + ((20 + 1 + 1 + 1) * 1.04)) * 1.18 - 100 = 46.2$ percent.

²⁷⁶ Initially the WAEMU Common External Tariff included a Diminishing Protection Tax to help local industries adjust. This tax was supposed to be cut each year and expire in 2003, but it has been extended twice. Togo no longer applies it.

²⁷⁷ Since Sydonia was introduced 20 years ago, many of Togo's major importers still have not registered and use 9999 as their importer code. A circular that came into force in 2009 banned the use of this code at the Port (but not at land border crossings) and is supposed to block customs clearance formalities in the computer system when no importer code has been entered. The effectiveness of this measure will depend on its effective enforcement with no exceptions.

²⁷⁸ Regulation 06199/CM/UEMOA of September 17, 1999.

²⁷⁹ I.e. the arithmetic mean of rates for all tariff categories.

²⁸⁰ World Bank. Togo Trade-at-a-Glance, December 2008 edition. UNCTAD primary TRAINS data. The WAEMU Common External Tariff was phased in starting in 2000.

9.26 In practice, liberalization under the Common External Tariff had a smaller impact in Togo and Benin than in the other WAEMU countries, as can be seen in the comparative changes in the simple mean tariff, which decreased, and the weighted mean tariff, which increased. Given the small size of their local industrial bases and the importance of their “re-export” trade,²⁸¹ Togo and Benin already had relatively moderate tariffs and the switch to the Common External Tariff actually resulted in an increase in their weighted mean tariffs. For certain “critical” goods, the 20 percent tariff actually marked a very significant increase over the previous tariff that threatened the profitable “re-export” trade in wax fabrics and forced Togo and Benin to take exceptional temporary measures regarding the taxation of this trade.

9.27 This review of the circumstances surrounding the introduction of the Common External Tariff in Togo in 2000 is particularly important with regard to the introduction of the 35 percent fifth band approved in June 2009 (see ECOWAS below). It is noteworthy that, on the basis of a 35 percent customs duty, the combined taxes at the point of entry into the customs territory (including VAT and all of the other taxes) would come to 64.6 percent.²⁸² It is unlikely that such an increase in import taxes would be “sustainable” for Togo, without leading to an increase in fraud or the need to implement special measures to attenuate its impact, as was the case when the Common External Tariff was introduced.

9.28 No recent estimates of the actual levels of protection for the various branches of Togo’s economy are available, but the very structure of the current Common External Tariff (0, 5, 10 and 20 percent) already restricts the possibility of excessive protection rates²⁸³ and large variations between branches. However, the introduction of a 35 percent tariff on certain finished products, when raw materials and intermediate goods are taxed at 5 percent or 10 percent, will once again result in high levels of protection for local industries producing finished goods, especially in the case of industries with low value added. This factor amplifies the impact that the differential between tariffs on raw materials and on finished goods has on the level of protection. Higher levels of protection for industries producing goods taxed at 35 percent will also lead to distortions between different branches of the economy and reverse the rationalization process that has been under way for some fifteen years.

Non-tariff Barriers

9.29 Based on Togo’s notification to the WTO, there have not officially been any import bans or license requirements since 1995. On the other hand, some goods require import permits in order to carry out inspections for the protection of consumers, animals and plants or

²⁸¹ As pointed out elsewhere, the term “re-export” has several meanings in the case of Togo. Here it means local sales (of goods that have cleared customs) to foreign traders who then re-export the purchases to their home countries using their own means. The increase of the customs tariff from a very low level to 20 percent with the introduction of the Common External Tariff threatened to trigger a collapse of Togo’s re-export trade.

²⁸² Combined rate = $(100 + ((35 + 1 + 1 + 1) * 1.04)) * 1.18 - 100 = 64.6$ percent.

²⁸³ An industry where consumption of inputs represents 60 percent of the output value at international prices (or 40 percent of the value added) and where competing imports are subject to the maximum tariff of 20 percent, would benefit from an effective protection level of 42 percent under the current Common External Tariff, if the inputs are in the category subject to the 5 percent tariff, and an effective protection level of 35 percent, if the inputs are in the category subject to the 10 percent tariff. Such rates are not excessive in an international comparison. However, higher rates are possible for industries with very little value added, such as packaging.

for environmental protection.²⁸⁴ These provisions are based partially on the international agreements that Togo has signed. It was not possible to make a complete inventory of the permits, which are delivered by different ministries (see the figures on sanitary and phytosanitary measures below).

9.30 An “Import Intention” is required for all import of goods subject to inspection by CONTECNA (see the chapter on Transport and Trade Facilitation). The Import Intention, which initiates the pre-shipment inspection of the goods, is filed directly with the COTECNA’s office, which then sends the information to its offices located in the exporting countries. The Ministry of Trade reports that it does not keep statistics on these documents and, consequently, there is no double counting under the existing information systems.

9.31 In Togo, sales of food products that are imported or processed and produced locally have required prior authorization from the Minister of Trade since April 2009 under the terms of Act 99-011 of December 28, 1999 on the organization of competition in Togo. This measure applies to locally produced goods as well, so it does not discriminate against imports.

9.32 The Ministry of Health is responsible for enforcing sanitary and phytosanitary (SPS) measures with regard to human health and food, whereas the Ministry of Agriculture is responsible for measures to protect plant and animal health. SPS measures are governed by several laws and agreements: (1) the Plant Protection and Phyto-Pharmaceutical Product Approval, Distribution and Use Act;²⁸⁵ (2) the Health and Animal Control Police Act;²⁸⁶ and (3) Togo’s commitments under international treaties such as the FAO and WHO Codex Alimentarius.

Export Trade Policy

9.33 There are no export duties. Nevertheless, exports and re-exports are subject to the 1 percent statistics tax, except for companies located in the free zone and for re-exports and goods in transit to countries in the hinterland (Burkina Faso, Mali, Niger). The justification of the statistics tax on exports from the customs territory should be reviewed for its consistency with Togo’s overall trade policy. There is no clear rationale for granting generous tax incentives to boost exports from the free zone, on the one hand, and taxing exports from the customs territory, on the other hand, even if it is only 1 percent. The argument that this levy is not really a tax but a royalty for services rendered by Customs is not very convincing. Customs operations (personnel and equipment), like other central Government services, are funded out of the budget and not special levies. Re-exports are another matter and they are dealt with in Chapter 5. It is only right that Togo’s Government seeks to raise some revenue from this profitable trade. “Competition” with Benin was the only reason it had to lower taxes on re-exports, which were higher in the nineteen-eighties and nineteen-nineties.

²⁸⁴ The brewery, for example, is required to obtain permits from the Ministry of Agriculture for its periodic imports of malt used to make beer. On the other hand, the ban on turkey rumps does not seem to be motivated by sanitary concerns, but concern for protecting the local poultry industry from a by-product where the cost price is insignificant for the European poultry industry and which arrives in Togo for little more than the cost of transport.

²⁸⁵ Act 96-007 of July 3, 1995 and Decree 98-009/PR of September 30, 1999.

²⁸⁶ Act 99-002 of February 12, 1999.

9.34 **In keeping with practices worldwide, exports are exempt from VAT.** This means that if an exporter has a VAT credit as a result of paying VAT on inputs that it imports or buys locally or on services, and it cannot deduct the credit from VAT owed, it should automatically be reimbursed. It is also right for the reimbursement to be granted only up to the percentage of exports during the previous accounting period, but in Togo the reimbursement is capped at 60 percent of the VAT concerned.²⁸⁷ There is no justification for this cap. It penalizes exports from the customs territory compared to exports from the free zone, where companies do not pay VAT on their inputs²⁸⁸ and, therefore, do not build up VAT credits. Countries concerned about their export competitiveness have scrapped the cap system, as Tunisia did after the EuroMed Agreement came into force.

9.35 **Grain may not be exported without the prior authorization of Togo's National Food Security Agency (ANSAT)** on the basis of a 1995 Decree that has recently been reactivated.²⁸⁹ Food security is, of course, a legitimate objective for the Government, but better means of achieving it should be considered. The current procedure means that small producers or groups do not have the capacity to export grain and cannot take advantage of opportunities on regional or international markets, whereas other traditional cash crops, such as cotton, cocoa and coffee are in decline. This means that the grain trade is de facto a business for professional merchants and Togo's Food Security Agency, which sells its reserves. Chapter 8 on agriculture deals in greater detail with the impact that this restriction has on producers' incomes.

9.36 **Exports of other crops, livestock and fisheries products are subject to payment of an income tax advance at the border** (income tax or combined tax, depending on the exporter's tax situation). The advance comes to 5 percent of the value of the exports for operators that do not have a tax registration number and 1 percent for others.

9.37 **The main tax incentives for exports are contained in the 1989 Free Zone Act**, which was amended under the 2009 Budget Act. There are no export subsidies, but companies located in the free zone or "Free Points" enjoy a special tax status that is discussed in the chapter on the free zone. These companies also benefit from special utility rates (electricity, water, telecommunications) and special port fees. For companies located in the customs territory, the 1989 Investment Code stipulates that they should receive a tax exemption in proportion to the percentage of their output that is exported, but this provision is apparently not applied. It was included in the preliminary draft of the new Investment Code, but its application would be severely restricted if the draft were to be adopted as it stands.²⁹⁰

9.38 **Export promotion and assistance is provided primarily by SAZOF for companies located in the free zone.** Togo's Chamber of Commerce and Industry holds annual fairs (Togo 2000) to showcase the range of domestic production and attract foreign buyers as well. The Ministry of Trade, Private Sector Promotion and Industry, working in conjunction with the Chamber of Commerce and Industry, also organizes trade missions to African and European countries.

²⁸⁷ Article 327 of the General Tax Code.

²⁸⁸ At least until the 2009 Budget Act and de facto up until now.

²⁸⁹ Decree 92-092/PMRT of April 10, 1992 and Interministerial Order 04/MCPT/MEF/MDRET of February 8, 1995.

²⁹⁰ See the footnote in the "Recommendations" section of this chapter.

Regional and International Trade Agreements

9.39 **Togo belongs to two West African regional bodies:** WAEMU (West African Economic and Monetary Union, created in 1994)²⁹¹ and ECOWAS (Economic Community of the West African States, created in 1975).²⁹² The older body is, in fact, WAEMU, which in 1994 replaced an earlier regional body, WAEC (West African Economic Community), which was set up in 1974 by the French-speaking West African countries that already belonged to a monetary union with a single central bank, BCEAO.

WAEMU

9.40 **Regional integration has progressed further in the WAEMU zone than in the ECOWAS zone** for many reasons, such as a common language and administrative culture that date back to colonial times,²⁹³ a common currency (CFA Franc), longstanding trading relationships between coastal countries and countries in the hinterland, and the active role that France has played in harmonization of the legal environment. Customs unification was achieved in stages and can be considered to be complete since 2000, with a Common External Tariff and free circulation of originating goods.²⁹⁴ However, there are still border controls between the Member States. The original WAEMU rules of origin and authorization procedure have since been adopted by ECOWAS with some amendments. These will be described in this chapter. WAEMU is now aiming to introduce a true common market.

9.41 **In keeping with its objectives, WAEMU has also implemented a series of community Laws and Directives on trade policy,**²⁹⁵ including a Community Competition Code. The Competition Code is critical for the future common market, since it is aimed at preventing economic operators from creating barriers to the free circulation of goods, services, and capital (see Section 3). The WAEMU Commission is also an important player in other aspects of trade policy, such as banking laws, community law dealing with transport (road, sea, air), ports, sector policies (electricity, telecommunications, etc.), free circulation and freedom of establishment for professionals (e.g. chartered accountants), etc.

ECOWAS

9.42 **The pace of regional integration within ECOWAS has become much more rapid over the last decade.** A great deal of legislation in all fields was passed in the first two decades following the creation of ECOWAS in 1975, but only relatively limited achievements were made on the ground. ECOWAS gradually became a free-trade area and is now about to achieve its objective of becoming a customs union.

²⁹¹ 8 Member States: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo. Guinea Bissau joined the 7 founding members in 1997.

²⁹² Fifteen Member States: in addition to the 8 WAEMU countries: Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone. Cape Verde joined the fifteen founding members in 1977, but Mauritania left the Community in 1999 to join the Arab Maghreb Union.

²⁹³ Except for Guinea Bissau, a former Portuguese colony.

²⁹⁴ Meaning goods obtained entirely in a Member State (local product) and products that have undergone substantial processing.

²⁹⁵ Either in the form of Regulations that are immediately applicable in the Member States or in the form of Directives that have to be transposed into the Member States' national legislation.

Free Trade between Member States

9.43 **In theory, locally produced goods (agriculture, fisheries, handicrafts) have circulated freely between Member States since 1983.** After two false starts in 1983 and 1990, the ECOWAS Trade Liberalization Scheme for originating industrial goods became effective on January 1, 2004.²⁹⁶ Free circulation means that goods are exempt from customs duties, the statistics tax, the Community Solidarity Tax and the Community Tax (see Tariff System). Goods need to be approved for the scheme beforehand and shipped with a certificate of origin. The origin is determined either by a change in the tariff headings at the HS-4 level, or by 30 percent value added to the good based on the producer price. Goods for processing under customs rules or certain special systems are fully or partially exempt from import duties on inputs (free zone, temporary admission, inward processing warehouse, etc.) are explicitly excluded from the list of originating goods and the attendant advantages.

9.44 **Approvals are granted at the national level** by a committee made up of the Ministry of Industry and the Ministry of the Economy and Finance.²⁹⁷ The Approval Committee was merged with the WAEMU approval committee to harmonize the procedures and now deals jointly with approvals for both schemes. The lists of approved goods from each meeting, along with the applications, are sent to the ECOWAS and WAEMU Commissions for dissemination to the Member States. In the first three years of operation (2004, - 2006), the Member States should be eligible for compensation from a Trade Liberalization Scheme Fund made up of contributions from Governments to make up for lost revenue. Towards the middle of 2009, more than one thousand companies exporting from ECOWAS countries were approved for the Trade Liberalization Scheme for more than 3,000 goods.²⁹⁸ About half of the companies, accounting for 40 percent of the goods, were Nigerian.

9.45 **As of October 2009, 23 companies from Togo were approved.** These companies' exports came to CFAF 45.5 billion in the first 10 months of 2009, corresponding to CFAF 51 billion for a full year (approximately USD 114 million). Approximately 47 percent of these exports to ECOWAS countries (including WAEMU countries) were cement. Five goods (cement, beverages, wheat flour, dairy products and sheet metal) manufactured by six companies located in the customs territory accounted for 87 percent of export value. Despite the relatively high degree of concentration, these achievements are a success for Togo's industry, especially because these industries do not benefit from any special tax breaks under the Investment Code or the Tax Code.²⁹⁹ These exports are equivalent to about half of the free zone exports to ECOWAS countries.³⁰⁰ This performance is all the more remarkable because the Trade Liberalization Scheme has not solved all of the problems related to cross-border trade;

²⁹⁶ Protocol A/P/01/03 of January 31, 2003 on the notion of goods originating in the ECOWAS Member States.

²⁹⁷ Initially, for goods approved according to the value added criteria, the approval was signed by no less than the President of the ECOWAS Council of Ministers, after being examined and approved by national committees. Given the delays encountered with this procedure, approval is now granted by the national committees, as is the case for the criteria for changing tariff headings.

²⁹⁸ Central Bank of Nigeria: <http://www.cenbank.org/monetaryPolicy> since the Trade / Commerce page of the ECOWAS website, which should have presented this information, was "under construction" for the whole period from May 2009 to April 2010, when the data was being gathered for this report.

²⁹⁹ Some companies still enjoy special agreements with undisclosed terms.

³⁰⁰ Total exports from the customs territory to ECOWAS countries were greater, since some exports are not approved for the Trade Liberalization Scheme, such as iron and steel products that do not comply with the rules of origin.

sometimes the importing country's customs will reject a shipment, even though it has a valid certificate of origin. Furthermore, there are problems relating to road transport in West Africa, where there are many checkpoints on roads and "informal tolls" despite the TRIE (Transport Routier Inter-Etat) carnets introduced to facilitate trade. These problems have been documented and are discussed in Chapter 4.

Common External Tariff

9.46 **The introduction of a customs union, and the subsequent adoption of a Common External Tariff**, have been objectives of ECOWAS since it was created in 1975. After several years of preparations and negotiations, the ECOWAS countries outside of WAEMU officially adopted the ECOWAS Common External Tariff in 2005. It is based on the WAEMU Common External Tariff and has four tariff bands at 0 percent, 5 percent, 10 percent and 20 percent. The Member States were granted a transitional period up until the end of 2007 to bring their national tariffs into line with the ECOWAS Common External Tariff. Some of these countries completed their transition before the deadline. But the effective start date of January 1, 2008 for ECOWAS as a whole was not met, because Nigeria maintained some tariffs of more than 50 percent and continued bans on imports of many goods, even from other Member States.³⁰¹

9.47 **Nigeria made a proposal for a fifth tariff band at 50 percent to maintain a high level of protection for a category of goods.** The fifth tariff band³⁰² was finally adopted at the 36th Summit of the ECOWAS Heads of State and Government in June 2009, but at a rate of 35 percent. The implementation procedures are still being worked out. It is surprising that the Member States were unable to reach an agreement to use a temporary surcharge, like the Diminishing Protection Tax that gave the WAEMU countries some time and flexibility to align their tariffs on the Common External Tariff between 2000 and 2006. This tax was eliminated on January 1, 2007. Nigeria would have been able to apply temporary tax of this type unilaterally to protect certain industries for a limited period, with diminishing and differentiated tariffs. The implementation procedures that still have to be worked out include such important issues as (a) the list of goods concerned, (b) the option of phasing in the fifth band in successive increments, (c) the transitional period granted to Member States, and (d) potential derogations, etc. As stated above, it is not in the interest of many Member States, including Togo, to increase import duties on goods that they do not produce, since the combined taxes on these goods would reach nearly 65 percent, which is bound to cause prices to rise and lead to more fraud, as is already the case in Nigeria for most of the heavily taxed or banned goods (see the chapter on the re-export trade).

Economic Partnership Agreements (EPAs)

9.48 **Since the first Lomé Convention was signed in 1975, trade between the European Union and the ACP countries** was governed by a system of non-reciprocal trade preferences³⁰³ that gave the ACP countries preferential access to the European market.³⁰⁴ When the Lomé

³⁰¹ This gives rise to a flourishing re-export trade that benefits Benin and Togo.

³⁰² na.

³⁰³ On the other hand, the two Yaoundé Conventions in 1963 and 1975, which were the precursors of the Lomé Conventions, were based on a system of reciprocal preferences.

³⁰⁴ This preferential treatment excluded some 900 agricultural products, however. Some products, such as sugar and bananas, were governed by separate protocols.

convention expired in 1999, they had to be renegotiated on new foundations because of two factors. First, it had become obvious that the Lomé Conventions³⁰⁵ and their preferential trade system had done nothing to improve the competitiveness of African economies or to boost their integration into the global economy. During the term of these conventions, trade between the ACP countries and the EU increased in absolute value, but their shares of each other's markets dwindled. Furthermore, Africa's share of global trade shrank by two-thirds after the signature of the first Lomé Convention, falling from 2.9 percent in 1976 to 0.9 percent in 2006.³⁰⁶

9.49 **Secondly, the Lomé Conventions did not comply with the GATT rules**, which form the basis for the global trading system and which have been upheld by the WTO. Under the GATT rules, preferential treatment (or positive discrimination) is acceptable in only two cases: (1) either the preferential treatment is accorded to all LDCs (Least Developed Countries), as in the case of the "Everything But Arms" initiative,³⁰⁷ (2) or it is based on reciprocity under the terms of a regional free-trade agreement (FTA).³⁰⁸

9.50 **The GATT article³⁰⁹ dealing with reciprocal trade liberalization under the terms of a regional free-trade agreement leaves quite a bit of room for maneuver** and asymmetric treatment of the two parties to the agreement. The provisions stipulate that customs duties and other measures be eliminated "on substantially all trade..." and not on all trade. Under previous agreements, it was acknowledged that coverage of "substantially all trade" meant around 90 percent of the trade between the two groups, and that the 90 percent could be asymmetrically distributed. The European Commission announced in 2007 that it was granting duty-free and quota-free access to all imports (100 percent) from ACP countries that have signed Economic Partnership Agreements. Consequently, the ACP countries only had to liberalize 80 percent of their imports from the EU to satisfy the terms of the clause. The interpretation of the other GATT clause relating to a "reasonable period of time" is also very flexible and allows for very long transitional periods.

9.51 **The weaknesses of the negotiation process for Economic Partnership Agreements are well known and have been discussed elsewhere.** They can be summed up as excessive rigidity/lack of flexibility in the European Union's initial approach (failing to consider the divergent interests of different categories of ACP countries: LDCs and non-LDCs, oil-exporting countries and other countries, etc.) and the ACP countries' lack of technical preparation, which was probably due to the mistaken impression that a further derogation would be obtained and the deadline at the end of 2007 would be extended.

9.52 **However, the actual source of the problems was not so much failings during the negotiations as the opposition between the interests of the LDCs in the ACP and those of the other countries in the group.** The LDCs in the ACP group already have preferential access to the European market under the Everything But Arms (EBA) initiative of the European Union's Generalized System of Preferences (GSP). This initiative has provided them with duty-

³⁰⁵ Lomé I (1975) to Lomé IV (1989), with the trade provisions of the latter remaining in force for ten years.

³⁰⁶ Source: World Economic Outlook 2008.

³⁰⁷ Articles I and XXIV.

³⁰⁸ The European Commission got the WTO to grant a further derogation under the Cotonou Agreements. This derogation was set to expire on December 31, 2007.

³⁰⁹ Paragraph 8-b of Article XXIV of GATT.

free and quota-free access since 2001.³¹⁰ The drawbacks of the initiative compared to Economic Partnership Agreements are that the system is based on unilateral granting of preferential treatment by the EU, subject to review every three years, which means that it does not provide the same stability as a permanent trade agreement. The Rules of Origin are also slightly more restrictive and they are set unilaterally by the EU, instead of being negotiated between the parties, as they are under Economic Partnership Agreements. On the other hand, African countries that are not LDCs, such as Côte d'Ivoire and Ghana in West Africa, no longer have preferential access to the European market and are now covered by GSP++ at best, which is less favorable than the EBA initiative for the LDCs. This is why they decided to sign interim Economic Partnership Agreements in December 2007 so that they could maintain their preferential access. There is a third category of countries that covers oil-exporting non-LDCs, like Nigeria. Given that oil products³¹¹ make up 97 to 99 percent of Nigeria's exports, the value of preferential treatment for its other exports is so insignificant that it has no incentive to sign Economic Partnership Agreements. Preferential access under Economic Partnership Agreements would only benefit Nigeria if it were to diversify its exports in the future.

9.53 The problem is that all three categories of countries are members of a free-trade area, ECOWAS, which is soon to become a genuine customs union. This means that the interim Economic Partnership Agreements signed by Côte d'Ivoire and Ghana raise a real problem for ECOWAS and for regional integration.³¹² The ECOWAS Commission, which the Member States have delegated to negotiate the Economic Partnership Agreement for West Africa³¹³ maintained the deadline of the end of June 2009 for reaching an agreement, after requesting an 18-month extension in December 2007 to complete the technical preparations. The deadline was not met and many issues are still unresolved, despite the official optimism of both sides.

9.54 It was not possible to obtain documents—such as reports or simulations presented by technical staff—about Togo's contribution to the negotiations, which could throw light on its position as an LDC that is already covered by the European Union's GSP – EBA. As was the case in the other ACP countries, a national impact study was carried out in 2004 to assess the potential impact of the Economic Partnership Agreements on the economy,³¹⁴ particularly in terms of revenue. Regional impact studies were also carried out.³¹⁵ These studies may have been carried out prematurely, before the main outlines of the Economic Partnership Agreements had

³¹⁰ Except for products that are subject to special arrangements, such as bananas, rice and sugar, which are covered by transitional rules.

³¹¹ Which are not subject to customs duties in the European Union anyway.

³¹² Without a general agreement, goods imported duty free from the EU into these countries could enter neighboring countries that are not parties to the Agreement. It could be argued that (a) the elimination of customs duties will only take effect after a long transitional period, and (b) only originating products can circulate freely within the customs union in its current configuration, which maintains border controls between Member States. However, given the porous nature of land borders in Africa, some imports from the EU are bound to find their way into non-signatory countries, especially if the signatory countries are on the coast, as Côte d'Ivoire and Ghana are.

³¹³ The delegation of powers is for the negotiations only. The Agreement will be signed by the representatives of each individual Member State.

³¹⁴ Togo- Étude d'impact d'un accord de partenariat économique (APE) entre la Communauté économique des états de l'Afrique occidentale et l'Union Européenne sur l'économie (Tétra Stratégie, Togo, December 2004).

³¹⁵ Sustainability Impact Assessment of the EU-ACP Economic Partnership Agreements, Summary of key findings, policy recommendations and lessons learned, PriceWaterhouseCoopers, 2007.

even been determined (percentage of trade covered by liberalization, list of sensitive products, transition periods), and the authors did not have access to detailed customs data, which are critical for a credible revenue impact study.³¹⁶ Generally speaking, local personnel (customs, economic research departments, research institutes) were not involved in these studies, or inadequately involved, and, as far as we know, no assessment was made of the methodology. In Togo, for example, neither the Ministry of Finance nor the Ministry of Trade used the simulations based on the new proposals to develop the country's contribution to the negotiations being conducted by ECOWAS.

AGOA

9.55 Togo has qualified for AGOA (African Growth and Opportunity Act) since April 2008. This Act provides preferential access to the American market for more than 6,000 tariff items up until 2015. The AGOA Rules of Origin for manufactured goods (35 percent of value added) are deemed to be fairly restrictive, except for textiles, where AGOA does not require the use of local yarn and fabric for apparel,³¹⁷ as has been the case for preferential access to the European Union market. The American phytosanitary rules for agricultural products are notoriously strict and complex.

9.56 Between 2006 and 2008, four groups of products accounted for 98 to 99 percent of African countries' total exports under AGOA: oil products 92 to 93 percent, textiles 2 to 3 percent, mineral ores and metals 1 to 2 percent, and automobile parts 1 to 3 percent (exporter for the latter: South Africa). Textiles, as a share of African imports covered by AGOA, decreased from 2.9 percent in 2006 to 1.7 percent in 2008, after the Multi Fiber Arrangement expired. Despite relatively high American tariffs on textile imports, the differential between imports enjoying preferential duty-free access under AGOA and imports from other countries that do not enjoy any preferential treatment³¹⁸ is rarely large enough to offset the productivity differential reflected in export prices. For more other goods beside textiles, American import tariffs are not very high, averaging 5.48 percent for agricultural products and 3.14 percent for non-agricultural products between 2006 and 2008.³¹⁹ Consequently, the average advantage gained by preferential treatment under AGOA is a small one. Furthermore, the slow pace of multilateral negotiations under the Doha Process has led the United States and the European Union to enter into many bilateral trade agreements that are gradually reducing the benefits gained under AGOA, Economic Partnership Agreements, Everything But Arms, etc.

9.57 According to the AGOA website, Togo's 2009 exports to the United States stood at approximately US\$6.6 million³²⁰ and consisted primarily of cocoa beans, as opposed to US\$11.1 million in 2008. Exports qualifying for AGOA came to only US\$24,000 in 2009 and US\$149,000 in 2008, or between 0.3 percent and 1.3 percent of the total. The reason for this poor use of the new AGOA preference could not be identified. Either the exports did not meet the AGOA Rules of Origin criteria, which is unlikely in the case of cocoa, or else the preferential tariff differential was so small that it was not worth the administrative costs and delays to obtain

³¹⁶ The World Bank Trade Department conducted a study that meets these criteria for COMESA.

³¹⁷ N.a.

³¹⁸ Bangladesh, which is a major textile exporter, is covered by GSP – EBA.

³¹⁹ World Bank, *World Trade Indicators 2008*, <http://info.worldbank.org/etools/wti2008/2a1.asp>

³²⁰ AGOA website as of April 3, 2010.

it. An AGOA-Togo Committee has been set up and may look into the poor use of this arrangement. In any event, given the structure of exports qualifying for AGOA from all African countries and the minor repercussions outside of the four sectors that account for 98 to 99 percent of exports, it would not be realistic to expect major advantages from the recent eligibility, except in the case of some niche products perhaps.

WTO

9.58 **Togo has been a member of the WTO since May 1995 and grants Most Favored Nation (MFN) treatment to all countries.** The WTO Secretariat conducted two “Trade Policy Reviews” (TPRs), in 1999 and 2006.³²¹ In its institutional dealings with the WTO, the 2006 TPR noted that Togo has problems meeting the different notification requirements set out in the Treaty and the relevant updates. The Trade Policy Review does, however, cite Togo’s active participation at the Ministerial Conferences in Singapore (1995), Seattle (1999), Doha (2001), Cancun (2003) and Hong Kong (2005). In multilateral trade talks, the WAEMU Member States adopted a joint position on agriculture at the Ministerial Conferences in Cancun and Hong Kong, along with the principle of a common spokesperson for the members within the WTO.

D. Institutions Responsible For Elaboration and Implementing Trade Policy

Structure and Attributions

9.59 **The Ministry of Trade formulates trade policy.** This function was performed by the Minister to the President of the Republic in charge of Trade and Private Sector Promotion, while industrial policy was the prerogative of the Minister for Industry, Crafts and Technological Innovation. These two ministries were merged in mid-2009.

9.60 **The Ministry for Trade and Private Sector Promotion** has the conventional attributions for the sector, such as organization, coordination, oversight and development of all activities relating to trade, drafting legislation and regulations, and oversight of government-owned companies and establishments. It includes a Directorate for Foreign Trade and a Directorate for Domestic Trade and Competition. The “private sector promotion” aspect is handled by the Minister’s staff.

9.61 **The Ministry for Industry, Crafts and Technological Innovation** has a Directorate for each of its areas of competence, as well as a Directorate of Quality and Metrology. This Ministry also oversees SAZOF and, through it, the free zone. The Industry Directorate is responsible for (a) issuing authorizations and certificates of origin for products manufactured in the Community (for exports to ECOWAS, including WAEMU), and (b) for examining applications for authorization under the Investment Code³²² in conjunction with the relevant departments.³²³

³²¹ WTO, Trade Policy Review – Togo, Report by the Secretariat, WT/TPR/S166, 2006.

³²² It should be noted that Togo’s Investment Code has been suspended de facto since 1996.

³²³ These two Ministries were merged in September 2009, following the resignation of the Minister of Industry. It is not clear whether the merger is permanent or temporary. The two Ministries were merged and then separated again several times in the past.

9.62 **The Ministry of the Economy and Finance**, along with its financial arms, the General Directorate of Customs and the General Directorate of Taxes, is heavily involved in trade policy. The action of these two General Directorates probably has a more decisive influence than the action of the Ministries for Trade and Industry. This means that inter-ministerial coordination is absolutely necessary for all issues involving trade policy.

9.63 **Togo has fairly weak export quality control structures.** Responsibility for quality is divided up between the Quality Directorate at the Ministry of Industry, Crafts and Technological Innovation, the Ministry of Agriculture and other agencies. There is a National Standardization Institute (INN), a High Council for Standardization (CSN) and a National Institute for Quality Control and Metrology (INQM). The lack of an accredited laboratory to certify the compliance of exports with the standards of the importing countries, and the European Union in particular, led to the closure of a shrimp factory in the free zone a few years ago.

9.64 **The situation improved when WAEMU set up a regional quality support program** to provide “Support for Competitiveness and Harmonization of TBT/SPS Measures” financed by the European Commission. Togo is one of the eight WAEMU countries covered by the first component of the program executed by UNIDO over a three-year period starting in 2007. The objectives of the program in Togo include supporting seven public and private laboratories, including two³²⁴ applying for ISO 17025 accreditation, and six companies preparing for certification (ISO 9001, ISO 22000, etc.). The August 2009 Framework Act established the legal and institutional framework for a properly run quality infrastructure, including the attributions of the relevant bodies. A delegation from the EU Food and Veterinary Office found that the two laboratories were very close to obtaining certification, which enabled Togo to lift the self-imposed suspension of shrimp production. But the quality approach must be maintained over time, which calls for a policy that allows the laboratories to remain financially independent, maintain their equipment in working order, acquire supplies and train their staff.

9.65 **WAEMU competition legislation**, which is automatically applicable in Togo, is made up of three Regulations and two Directives³²⁵, which are also referred to as the “WAEMU Competition Code.” The Regulations deal with anti-competitive practices, cartels and abuse of dominant positions, as well as government subsidies. The Directives deal with transparency in financial dealings between the Member States and government-owned enterprises, and procedures for cooperation between the Commission and national bodies. The Directive does not define the nature of the national bodies.

9.66 **In Togo, the Directorate for Domestic Trade and Competition is responsible for “reducing and eliminating practices that restrict competition”** through the Competition and Fraud Prevention Division. This Division has sworn officials with investigative powers. There is also a National Competition and Consumption Commission (CNCC), which is an advisory body that reports to the Ministry of Trade. In the event of a dispute, the matter is referred to the Directorate of Domestic Trade and Competition, which attempts to resolve it through a conciliation procedure. Failing that, the matter is referred to the Ministry of Justice to be heard by a court. Some three or four cases per year are referred to the Ministry of Justice and one or

³²⁴ The laboratories of the National Health Institute and the Togo Institute for Agronomic Research (ITRA).

³²⁵ In order: [Règlement 02/2002/CM/UEMOA](#), [Règlement 03/2002/CM/UEMOA](#), [Règlement 04/2002/CM/UEMOA](#), [Directive 01/2002/CM/UEMOA](#) and [Directive 02/2002/CM/UEMOA](#).

two of them end up being heard by a court. According to certain Community law specialists,³²⁶ jurisdiction for competition cases now belongs to WAEMU, in addition to responsibility for legislation. It is not clear whether this interpretation applies only to disputes involving non-resident parties, or if it refers to a final (supreme) court of appeal.

9.67 The Togo Chamber of Commerce and Industry (CCIT) and Togo Trade Fair and Exhibition Center in Lomé (CETEF) are overseen by the Ministry for Trade. The CCIT hosts the Center for Business Formalities (CFE), which is the one-stop business formalities service discussed in the chapter on the Business Environment.

Capacities of the Institutions Responsible for Trade

9.68 Most of this policy (tariff policy, competition policy) is the responsibility of regional institutions, which limits the national institutions' room for maneuver with regard to trade policy. The Ministry of Trade does not always collaborate with the other ministries involved in trade policy. The private sector may be consulted, but there is no official consultation procedure. Many institutional changes in recent years, such as the scattering of staff in charge of trade, industry, private sector promotion, the free zone and quality control between various ministries, have made it more difficult to work on and achieve a consensus on a consistent policy to develop the private sector and boost exports. These are cross-cutting issues that involve the agriculture, industry and service sectors.

9.69 The Ministries of Trade and Industry adequately perform their legal attributions, but it must be acknowledged that their capacities for analysis and policy-making are fairly poor. The Directorate of Foreign Trade, for example, has some ten senior managers, but the research and analysis function is not performed systematically. Such work is done on an occasional basis in response to requests, which are often urgent, from the Trade Minister's staff or the Finance Minister's staff. This Directorate has yet to submit an annual activity report. The new management intends to produce quarterly reports and a 2009 annual report. A "Tradeportal" is now up and running and used by some managers. But, as a general rule, few managers are familiar with computers and the ability to do online research is even less widespread.

9.70 One of the factors undermining the Ministry of Trade's analytical capacity is the poor quality and late release of foreign trade statistics. The Ministry of Trade and, more specifically, the Directorate of Foreign Trade, does not have timely access to reliable statistics on Togo's foreign trade. Yet, such statistics are absolutely essential. It is hard to see how the Ministry can develop an export strategy if it does not have a clear overview of the Togo's current exports and trends over the last ten years. The trade statistics published by BCEAO will not perform this function because they are required to comply with presentation standards set by WAEMU (with a definition of special trade that excludes exports from free zones, amongst other things). This means that the BCEAO statistics fail to capture the main characteristics of Togo's trade, making them of little use to decision-makers.

³²⁶ See, for example *Etude sur l'environnement concurrentiel des télécommunications en Côte d'Ivoire*, CIRES, 2007. www.atci.ci/pages/pdf/RESUME_Rapport_ATCI-CIRES.pdf and *Voluntary Peer Review of Competition Policy: WAEMU, Benin and Senegal*, UNCTAD, 2007.

9.71 **This lack of data to inform decision-making also undermines Togo's contributions to regional and international negotiations.** There is no evidence that Togo's support for the decision to create a fifth tariff band of 35 percent within ECOWAS was guided by simulations that consider the current structure of its imports, nor any information about a process for drafting a soundly argued position as Togo's contribution to the joint ECOWAS position in the negotiations on Economic Partnership Agreements. Very recently, Togo, acting on instructions from the ECOWAS Commission, set up a National Committee for International Trade Negotiations that will include various sub-committees. The National Committee for Economic Partnership Agreements (see below) will become a sub-committee of this National Committee with extended powers.

9.72 **The Ministry is aware of the need for a coherent framework in this area and has decided to develop an export strategy.** The Terms of Reference have been set out and financing is now being sought to develop the strategy. This report and the accompanying action matrix could serve as a sound basis for developing such a strategy with the participation of all stakeholders, and private sector stakeholders in particular. The various initiatives highlight the priority task of building up the Ministry's analytical capacities, which will require both a sound statistical database and enhanced human resources.

Capacity Building Programs: Past, Ongoing and Planned

9.73 **Ministry management personnel have received training from the WTO,** the International Francophonie Organization and the EU dealing with different aspects of international trade. The EU financed support for preparations for the Economic Partnership Agreement negotiations. Since 2007, Togo has received support from a trade adviser working for the Ministry of Trade and Private Sector Promotion as part of the European Commission TradeCom program and, more specifically, the "Hub & Spokes" component. The TradeCom program supplements the technical assistance for trade matters that the European Commission already provides to regions and ACP countries through regional and national indicative programs (RIPs and NIPs). The program has three components:

- An analytical component to enhance analytical and research capacities
- A component for capacity-building for formulating, negotiating and implementing trade policies through the recruitment of a pool of trade experts and training for managers and international trade negotiators
- A component aimed at enhancing the capacities of technical institutions

9.74 **The Hubs & Spokes program corresponds to implementation of the second component of the TradeCom program.** Regional advisers located in nine regional organizations (*hubs*) coordinate a network of advisers working with national Ministries of Trade (*spokes*). Execution is provided by the International Francophonie Organization and the Commonwealth Secretariat. These two bodies are also co-financing this program, which receives the majority of its funding from the EDF. The program was extended until the end of 2009 and a further extension is under discussion. In Togo, the program financed a resident adviser's activities for two years, as well as the operations of the National Committee for Economic Partnership Agreement Negotiations (inter-ministerial coordination, participation in negotiations outside of Togo, dissemination of results to government departments, the private sector and civil

society). The contribution of the program to reinforcing the capacities of the Ministry's management staff seems to have been a small one, partly because of a poor fit with the activities of the Directorate of Foreign Trade.

9.75 In addition to the TradeCom program, Togo is a beneficiary of another EU capacity-building project executed by the International Francophonie Organization. It includes the provision of equipment (cars, ten computers, wiring, internet service), which has already been executed, and a human capacity-building component that is currently under way. A training plan for the Ministry's management personnel is part of this second component.³²⁷ The government will have to make additional investments in plant and equipment because the dilapidated state of the building housing the Directorate of Foreign Trade creates problems for operating computer equipment and is bound to need renovation work. Further hiring will be required to boost human resources. Hiring is currently handled by an inter-ministerial commission that is focusing on the issues related to capacity-building in all of the Ministries.

E. Recommendations

9.76 The discussion in the previous sections leads to a series of recommendations regarding trade policy that are aimed at stimulating investment and diversifying exports on a sustainable basis. Implementation must obviously not be chronological; all phases need to be started simultaneously, with an emphasis in the immediate future on the first phase, which is the basis for all of the other phases.

- Develop analytical and strategy formulation capacities
- Make sure investment and export incentives are coherent
- Make a determined effort to eliminate barriers to competitiveness

Develop analytical and strategy formulation capacities

9.77 Strategic Training Plan for Ministry of Trade Managers. Using the decree setting the Ministry's attributions and a pluri-annual plan of action, the Ministry would identify the skills needed to execute the program, formulate the job descriptions and make the relevant human resources management decisions, in the form of assignments and/or targeted training and recruitment. The human resources audit shall preferably be conducted by a firm specializing in this type of audit and it shall be followed up by a training plan.³²⁸ If they are to defend Togo's position in regional and international talks effectively, Ministry staff must be able to carry out impact simulations for proposals and then the trade policy decisions at the regional or multilateral level, or, at least, to interpret such simulations. This applies to negotiations on future liberalization of imports from the EU if a West Africa EPA is reached, on the fifth tariff band of the ECOWAS CET, etc.³²⁹ This analytical work needs to be carried out in close consultation

³²⁷ There was no way of knowing if the training plan was based on an institutional audit and a prior definition of the job descriptions.

³²⁸ The various training sessions for ministry management personnel in the past seemed to be based more on what was available from the partners rather than on any identification of needs.

³²⁹ For example, the impact of imports on customs revenues and the ultimate competitiveness of local industry faced with imports from the European Union. Analysis of the outlook for export growth following the full opening of the EU market and potential amendments to the Rules of Origin.

with Customs and other agencies. The simulation software is available,³³⁰ for free in most cases, but management personnel are not trained to use it yet. This preliminary impact analysis will lead to the identification of trade policy measures.

9.78 Improving statistics and access. The Ministry of Trade does not need direct online access to the Customs computer system. On the other hand, it does need access to some of the statistics (values and quantities, destinations, origins, etc.) as soon as they become available (access and filtering procedures have yet to be defined) and access to aggregated monthly statistics in order to analyze Togo's foreign trade trends. Collaboration with the other departments that currently publish foreign trade statistics is critical³³¹ in order to agree on the most significant aggregates to track and analyze for the purposes of foreign trade policy. For example, the currently available statistics are restricted by the United Nations System definition of special trade (i.e. leaving out the imports and exports of companies located in the free zone) and do not provide an accurate picture of Togo's foreign trade. A statistical database is critical for carrying out the simulations described in the figure above.

Make sure investment and export incentives are coherent

9.79 Given the small size of the domestic market, the population's weak purchasing power and the country's heavy involvement in regional trade, most of Togo's growth potential is bound to lie in exports. The description of Togo's foreign trade in the first section shows that exports from the customs territory and the free zone alike are shipped mainly to other countries in the region. Exports from the customs territory to other ECOWAS countries³³² seem to be competitive, even though they do not benefit from any special advantages other than the usual measures applying to exporting companies, but the intrinsic competitiveness of companies located in the free zone is not so clear cut, since it seems to rely in part on massive exemptions that lend a degree of rather artificial competitiveness to these companies.

9.80 This makes it critical to ensure that, in the medium term, the incentives set out in the new Investment Code are coherent with the incentives under the rules of the free zone. The goal is to increase and diversify exports from the customs territory, as well as ensuring that the free zone attracts new companies, without encouraging them to relocate for tax reasons only, since such companies are unlikely to stay for long. This approach seems more in line with regional integration, which is bound to be stepped up in the coming decade. The case of the free zone is discussed in detail in Chapter 6. The Government can use several instruments to increase and diversify exports from the customs territory:

- Introducing incentives for companies that fail to reach the 80 percent threshold (or 70 percent threshold in the new bill) to qualify for free zone status. The system should be tapered (as should incentives in the free zone) and limited over time to help companies

³³⁰ For example, the TRIST simulation software developed by the World Bank.

³³¹ The BCEAO annual publication on foreign trade is still mainly descriptive, despite major efforts to improve the presentation.

³³² See the ECOWAS section: approximately CFAF 50 billion per year; five products (cement, beverages, wheat flour, dairy products and sheet metal) account for 90 percent of exports to other ECOWAS countries.

cover the initial costs of penetrating a new market and building up their market position.³³³

- The domestic and free zone tax rules should be gradually brought into line to reduce the differential that penalizes companies that are able to export from the customs territory, and still pay duties and taxes.

This approach would necessarily involve more sustained efforts to make the economy more competitive and to improve the business environment, particularly in the areas of training and infrastructure.

9.81 Coherency is also needed for promotional measures. Promotion of investment in Togo is inextricably linked to export promotion and cannot be handled by two separate institutions. And yet, the preliminary draft of the Investment Code includes the creation of an Investment Promotion Agency (IPA). It would be counterproductive to set up a new agency if the existing structures are not even provided with the necessary operating resources on a permanent basis. It would be better to add the investment promotion function to the mandate of SAZOF. Perhaps SAZOF should even be given the new name of Investment and Export Promotion Agency. It should also be restructured and provided with the necessary resources. The remaining powers relating to the “administration” of the Investment Code should be redefined, with a distinction between the prior authorization step and follow up/supervision. Authorization powers should be attributed to an authorization commission, which would only be called upon to authorize investments greater than a certain amount. This commission could be hosted by the new Investment and free zone Promotion Agency. In the meantime, follow up and supervision would be the responsibility of the Directorate General of Taxes and the Directorate General of Customs, which normally perform these functions. Achieving such coherence calls for close collaboration between the Ministry of Trade and Private Sector Promotion and the other ministries and institutions concerned by the reforms, including the Ministry of Industry, which is responsible for recasting the Investment Code, the Directorate General of Taxes and the private sector.

Make a determined effort to eliminate barriers to competitiveness

9.82 The Government’s top priority should be improving the competitiveness of the economy in its trade and industrial policies, since tax incentives are bound to be limited over time. Special attention is required in three areas:

- The regulatory environment for business, particularly with regard to the ease of starting businesses and legal security. This critical aspect is discussed in the chapter on the business environment.
- The cost and quality of infrastructure (transportation, electricity, telephone network) are key competitiveness factors for companies. These aspects are also discussed in the chapter on the business environment in the broadest terms, and in the chapter on facilitation of transportation and trade.

³³³ Such an incentive would promote the “self-discovery” process advocated by Hausmann and Rodrik (2002) that businesses in a country use to identify what they produce best. Governments can facilitate the process without steering it in a predetermined direction.

- **Quality:** In contrast to its exports to other countries in the region, and as part of a diversification of export markets to North Africa, Europe and, potentially, the United States, Togo's comparative advantage would lie in agricultural products, processed foods and fisheries products, where quality requirements are very strict. This means it is important to capitalize on the support provided through the European Union's "Quality" project to achieve a lasting improvement in the quality control and export certification system, including ensuring permanent funding for the system by having the private sector pay for its services.

9.83 **The role of the Ministry of Trade and Private Sector Promotion** in driving progress in competitiveness. The various policies and measures to be implemented depend on many different Ministries and practically on the whole Government. The most important decisions are not made by the Ministry of Trade and Private Sector Promotion, but by the Ministry of Finance. However, the Ministry can and must act as a driving force, an advocate and coordinator. The Ministry could take the initiative of setting priorities, defining a plan of action and a timetable, which could take the form of a communication to be adopted by the Council of Ministers to ensure the support of the other Ministries, and make periodic progress reports to the President of the Republic.

9.84 **Creating institutional mechanisms and coordination bodies.** One illustration of this approach, which combines goal setting and concerted action, is the workshop on the formalities for starting a business ("Doing Business" indicator) that the Ministry held in May 2009. The workshop was attended by all the departments of the other ministries involved in the process and by participants from the private sector. On the other hand, following up the effective implementation of the recommendations concerning business environment indicators, which depends primarily on other Ministries, such as Finance and Justice, calls for a more systematic approach and the introduction of institutional mechanisms and coordination bodies with the other ministries and institutions for areas covered by trade and private sector promotion policies. Different mechanisms have been introduced and used by other countries with varying degrees of success. Conclusions about what worked and what did not work are beyond the scope of this report and depend on the specific context of each country. Togo could draw on some of these experiences and set up effective coordination bodies between government departments and between the public and private sectors, building on existing structures.

Appendix 1: Sources and Interpretation of Togo's Foreign Trade Statistics

This report uses three sources of foreign trade statistics:

- **Togo Customs:** electronic files for each customs category
- **BCEAO:** publication “Le Commerce Extérieur du Togo 2007”
(the 2008 edition was not available as of this writing)
- **IMF:** statistics compiled by Fund staff

Each one of these sources has its own advantages and drawbacks.

Togo Customs: This source provides raw data based on customs declarations. The files are divided up by import and export categories, with clear distinctions, for example, between imports for “domestic consumption” (meaning goods that have cleared customs), imports under various temporary admission rules (e.g. goods for processing or re-export), imports for the Free Trade Zone and imports for the Free Manufacturing Zone, etc. Judicious use of these data files makes it possible to distinguish clearly between the various trade flows and avoid double counting. They can also be used for analysis by product or by origin, which are both aggregation options that the user can choose. Drawbacks: (1) raw unadjusted data, and (2) large and unwieldy data files.

BCEAO: The raw Customs data are reviewed by the Foreign Trade Statistics Committee, which is chaired by the National Statistics Directorate and has members who are technicians from BCEAO and Customs. The Committee makes some adjustments (errors, price corrections, etc.) BCEAO then uses the validated data to compile its report on Togo's foreign trade. The data are also sent to the United Nations Statistics Division and published in the online Comtrade database. Up until 2005, the statistics published by BCEAO and Comtrade were fairly similar to the Customs statistics, with a few minor adjustments. Between 2002 and 2004, the BCEAO statistics were 5 to 10 percent greater than the Customs statistics and they were virtually identical in 2005.

In 2006, BCEAO introduced major methodology changes, which are not discussed in its publications, and it did not recalculate the statistical series using the new methodology. Starting in 2006, on instructions from the WAEMU Commission, Togo's foreign trade statistics are presented using the *special trade* definition, instead of the previous *general trade* definition. According to UNCTAD, the general trade system is used when the statistical territory of a country is the same as its economic territory, whereas the special trade system is used when the *statistical territory covers only part of the economic territory*. In the case of Togo, the difference is a major one, since the special trade system does not include the imports and exports of companies located in the free zone. This change means that the BCEAO statistical series show a collapse of Togo's exports in 2006 and 2007, whereas the Customs statistics show no change in the trend. Meanwhile, BCEAO circumvents the special trade definition by including clinker exports from WACEM, which is deemed to be a free zone company.

The break in 2006 is not apparent for imports. The BCEAO and Customs statistics on imports are quite different from 2002 to 2004. They are more similar in 2005 and virtually identical in 2006 and 2007. The difference between general trade and special trade is less important for

imports, since the Customs statistics did not include free zone companies' imports under temporary admission rules in the "domestic consumption" category.

IMF: The IMF bases its estimates on the data provide by BCEAO. It works in close collaboration with the central bank, but it reconciles these data with financial transaction data from the balance of payments. The IMF also uses balance of payments data to estimate the size of re-export trade and to publish statistics on trade in services.

In this report, we use Customs statistics or BCEAO statistics as needed, but we include exports from the free zone in the statistics after 2006. The IMF's balance of payments statistics are the only source for statistics on trade in services. To avoid adding statistics from two different sources, we do not present the trade balance in goods and services.

Conclusions and Recommendations: Much work needs to be done to reconcile and present Togo's statistics. Togo needs to comply with the WAEMU Commission instruction and submit official statistics using the special trade definition to the United Nations Statistics Division, but it also needs foreign trade statistics to inform the decision-making of its economic ministries (Economy and Finance, Trade, Industry, etc.) and the exclusion of the free zone trade flows prevents it from obtaining this information. Therefore, the nature of statistics that meet the users' needs has to be defined and statistical series need to be presented accordingly, specifying the trade definition used.

The current presentation of statistics is very static and does not account for changes in trade. Whole pages of statistics and analysis are devoted to coffee and cocoa, which, taken together, account for less than 3 percent of exports, while more important products and categories are not even mentioned. Simply calculating variations from one year to the next does not capture major trends that are helpful for economic analysis.

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