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International Finance Corporation
Sub-Saharan Africa Department

Multilateral Investment Guarantee Agency
Sub-Saharan Africa Department



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Currency: FCFA *Franc de la Communauté Financière Africaine*
(Exchange Rate Effective as of June 2016)

US\$1.00 = FCFA 584.16

Abbreviations and Acronyms

ACLED	Armed Conflict Location and Event Data
ANSAT	<i>Agence Nationale de la Sécurité Alimentaire du Togo</i> [National Agency for Food Security]
APMT	APM Terminals
ARSE	<i>Autorité de Réglementation du Secteur de l'Electricité</i> [Electricity Sector Regulatory Authority]
ARTP	<i>Autorité de Réglementation des Secteurs de Postes et de Télécommunications</i> [Telecommunications and Postal Sectors Regulatory Authority]
BAL	Bolloré Africa Logistics
BCEAO	<i>Banque Centrale des Etats de l'Afrique de l'Ouest</i> [Central Bank of West African Nations]
BIFS	Baseline Informal Firm Survey
CASIMEC	<i>Cellule d'Appui et de Suivi des Institutions Mutualistes ou Coopératives d'Epargne et de Crédit</i> [Center for the Support and Monitoring of Cooperatives and Mutual Savings and Credit Associations]
CAGIA	<i>Centrale d'Approvisionnement et de Gestion des Intrants Agricoles</i> [Central Organization for the Provision and Management of Agricultural Inputs]
CEB	<i>Communauté Electrique du Bénin</i> [Electricity Community of Benin]
CEET	<i>Compagnie Energie Electrique du Togo</i> [Electrical Energy Company of Togo]
DALY	Disability-adjusted life year
DB	Doing Business
DPT	Diphtheria, pertussis, and tetanus
ECOWAS	Economic Community of West African States
EITI	Extractives Industries Transparency Initiative
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GNI	Gross National Income
HHI	Herfindahl-Hirschman Index
HIPC	Heavily Indebted Poor Countries
HIV	Human immunodeficiency virus
HKW	Hausmann, Klinger, and Wagner

HRV	Hausmann, Rodrik, and Velasco
IAEA	International Atomic Energy Agency
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IGF	<i>Inspection Générale des Finances</i> [General Inspector for Finance]
IMF	<i>Impôt Minimum Forfaitaire</i> [Minimum Lump Sum Tax]
IMF	International Monetary Fund
INSEED	<i>Institut Nationale de la Statistique et des Études Economiques et Démographiques</i> [National Institute of Statistics and Economic and Demographic Studies]
IPTp	Intermittent preventive treatment for malaria in pregnancy
ITRA	<i>Institut Togolais de Recherche Agricole</i> [Togolese Institute of Agricultural Research]
ITU	International Telecommunication Union
KHM	Cambodia
LCT	Lomé Container Terminal
LLIN	Long-lasting insecticide net
MDRI	Multilateral Debt Relief Initiative
MFI	Microfinance Institution
MICS	Multiple Indicator Cluster Survey
MSC	Mediterranean Shipping Company
MT	Metric tons
NFA	Net Foreign Assets
NGO	Non-governmental organization
NPK	Nitrogen, Phosphorous, and Potassium
NSCT	<i>Nouvelle Société Cotonnière du Togo</i> [New Togolese Cotton Company]
NTB	Nontariff barrier
OHADA	Organization for the Harmonization of African Business Law
OSIWA	Open Society Initiative for West Africa
OTR	<i>Office Togolais des Recettes</i> [Togolese Revenue Authority]
PAL	<i>Port Autonome de Lomé</i> [Autonomous Port of Lome]
PK	Phosphate and Potassium
QUIBB	<i>Questionnaire des Indicateurs de Base du Bien-être</i> [Welfare Indicators Survey]
REER	Real Effective Exchange Rate
RPT	French Acronym for Rally for the Togolese People
RT	<i>République Togolaise</i> [Republic of Togo]
SCAPE	<i>Stratégie de Croissance Accélérée pour la Promotion de l'Emploi</i> [Strategy for Accelerated Growth and the Promotion of Employment]
SCD	Systematic Country Diagnostic
SIGFIP	<i>Système Intégré de Gestion des Finances Publics</i> [Integrated Public Financial Management System]
SOE	State-owned enterprise
SSA	Sub-Saharan Africa(n)
TdE	<i>Togolaise des Eaux</i> [Togolese Water Company]
TEU	Twenty foot equivalent (container) unit

TFFS	Togo Formal Firm Survey
TLU	Tropical Livestock Units
TP	<i>Taxe Professionnelle</i> [Professional Tax]
TPU	<i>Taxe Professionnelle Unitaire</i> [Unitary Professional Tax]
TRIFS	Third Round Informal Firm Survey
VAT	Value-Added Tax
WAEMU	West African Economic and Monetary Union
WB	World Bank
WBES	World Bank Enterprise Survey(s)
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WHO	World Health Organization
WITS	World Integrated Trade Solutions

IBRD	IFC	MIGA
Regional Vice President: Makhtar Diop	Vice President: Nena Stoiljkovic	Vice President: Karin Finkelston
Country Director: Pierre Laporte	Director: Vera Songwe	Director (Acting): Dan Biller and Yasser M. Ibrahim
Country Manager: Joelle Dehasse Businger	Country Manager: Ronke- Amoni Ogunsulire	
Task Team Leader: Theresa Osborne	Task Team Leader: Aimilios Chatzinikolaou	Task Team Leader: Conor Healy

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Core Team Contributors

Sylvie Nenonene	Senior Communications Officer
Godwill Kan Tange	Senior Country Economist
David Cal MacWilliam	Senior Economist MFM
Aimilios Chatzinikolaou	Senior Operations Officer, IFC
Aly Sanoh	Economist, Poverty GP
Johannes Hoogeveen	Lead Economist, Poverty GP
Hillary C. Johnson	Consultant, Poverty GP
Alessia Thiebaud	Consultant, Poverty GP

Additional Team Contributors

Erick Herman Abiassi	Agriculture
Martien Van Nieuwkoop	Agriculture
Nicaise Ehoue	Agriculture
Ozong Agborsangaya-Fiteu	Conflict and Fragility
Koffi Hounkpe	ENV/DRM
Benoit Bosquet	ENV
Raffaello Cervigni	ENV
Hyacinthe Gbaye	Education
Pamela Mulet	Education
Morten Larsen	Extractives
Nina Inamahoro	Extractives
Philippe Marie Aguera	Fin/PSD
Axel Gastambide	Fin/PSD
Daniel John Kirkwood	Gender
Helene Grandvoinnet	Governance
Serdar Yilmaz	Governance
Robert Yungu	Governance
Ibrahim Magazi	Health
John Paul Clark	Health
Haidara Ousmane Diadie	Health
Jerome Bezzina	ICT

Michel Rogy	ICT
Audrey Ifeyinwa Achonu	IFC
Frank Armand D. Douamba	IFC
Hamidou Sorgo	IFC
Francis Yao Attikpo-Magloe	Information Technology
Guy Kossi Lakpo	Information Technology
Conor Healy	Risk MNGT
Lorenzo Bertolini	Senior Private Sector Development Specialist
John Van Dyck	Social Protection
Djibrilla Adamou Issa	Trade and Competitiveness
Leonardo Iacovone	Trade and Competitiveness
Magueye Dia	Trade and Competitiveness
Ibou Diouf	Transport
Alexander E. Bakalian	Irrigation
Pierrick Fraval	Irrigation
Matar Fall	Water
Carolina Dominguez Torres	Water
Felicien Donat Edgar Towenan Accrombessy	Poverty GP

Executive Summary

I. Introduction

1. **Once the “Switzerland of West Africa,” Togo today strives to transition from its status as a low income, fragile state to an emerging economy.**¹ Soon after independence, Togo was able to achieve economic progress by building an effective public administration and pursuing open, market-oriented economic policies. It established sound governance of the banking sector, successfully exploited its phosphate reserves, and became a subregional hub for logistics, trade, and banking (World Bank 1996, 2013a). At its peak in 1980, Togo’s per-capita gross domestic product (GDP) had risen from US\$272 (in 1960) to US\$534 (values in 2005 purchasing power parity (PPP) US dollars), a level surpassing that of many developing economies. However, these gains soon began to reverse. Despite growth over the past decade averaging 4 percent, Togo’s real per-capita GDP today remains lower than at its 1980 peak (Figure I). Its extreme poverty rate of 49.2 percent is almost twice that of Ghana directly to its west (25.2 percent).² At the same time, Togo’s ranking in the United Nations Development Programme’s Human Development Index has fallen from 95th in the world in 1980 (in the bottom 23 percent among the 124 countries with data in that year) to 166th out of 187 countries (bottom 10 percent) in 2013.

2. **Early shifts in economic strategy have not been conducive to shared prosperity and poverty reduction.** Having achieved some success following pro-market policies, in the mid-1970s the government began moving to inward-oriented, state-led industrial development policies. It created public enterprises, nationalized private companies, adopted price controls, and instituted high rates of effective protection averaging 200 percent. Without more scope to operate, the private sector shrank. Given large public spending programs, inadequate fiscal receipts, and undisciplined budget flows, the government began relying increasingly on external borrowing. Public debt service reached 76 percent of fiscal revenues in 1981, and Togo’s debts became unpayable. Between 1979 and 1990, Togo undertook structural adjustment measures designed to improve public sector management; rehabilitate, privatize, or liquidate public enterprises; and improve economic incentives. It simplified the tax system, lowered and unified tariff rates, eliminated many price controls, and abolished the state’s monopoly on imports (World Bank 1996). Growth returned from 1984 to 1989 despite an unfavorable external environment, and private investment more than doubled from 4 percent to 10 percent of GDP. Nonetheless, some structural reforms remain unfinished, and legacies of Togo’s state-led growth experiment persist.

3. **Recurrent political crises have hampered Togo’s economic development.** After years of pressure for greater democratization under President Gnassingbé Eyadema, in 1991, Togo entered a prolonged period of political tension, and key development partners curtailed or suspended their programs over concerns about governance, human rights and democracy. Official development assistance fell from 1992 to 2002 and exacerbated the government’s difficulties in delivering public investments and services. In 2002, Togo fell into debt service arrears with the World Bank, which joined other donors in suspending its financing. The further decline in donor support aggravated unsustainable public debt levels, which grew to almost 115 percent of GDP in 2005. With the sudden passing of President Eyadéma in February 2005, presidential elections were organized in April 2005 and, in an atmosphere of heightened political tension and violence, Faure Gnassingbé was elected. The opposition protested the results and political tensions grew further. A national dialogue involving various political parties was organized and resulted in the Global Political Accord (GPA) between government and the opposition in August 2006. The GPA led to a

¹ Togo’s current GNI per capita is the ninth lowest of the 35 countries in Sub-Saharan Africa with data available (WDI).

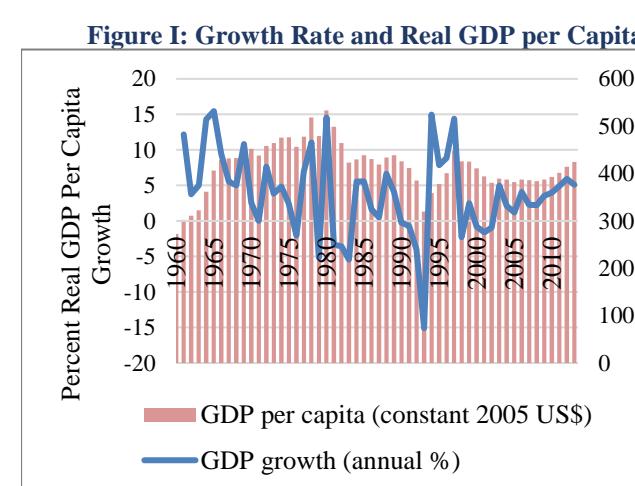
² *Questionnaire des Indicateurs de Base du Bien-être* (QUIBB) 2015. Extreme poverty is defined as living on less than US\$1.90 per capita per day in 2011 PPP.

new round of democratic reforms, including the establishment of a transitional unity government, legislative elections in 2007, and the professionalization of the military.

4. Political reforms since 2006 have stabilized the country, but unresolved political issues still present a risk for Togo. With the 2006 GPA and legislative elections in 2007, development partners reengaged in Togo and the country embarked on a new period of recovery. However, the delayed implementation of some 2006 GPA reforms remains a point of contention. Combined with the government's difficulties in advancing reforms to broaden and accelerate economic opportunities, Togo remains vulnerable to future episodes of conflict. It has experienced an increase in tensions and violence during election seasons, and such periods remain delicate.

5. Togo has pursued important economic and structural reforms since 2006. Following a range of reforms pursuant to the Heavily Indebted Poor Countries (HIPC) debt relief initiative, Togo qualified in

2010. These economic reforms led to the preparation of the Interim Poverty Reduction Strategy (I-PRSP) and a full PRSP. Building on these two strategies, Togo prepared its Strategy for Accelerated Growth and Employment Promotion (SCAPE, its French acronym) for 2013-2017. In 2015, Doing Business named Togo a Top Reformer for significant improvements in the costs of starting a business, registering property, protecting minority investors, and paying taxes, jumping from 164th in the 2014 rankings to 152nd in 2015 and 150th out of 189 countries in 2016. Other steps have been taken to increase transparency, and indicators of democratic governance have improved. For example, Togo's ranking in the Economist Intelligence Unit's Democracy Index has improved from 164th out of 167 countries in 2006 to 130th in 2015.



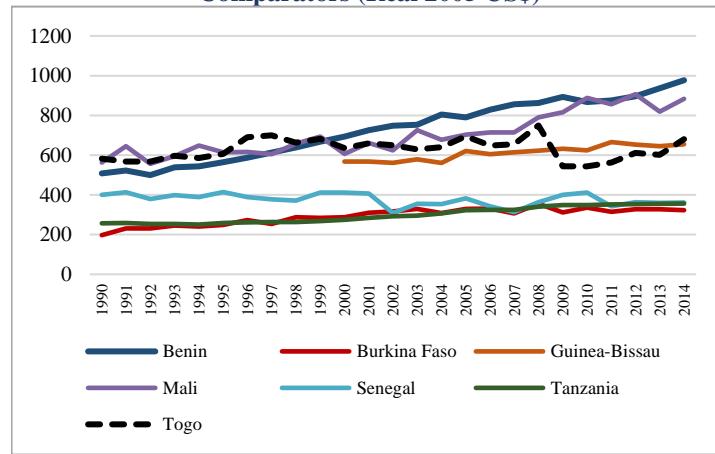
Source: World Development Indicators (WDI), World Bank.

example, Togo's ranking in the Economist Intelligence Unit's Democracy Index has improved from 164th out of 167 countries in 2006 to 130th in 2015.

6. Although recent growth has been significant, Togo's sources of growth appear to be vulnerable to shocks and remain unsustainable. Economic growth has averaged over 5 percent during the past five years, owing to high rates of growth in commerce, transport and services, building, and public works, as well as solid growth in agriculture. However, growth in transport is underpinned in part by trade diversion and smuggling, which are not reliable sources of growth, while large infrastructure investments, though critical for the country's economic development, are not financed in a fiscally sustainable manner (IMF 2015). Public debt is growing rapidly, and another fiscal crisis could be on the horizon. Adding to these issues are major environmental risks. Climate change has begun to adversely affect agriculture and increase flood risks. Moreover, current economic growth rates are entirely offset by local environmental degradation, primarily through soil and forest resource depletion, coastal erosion, and ambient air and water pollution. Togo ranks 161st out of 180 countries on the 2015 Environmental Performance Index. Due to the country's failure to accumulate and preserve its physical, financial, and natural wealth, Togo's net national savings rates are negative when adjusted for environmental degradation (WDI 2006-2012).

7. **Despite modest poverty reduction over the past several years, Togo is not likely to eliminate extreme poverty by 2030.**³ Poverty rates have declined slowly, from 61.7 percent to 55.1 percent between 2006 and 2015 (QUIBB 2105). More efforts are needed to improve the distribution of growth, which has not always benefitted the poor: although consumption increased in all parts of the income distribution between 2011 and 2015, between 2006 and 2011 the bottom 35 percent experienced a fall in consumption (INSEED 2015). The lack of more significant progress in reducing poverty is a result of the country's inability to sustain an inclusive growth process to which the poor contribute and from which they benefit.⁴ Private investment remains low, averaging 12 percent of GDP over 1996–2014, and productivity growth, demand for labor, and wages are generally low. Underemployment (at 24.9% in 2015) is high, especially among the country's youth. Formal firms, which show labor productivity of 7.5 times that of informal firms, enter at unusually low rates (World Bank 2015f, 2015g, 2016). In addition, agriculture, which accounts for approximately 41 percent of Togo's GDP,⁵ has shown flat productivity trends since 1990 (Figure II).

Figure II: Agriculture Value Added per Worker, Togo and Comparators (Real 2005 US\$)



Source: WDI, World Bank.

8. **To accelerate and sustain poverty reduction, Togo will need to unleash a more robust, inclusive, and sustainable growth process, led by private economic agents, and supported and amplified by more effective government policies, public investments, and services.** This diagnostic seeks to provide an evidence-based analysis and understanding of the key constraints and opportunities on Togo's path toward sustainable pro-poor growth.

II. Key Constraints to Reducing Poverty and Promoting Shared Prosperity

Key Constraint 1: Governance Challenges

9. **Togo's centralized system of governance provides little accountability on the part of public institutions and results in low levels of state capacity and weak incentives to formulate and implement policies that are favorable to poverty reduction.** Togo ranks below all comparator countries on three Worldwide Governance Indicators (WGI)—*voice and accountability, rule of law, government effectiveness, and control of corruption*—and worse than all comparators except Bangladesh and Nepal on *regulatory quality* (Figure III). Two dimensions in particular are key to Togo's progress: *control of corruption*, defined as “the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests,” and

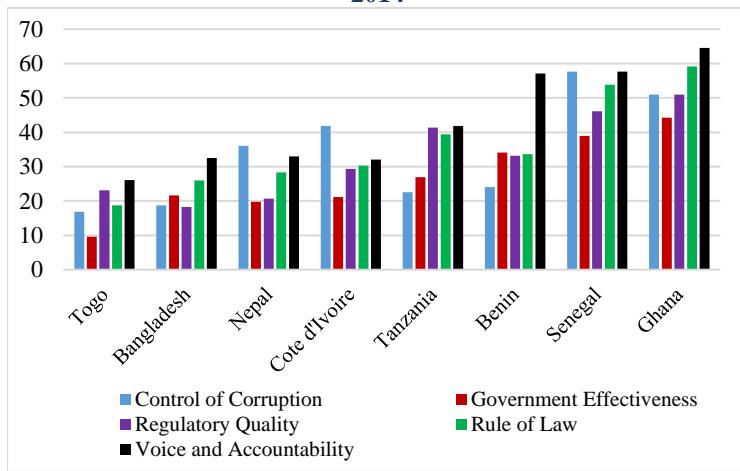
³ This goal subsumes the World Bank's other twin goal of raising the lifetime welfare (using current consumption as a proxy) of the bottom 40 percent of the consumption/income distribution, since Togo's poverty rates exceed 40 percent.

⁴ See Ianovichina and Lundstrom (2009), who provide this definition of inclusive growth.

⁵ This figure reflects the mean value for 2010–14, as derived from national accounts data.

government effectiveness, defined as “the quality of public services, the civil service and degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.” In recent years, when Togo has made improvements in either indicator, growth has responded positively in subsequent years. Yet, despite increased *government effectiveness* since 2005, Togo still ranks better than only 9.6 percent of countries in the world on the WGI measure. Since 2010, Togo’s *control of corruption* has fallen to the 16.8th percentile.

Figure III: Worldwide Governance Indicators, Percentile Rank, 2014



10. These difficulties are rooted in a relatively centralized system of economic governance, shaped by conflicts of interest spanning public, quasi-public, and private spheres. The result is low government effectiveness in formulating and implementing policies enabling private economic activity, including in agriculture; low effectiveness in setting priorities for and delivering public goods and services (including low value for money); and—at the fulcrum of these issues—weak fiscal governance.

Key Constraint 2: Weaknesses in Fiscal Governance

11. **Weaknesses in the management of Togo’s government budget have led to a structural deficit and a high risk of fiscal liquidity constraints.** Since the 1970s, the economy has oscillated between fiscal crisis and rebound growth, accumulating debts and falling into arrears. Over a period of 16 years, from 1979 to 1995 (IMF 2006), Togo rescheduled its public debt 10 times, followed later by multi-lateral debt forgiveness under HIPC in 2010 and multi-donor relief (MDR) programs. Six years after debt relief, public debt has increased rapidly. The government has made some efforts to reform public financial management (PFM) in accordance with WAEMU directives, but these have not addressed key challenges. The recurrence of supplementary budgets reduces the credibility of the budget, and the line between the budgets of state-owned enterprises and the state remain unclear. Funds flows are difficult to track and fiscal accounts easily manipulated. Budget formulation and public investment management are ad hoc, insufficiently strategic, and nontransparent. In addition, the tax base—in particular, revenues from the small formal private sector (and SOEs)—remains narrow, with only 20 companies accounting for two-thirds of corporate tax revenue. In most sectors where SOEs have operated, they have suffered from mismanagement, inadequate budgetary discipline, and/or bankruptcy.

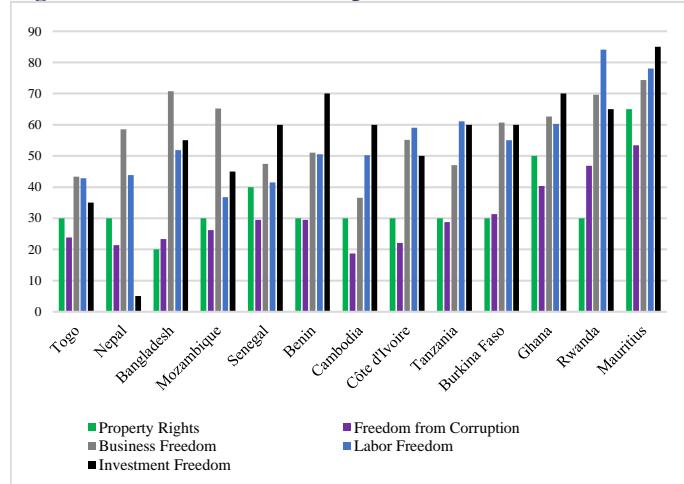
12. **Although Togo’s significant reserves of mineral resources hold the potential to expand needed fiscal space, there has been little progress in making this possibility a reality.** Togo’s extractives industry remains largely state-owned and poorly governed. In 2013, according to the Extractive Industries Transparency Initiative, Togo’s declared fiscal receipts from extractive industries totaled only US\$31 million, 0.7 percent of GDP, which amounts to approximately 3.5 percent of (non-grant) fiscal receipts. Current efforts to expand phosphates production, with the potential to double fiscal receipts by 2024, are encouraging but proceeding slowly. Despite the potential, the most likely scenario would result in an increase of fiscal revenues relative to 2014 levels of 1 percent commencing in 2021 and rising to 2.5 percent in 2024.

13. **The current rate of accumulation of public debt raises severe sustainability concerns.** Whereas debt relief in 2010 reduced Togo's stock of public debt to 32.1 percent of GDP, this debt has grown rapidly to an estimated 58.5 percent of GDP in 2015 (according to the government).⁶ Furthermore, these numbers do not fully account for fiscal liabilities. There are unbudgeted contingent liabilities associated with public ownership of companies that have required periodic infusions of fiscal resources. In addition, the government has adopted a practice of “prefinancing” investments (*préfinancements*), whereby liabilities are not budgeted in the year they are assumed, but later appear in the budget as mounting debt-servicing costs.

Key Constraint 3: Barriers to Entry, Policies and Regulations that Distort Private Economic Activity

14. **Togo's governance system skews the formulation and implementation of policies and regulations affecting private economic activity.** Despite recent reforms to improve the investment climate, a variety of policies, regulations, and ad hoc state interventions remain, which distort the landscape for private economic activity and block rather than foster healthy competition and a dynamic private sector. The country's investment climate rates poorly on businesses' freedom to invest, operate, employ workers, and enjoy adequate property rights protections—collectively termed “economic freedom” by a variety of organizations. Togo's composite *economic freedom* score from the Heritage Foundation corresponds to a ranking of 152nd out of 183 countries. Among comparator countries, on subcomponents of economic freedom, Togo rates poorly on *business freedom* (higher only than Cambodia), *investment freedom* (higher only than Nepal), and *labor freedom* (higher only than Mozambique) (Figure IV).

Figure IV: Scores on Components of Economic Freedom



Source: Heritage Foundation 2014.

15. **Existing firms consider these constraints to be major obstacles.** Over 70 percent of firms participating in the 2009 World Bank Enterprise Survey (WBES) rated corruption as a major or severe constraint to their business (World Bank 2009b), and 42 percent of firms responding to the 2015 Togo Formal Firm Survey (TFFS) cited corruption in the regulatory regime in particular (rather than all forms of corruption) as a major or severe constraint (World Bank 2015f). In addition, 56 percent of formal businesses rated the practices of dominant competitors—some state-owned, some otherwise favored—as major or severe obstacle to their business (World Bank 2015f). A high level of state ownership exacerbates the likelihood of preferential treatment in the regulatory and judicial systems. Togolese SOEs operate not only in the strategic phosphates, cotton, and telecommunications sectors, but also in banking, transport, printing, accounting, distribution of butane gas, livestock slaughter, and cement. In 2009, Togolese enterprises had the highest average share of state ownership when compared to an array of low-income countries. Among manufacturing firms in 2015, an estimated 28 percent still have some state ownership (World Bank 2015f).

16. ***De jure* reforms have reduced barriers to entry for some investors, but important barriers to entry remain.** For example, Togo's 2012 investment code provides wide scope for denying approvals of

⁶ The latest IMF estimate projection was 62.5 percent. (IMF Article IV, November 2015)

investments either over US\$1 million or in sectors deemed strategic. Togo's regulatory framework presents barriers to accessing inputs, whether imported or domestically produced. Togo ranks especially poorly in Doing Business indicator on *trading across borders* (2016), as the time cost of complying with border and documentary requirements for importing (but not exporting) amounts to 256 hours and 203 hours, respectively. This compares unfavorably with neighbor Benin, where the same procedures take 72 and 59 hours, respectively. Price regulation also constrains flexible access to inputs with the specifications and quality needed.

17. **This confluence of economic distortions constitutes a key constraint to investment and job creation, impeding Togo's essential pathways out of poverty.** It constrains the entry and growth of formal firms, who hold the greatest potential to increase productive employment of both skilled and unskilled workers. Moreover, as discussed below, skewed policies and regulations are among the key constraints to raising agricultural productivity and incomes in rural areas.

Key Constraint 4: High and Distortionary Taxation

18. **Although Togo has taken significant positive steps to reform its tax administration, its tax system remains overly burdensome and creates a major barrier to investment, formalization, firm growth, and therefore poverty reduction through productive employment.** The effects of enterprise taxation on poverty may seem indirect, but the impact on the real incomes of workers is nonetheless large. Corporate taxes can be more inimical to poverty reduction than other taxes: by lowering the marginal revenue product of labor, they can reduce labor earnings that could otherwise accrue to poor people (Feltenstein and Newhouse 2015). Internationally, between 45 and 75 percent of the burden of corporate taxation falls on labor, rather than on owners of capital (Desai 2007).

19. **Viewed from the perspective of an enterprise, Togo's tax system results in an average effective tax wedge—and distortion to private economic incentives—that is exceedingly high. In 2015, Togo's (formal) firms ranked tax rates as their top constraint to doing business by a significant margin, and 67 percent rated it as a major or severe constraint, as compared to only 37 percent for Sub-Saharan Africa (SSA) on average (World Bank 2009, 2015f).** The estimated tax wedge, using data from a representative sample of Togolese formal firms (micro, small, medium, and large)—which combines corporate taxes, local levies, labor and input taxes (apart from import duties), as well as unreimbursed value-added taxes (VAT)—averaged over 90 percent of pretax profits in fiscal year 2014. These taxes, moreover, reduced a healthy average return on assets (ROA) of 146 percent to approximately 14 percent after tax (World Bank 2015f).

20. **Togo's tax regime increases the risks of doing business and expands the scope for negotiation or formal exonerations, both of which can be rescinded easily.** Although Togo's recent efforts to reform its tax collection procedures have resulted in improved integrity and transparency, the issues of complexity, lack of clarity, unpredictability, and discretion remain. For example, VAT-registered firms are able to deduct only 42.6 percent of VAT paid on (nonutilities) inputs that is due to them (World Bank 2015f), and reclaiming VAT invites a tax inspection. Tax treatment appears uneven across companies as well. In 2013/2014, firms with greater market dominance also enjoyed lower effective corporate tax rates. (Controlling for broad sector, total sales, and salary costs, this inverse correlation was statistically significant). In addition, corporate taxes levied on revenues and costs, rather than on profits, elevate profitability risk. They add to firm losses in bad years and can reduce otherwise profitable activities to unprofitable ones: 25 percent of declaring firms paid corporate taxes despite showing either pre-tax or post-tax losses in 2014 (World Bank 2015f). In addition, duties charged on imported inputs, not captured in the above estimates, are higher than for comparator countries, except Benin at over 14 percent.

21. **A variety of data sources provide evidence that Togo's tax system results in large distortions to incentives for private economic activity.** Togo's high level of informality, even relative to the region, suggests a relatively greater effort to avoid taxation. Few firms survive in sectors where the tax burden would fall most heavily—those with low profit margins, such as commercial agriculture and agribusiness. As a result, Togo has very few formal agricultural firms. In addition, over the period for which data are available, private investment levels have responded positively to reductions in the tax rate as captured by the Doing Business indicator. A one-percentage-point decrease in its (simulated) tax burden is associated with a 0.32 percent increase in economic growth in the same year, as well as a significant increase in the level of private investment. Whereas none of these indicators is conclusive on its own, in their totality they provide evidence that Togo's tax system—the tax code, combined with its implementation—represents a key (binding) constraint to inclusive growth. Because entrepreneurs cannot create jobs and increase labor productivity, farm profits, and wages without a greater incentive to invest and grow their businesses, this constitutes a key constraint to poverty reduction as well.

Key Constraints 3 and 4 in Agriculture: Policy and Tax Distortions to Private Economic Activity and Moderate Constraints in Public Service Delivery

22. **Togolese agriculture and producer incomes suffer severely from variants of the key constraints to more inclusive private-led economic activity.** Despite some reform progress, distortions inherent in the policy and regulatory regime drive a large wedge between producers' potential and actual returns, and thus dampen the potential benefits of public support for the sector. First, a number of restrictions on input provision reduce access to inputs and the profitability of using them, resulting in low usage of improved seeds, low livestock vaccination rates, and high-cost, inefficient delivery of fertilizer. Second, although the government has liberalized some agricultural markets, interventions in remaining markets are sometimes unfavorable to producers. For example, access to markets for maize, the country's main crop, has been disrupted by the national food safety agency (*Agence Nationale de la Sécurité Alimentaire du Togo*, ANSAT), reducing farm income per capita by an estimated 11 percent of the poverty line in 2011. The percentage of the world price that producers receive for products for which the government sets the price—in particular, cotton and peanuts—is low and has fallen over recent years (Baffes 2007; QUIBB 2006, 2011). Yet liberalization of markets for cocoa and coffee in the 1990s improved producer prices, from 55 percent of the world price before liberalization to 70 percent afterward (Akiyama et al. 2003, QUIBB 2011).

23. **In addition, as with other sectors of the economy, taxation of agriculture and of the agricultural value chain is a key binding constraint to the development of larger-scale, commercial agriculture and efficient input and output markets for smallholders.** Although smallholder producers escape direct taxation, taxes levied on buyers, storers, exporters, or processors of their produce, if paid, would be passed through in the form of reduced producer prices. In the most favorable scenario, taxation of less formal buyers in a year of high agricultural margins would represent a minimum of 33 percent of farm profits. Assuming more realistic producer profit margins, effective taxation rises to between 63 (for those selling to unregistered entities) and 154 percent of farm profits (for those selling to a registered buyer). These tax policies have the effect of largely relegating agricultural production and related services to the informal sector or the state. They impede significant investment in storage and other value chain infrastructure and discourage the entry of agribusiness, thus obstructing the development of higher-productivity, higher-value agriculture.

24. **Improving public support for agriculture is important, but will be less beneficial without addressing market access and input market efficiency.** A lack of local public goods, such as for water control and market access, is an important constraint to poverty reduction in some localities. Indicators of road quality and traffic levels suggest that rural road access in some areas is moderately constraining. In

addition, Togo's slow progress in adopting simple, low-cost water control and irrigation techniques constrains income growth and poverty reduction in certain areas of the country where it would be viable, especially in Togo's many small inland valleys. Research and development expenditure in agriculture, which generally has a high rate of return, has recently received only 0.07 percent of national GDP, and Togo provides relatively weak extension services; only 5 percent of agricultural producers report having recently had some form of training (RT 2014b). The unsustainable use of biomass as a source of energy and soil degradation also poses a key problem for environmental sustainability. Nonetheless, Togo's soil quality today remains comparable to that of its neighbors. Yet in such a distorted context for economic activity, these issues are less binding on agricultural growth than the lack of efficient and flexible input and output markets.

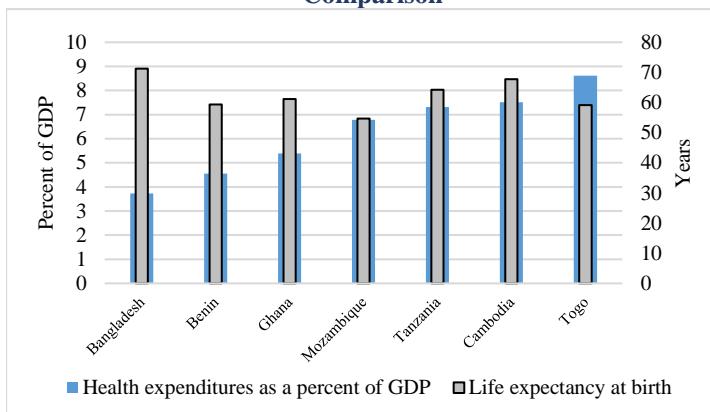
Key Constraint 5: Poor Performance in Disease Prevention and Health Care Delivery

25. **Togo has made inadequate strides in improving the health status of its population.** Governance of the health sector is overly centralized, and results are poor relative to spending. Although 15 percent of the public budget is devoted to health care, consumers pay 50 percent of total health care expenses (See Figure V). Togo's expenditures on health care as a percent of GDP are the highest among comparators, yet its life expectancy at birth is among the lowest at just 59 years (Figure V). Access to medical consultations has fallen between 2006 and 2015, and whereas 31.6 percent of urban poor people who were experiencing health issues recently accessed health services, only 7.6 percent of rural poor people did so (INSEED 2015). Access to doctors is even lower, with 22.9 percent of Lomé residents having consulted a doctor, 16.7 percent in other urban areas, and only 4.5 percent in rural areas. Absenteeism of health facility staff is estimated at 37 percent, and facilities only stock 44 percent of necessary medications. Nineteen percent of health facilities lack running water, and 29 percent lack improved sanitation. In addition to weak health care services, the poor quality of air and water contributes significantly to Togo's poor health outcomes.

26. **The economic burden of poor health care—marked by premature death, disability, lower learning outcomes, and lower worker productivity—is high and disproportionately affects poor children and women.** According to the World Health Organization (WHO), the economic burden of disease due to lost disability-adjusted life years (DALYs) is especially high for maternal, neonatal, and nutritional deficits, followed by HIV, tuberculosis, and malaria. Between 1998 and 2014, the maternal mortality rate was reduced only slightly, from 478 to 401 per 10,000 (national estimates). Despite a marked improvement in the child mortality rate between 2010 and 2012 (to 88 per 1,000 live births), the incidence of preventable childhood diseases also remains high.

27. **Although there is little indication that health issues pose a major impediment to growth and job creation in Togo, poor health constrains the opportunities and productivity of poor people through other channels, as well as their overall lifetime well-being.** Among informal firms surveyed in

Figure V: Health Expenditures and Life Expectancy in Comparison



Source: WDI (most recent years available).

Lomé, only 6.5 days of business were reportedly lost due to illness each year, a small percentage of total working days (World Bank 2015g). Only 12 percent of formal firms consider the health status of workers to be a major or severe obstacle to their business. However, the estimated loss in the productivity and incomes of agricultural workers due to inadequate malaria diagnosis is likely to be substantial. Although direct evidence is not available for Togo, a recent study on such workers in Nigeria suggests an income penalty as high as 7.7 percent for similar workers in Togo. Given the fundamentally important nature of health status as a prerequisite to well-being and a productive life, and the high estimated costs of preventable disability, illness, and morbidity to poor people, women, and children, Togo’s weak performance in this area represents a key constraint to inclusion and well-being.

III. Moderate or Mild Constraints

28. **In addition to the key constraints identified in Section II, Togo faces a number of issues that currently appear to be less constraining to progress in reducing poverty than those presented above.**

29. ***Other Policy and Regulatory Issues.*** There are a number of additional policy and institutional issues that distort incentives for private economic activity. First, Togo’s system of land registration ranks among the least efficient in the world, and there are a high number of land conflicts. There is no clear evidence, however, that improving the inefficient land system will offer a key opportunity for poverty reduction. Similarly, Togo’s minimum wage is higher as a ratio of labor productivity than in all comparator countries, which may reduce hiring of low-skilled workers. In the current context, however, the percentage of firms and workers directly affected by this is relatively low. Finally, when overvalued, the French CFA currency may reduce the country’s export competitiveness. The advantages and disadvantages of the currency and monetary regime shared by WAEMU countries is a complex topic beyond the scope of this study. Nonetheless, there is no evidence from the available indicators that the level of the exchange rate per se constitutes a key constraint in Togo’s current context. (See Appendix B to the Main Report for more details).

30. ***Infrastructure Services: Moderate Constraints to Growth.*** Togo’s governance challenges are manifest in significant inadequacies in the country’s infrastructure services. Particularly problematic for inclusive growth are the poor quality and high price of electricity and of information and communication technology (ICT) services. Although Togo’s transport sector is competitive within the region, especially in sea-to-sea transport, continual improvement in logistics efficiency will still be important to retain the country’s competitive advantage as a transport hub for the region. In addition, a lack of adequate rural roads may be a moderate constraint in some localities. Finally, serious shortfalls in water services impede improvements in well-being and contribute to the country’s health and disease burden.

31. ***Skills and Education: A Moderate Constraint to Inclusion.*** Improving the quality of education is an important objective in enhancing equity, fostering social development, and preparing the population for future opportunities, but other, more binding constraints must be alleviated first in order to substantially increase the incomes of workers at all levels of educational attainment. Although the average quality of education has fallen recently and presents efficiency and equity issues, the demand for skills in Togo’s labor market is low. The returns to education are well below benchmarks, unemployment rates are high and increase with the level of education, and—contrary to common perceptions—enterprises rate the skills of the workforce as adequate and employ few foreign workers.

32. ***Gender and Other Inequalities: Moderate Constraints to Inclusion.*** Cultural and legal obstacles affect the ability of Togolese girls and women to improve their incomes and well-being. Women face gender barriers in accessing employment, and those employed earn only 71 cents for every dollar that men earn.⁷

⁷ Estimated average effect within the population (with no differentiation by public or private sectors.)

Customary law and cultural attitudes pose significant barriers to women's entrepreneurship by affecting the capacity to contract, inherit, marry, and divorce. In addition, female-headed households have farms that are half the size, on average, as those of male-headed households. Issues such as the worst forms of child labor and trafficking in persons join this and poor water service as moderate constraints to well-being, which can also disproportionately affect the female population.

33. ***Financial Sector: An Area of Strength for Togo and a Mild Sustainability Risk.*** Host to 15 banks, Togo enjoys a relatively large and competitive financial sector, with the highest lending-to-GDP ratio among low-income SSA countries. Microfinance is expansive and serves more clients as a percentage of the population (37 percent) than any other WAEMU country, including the informal sector. On average, informal firms are able to borrow over 15 times their monthly sales on short notice, with a median of 5 times their median monthly sales. Relative to other constraints, the lack of credit is not a key constraint for small agricultural producers, who also have access to credit through microfinance institutions, informal savings and credit associations, nongovernmental organizations (NGOs), and other sources.

IV. Summary of Findings and Pathways out of Poverty

34. The diagnostic results diagram below (Figure VI) summarizes the findings from this systematic examination of all available data and evidence on which of Togo's many challenges are key constraints for poverty reduction. Table I provides a more detailed prioritization of issues according to the three pillars of this SCD: inclusive growth, sustainability, and equity/inclusion, showing which are key (or "binding" in the case of constraints to inclusive growth) versus moderate or mild. It also shows sustainability risks according to the timeframe for such risks. Addressing these five current and short-term risks and key constraints can be considered necessary conditions to sustainably eliminating poverty and promoting shared prosperity.

Pathways Out of Poverty

35. Togo's course toward the twin goals of poverty reduction and shared prosperity can be charted along four essential, interrelated pathways: (1) growth in increasingly formal and productive off-farm businesses for more remunerative employment; (2) transformation of agriculture toward more productive, higher-value, and sustainable smallholder and commercial production; (3) reduced macro-fiscal and political risks and improved value for money in public expenditures; and (4) improved health status of the population, especially poor and vulnerable people. For pathways (1) and (2) to be successful, private actors, including smallholders in agriculture, micro and small businesses, and larger private entrepreneurs, will need the scope to leverage Togo's comparative advantage in agriculture and services, to identify and make productive investments, to create value, and to stimulate expanding and increasingly remunerative employment opportunities. Rising incomes in either the agricultural or nonfarm sector would strengthen demand for goods and services across a range of sectors and increase the productivity of land and labor—the assets that poor people possess. Domestic remittance income, food security, and overall resilience of the economy would rise, reducing both urban and rural poverty. Moreover, within a conducive public governance framework, these developments could in turn provide expanded resources to invest in the public goods and services needed to enhance well-being and equity of opportunity, while also shoring up fiscal and environmental sustainability risks.

36. **Pathway 1: Growth in increasingly formal and productive off-farm businesses for more remunerative employment.** To unblock this pathway Togo can build on recent progress by:

Addressing the key constraints:

- Putting in place arrangements and practices to reduce conflicts of interest and enhance the accountability, transparency, capacity, and independence of public entities involved in the design and implementation of policies and regulations affecting private economic activity.
- Clarifying the investment code with more specific and limited rationales for denying approvals and a balanced and independent process for contesting them.
- Reducing the paperwork and clearance burden for imports.
- Reducing the role of the state in directly owning and/or operating for-profit activities in sectors where more competitive markets can emerge.
- Establishing mechanisms to monitor the quality and consistency of regulatory actions and for impartial dispute resolution.
- Reforming Togo's tax framework to reduce the level of total taxation, simplify the tax code, and rebalance the risks that it poses to private entrepreneurs.

And taking complementary steps:

- Addressing the high cost and low quality of electricity and ICT services by:
 - Adapting institutional arrangements and practices to reducing conflicts of interest in the governance of these sectors.
 - Strengthening the independence and capacity of the electricity regulator.
 - Clarifying and reinforcing the commercial orientation and managerial autonomy of the electricity company, CEET.
 - Fully embracing the logic of private competition to alleviate the high prices and poor quality of ICT services.
 - Strengthening the dialogue between the government and the private sector, in order to better respond with effective policies to changing needs.

37. Pathway 2: Transformation of agriculture toward more productive, higher-value, and sustainable smallholder and commercial production. Togo has begun to address some of the constraints identified, most recently adopting a plan to reform the fertilizer subsidy program. To ensure lasting progress, Togo should consider:

Addressing the key constraints:

- Enhancing the professional capacity, independence, and accountability of the functions performed within the Ministry of Agriculture and other public entities in the sector, including the agricultural research institute (*Institut Togolais de Recherche Agricole*, ITRA) and ANSAT.
- Reforming the licensing process for providing veterinary services and providing public support as needed to strengthen animal health and traceability systems.
- Improving the flexibility, speed, and accountability of the country's seed registry, with expedited procedures for seeds registered elsewhere in the ECOWAS zone.
- Improving market access for basic food grain and other producers by:
 - Ensuring that export permits are provided consistently and efficiently.
 - Working within ECOWAS to lower nontariff barriers (NTBs).
 - Ensuring that ANSAT's actions are more consistently favorable to producers (while also enhancing food security).

- For example, by adopting more efficient mechanisms for smoothing prices and the availability of grains. In addition to removing barriers to international trade in food products, these mechanisms can facilitate grain storage by the private sector.
- Alleviating revenue-based taxes on enterprises providing inputs, marketing/market access, storage services, value addition, or commercial-scale production in the sector and ensuring that requirements within the value chain for reimbursement of VAT are consistent with the informality of producers in the sector.

And taking complementary steps:

- Pursuing an integrated strategy to disrupt the vicious circle of deforestation and soil depletion, adverse microclimate impacts, reduced surface water, and declining productivity in rural areas.
- Facilitating the use of small-scale irrigation (especially in drier areas and valley bottoms) in a manner that draws upon international experience and is suited to local conditions, including through user-managed and -financed systems.
- Assessing the viability of additional feeder road investments in specific zones where their absence is at least a moderate constraint to agriculture (in particular in Plateaux).
- Ensuring that sanitary and phytosanitary, labor market, and value chain regulations are supportive of commercial-scale agricultural operations, with improved traceability and sanitary systems.
- Ensuring consistent application of (lower) import duties and other import requirements for agricultural inputs.
- Ensuring that road maintenance and road asset protection systems perform well and that roadblocks are minimized.

38. Pathway 3: Reduced fiscal and political risks, and improved value for money in public expenditures.

Addressing the key constraints:

- Strengthening the transparency and accountability of public financial management, with a clear separation between the budgets of various public entities and state-owned enterprises and controls on unbudgeted flows.
- Improving public investment management, including comprehensive systems to monitor public investments and expenditures, and value for money in procurement.
- Reducing the fiscal costs of public enterprises, either through privatization (where competitive markets would result) or increased commercial discipline, competition, and a clean, transparent, and disciplined separation of SOE and other public financial accounts.

And taking complementary steps:

- Improving value for money in public service delivery through improved capacity for intervention design, evaluation of results, and learning, beginning in sectors with important fiscal implications and impacts on poverty (such as health and education).
- Relying, whenever feasible, on private provision of infrastructure services (with appropriate public-private partnership frameworks) and strengthening the autonomy and capacity of infrastructure sector regulators, while improving maintenance funding to achieve greater financial sustainability.
- Broadening the tax base by simplifying the tax code and reducing discretion in implementation, compliance requirements, and the total rate/burden of the system.

- Ensuring that any subsidies, including for fuel and fertilizer, are minimized, pro-poor, and cost-effective.
- Accelerating efforts to improve governance of the extractives sector, with an emphasis on monitoring production and sales, tracking fiscal receipts, and implementing suitable regulation.
- Optimizing use of well-targeted cash transfers to reduce poverty, to the extent that these are shown to be more cost-effective than other public expenditures and that fiscal stability is achieved.
- Intensifying efforts to broaden and deepen dialogue with civil society and opposition groups, improve responsiveness to citizen voice, and show tangible progress in fulfilling outstanding agreements (including from the Global Political Accord).
- Considering ways to increase the government's responsiveness to the public investment priorities of regions, towns, and communities.

39. Pathway 4: Improved health status of the population, especially poor and vulnerable people.
To pursue this pathway in a cost-effective manner, Togo should consider:

Addressing the key constraints:

- Studying the primary drivers of poor health outcomes (including health service delivery, air and water pollution, cooking fuels, and water services).
- Based on this diagnostic, implementing evidence-based interventions to improve disease prevention and health services, especially to address maternal health, respiratory infections, diarrhea, malaria, and other diseases that impose high costs on poor people.
- Enhancing accountability and learning by monitoring and evaluating the results of measures introduced and adjusting as needed to improve cost-effectiveness.

And taking complementary steps:

- Integrating environmental sustainability into Togo's public institutions and ministries, with clear roles and responsibilities to avoid the negative effects on air quality of an inefficient use of urban spaces, congestion, and other sources of poor ambient air quality, and of increased pressure on clean drinking water sources.

**Figure VI: Key Constraints Togo Faces in
Eliminating Extreme Poverty**

Levels of
Causation

Proximate
Causes of
Poverty

Key
Outcomes

Specific Key
or
Binding and
Moderate
Constraints

Deeper
Causes

Inadequate (Inclusive) Growth
(slow structural transformation, low labor productivity and wages, underemployment, and low agricultural productivity)

High Risk of Recurrent Fiscal and Political Crisis

Inadequate Equity of Opportunity and Well-Being for Poor People

Low Private Investment and Entrepreneurship (including in smallholder agriculture)

Inconsistently pro-poor distribution of growth and lack of pro-poor distributional policies

Slow progress in improving human development

(3) Barriers to Entry and High Distortions
(agriculture and nonagriculture)

(4) High and Distortionary Taxation (agriculture and nonagriculture)

Electricity, ICT, and local infrastructure in some zones moderate constraints

(5) Poor Performance in Disease Prevention and Health Care

High corruption and low government effectiveness in formulating and implementing policies toward private economic activity (including agriculture)

(2) Poor Fiscal Governance

Low effectiveness in setting priorities for and delivering public goods and services

(1) Governance System that Fosters Weak Accountability

Note: **Dark Blue** = Key Constraint. **Medium Blue** = Other Finding.

Table I: Detailed Prioritization Matrix of Constraints and Risks by Severity and Timeframe for Sustainability Risks

Severity of Constraint	Key or Binding Constraints to Poverty Reduction (Numbered as in Figure VI)	Moderate constraints	Mild constraints
Current constraints to poverty reduction through inclusive growth	<p>(1) Poor governance (low government effectiveness and poor control of corruption)</p> <p>(3) Barriers to entry and binding distortions to private activities due to high-level corruption and poor policy and regulatory performance (in agricultural and nonagricultural sectors).</p> <p>(4) High and distortionary taxes (in agriculture and non-agriculture)</p>	<ul style="list-style-type: none"> • High cost of electricity for productive uses (especially manufacturing). • Unreliable internet and costly telecommunications (services and manufacturing) • Lack of local infrastructure goods such as feeder roads,* water control assets,* (agriculture) depending on locality 	<ul style="list-style-type: none"> • Minimum wage regulation • Skills deficits or mismatch • High transport and logistics costs** • Inadequate land titling system** • Poor urban water service
Sustainability risks <i>Short- or medium-term (1-10 years) constraint or risk to poverty reduction through inclusive growth</i>	<p>(2) Current: Macro/fiscal crisis due to weak fiscal governance</p> <ul style="list-style-type: none"> • Political conflict or crisis • Natural water availability and weather risk due to climate change 	<ul style="list-style-type: none"> • Soil degradation • Deforestation • Coastal erosion** 	<ul style="list-style-type: none"> • Inadequate security of tenure for smallholders • Banking sector insolvency • Microfinance sector insolvency • Inadequate use of urban spaces for energy efficiency and disaster preparedness
Current constraints for inclusion and equity	<p>(5) Low accessibility and quality of health-related services and disease prevention (including medical services, insecticide-treated bed nets, improved ambient air quality, and clean drinking water, where unavailable)</p>	<ul style="list-style-type: none"> • Gender-based discrimination in economic and social spheres • Poor educational quality in poor and rural areas • Poor urban water services • Worst forms of child labor and human trafficking. 	<ul style="list-style-type: none"> • Insecure land tenure in rural areas

*Rated higher in importance due to consultations, but key analytical gaps remain.

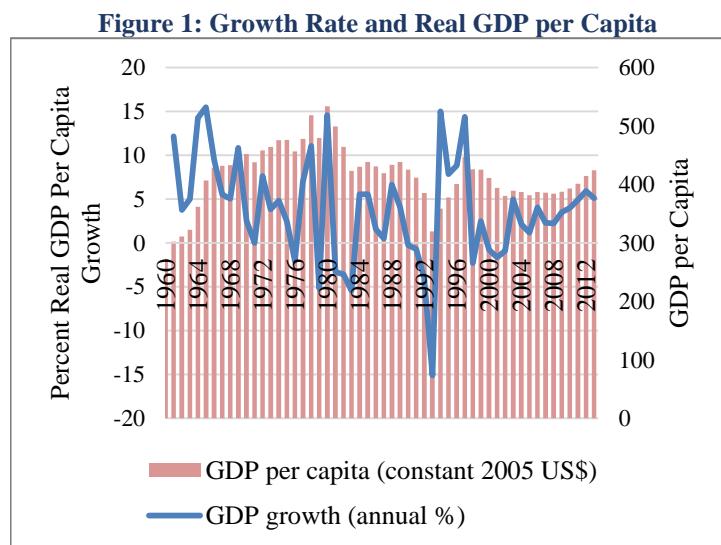
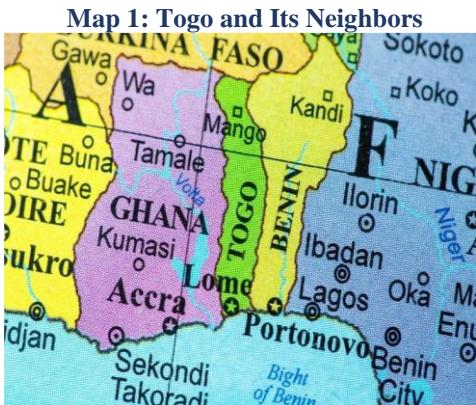
**Analytical gaps.

1. Introduction

1. Once known as the “Switzerland of West Africa,” Togo is now a low income, fragile state, which seeks to become an emerging economy.⁸ A small country of 7 million people, nearly 100 kilometers (km) wide and situated between Ghana and Benin, Togo is comprised of over 30 ethnic groups and numerous local languages. The country’s geography is diverse, and its natural assets include land resources and rainfall patterns that are generally favorable to agriculture, significant phosphate and other mineral resources, and a natural deep-water port of nearly 17 meters that is unique in the subregion. Soon after independence in 1960, Togo was able to achieve economic progress by building an effective public administration and pursuing open, market-oriented economic policies. It established sound governance of the banking sector, exploited its phosphate reserves, and became a subregional hub for logistics, trade, and banking (World Bank 1996, 2013a). At its peak in 1980, Togo’s per-capita gross domestic product (GDP) had risen from US\$272 (in 1960) to US\$534 (values in 2005 purchasing power parity (PPP) US dollars), a level surpassing that of many developing economies. However, these gains soon began to reverse (Figure 1).

2. Togo has been unable to steer a sustained path to poverty reduction. After early economic gains, in the mid-1970s the government shifted to a state-led economic model that was relatively closed to international trade. Growth, always volatile (Figure 1), turned negative in recurrent periods of fiscal or political crisis. The structural transformation out of agriculture into higher-productivity sectors that had been underway stalled (Figure 2). Despite a spate of growth averaging just over 4 percent over the most recent decade,⁹ Togo’s real per-capita GDP today remains lower than its 1980 peak. Thus, living standards have fallen below those of many previously poorer countries (Figure 3); Ghana directly to the west now has a level of GDP per capita almost three times that of

Togo. National poverty rates remain high, at over 55 percent, and in internationally comparable terms Togo has an extreme poverty rate (49.2 percent) almost twice that of Ghana’s 25.2 percent (2015), and higher than



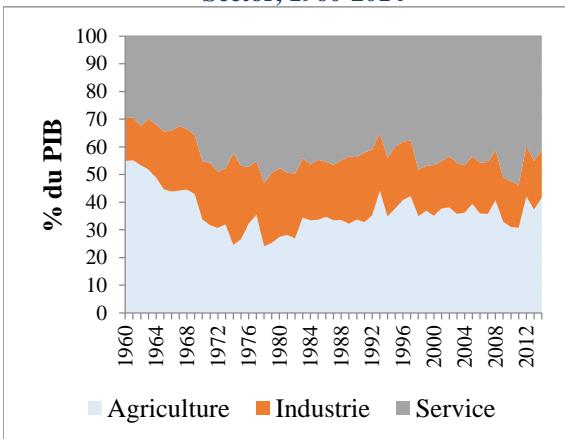
Source: WDI (accessed 2015)

⁸ Togo’s current GNI per capita is the 9th lowest of the 35 countries in Sub-Saharan Africa with data available (WDI). Those with data with a lower per capita GDP are the Central African Republic, Burundi, Malawi, the Democratic Republic of Congo, Liberia, Niger, Mozambique, Eritrea, Guinea, and Ethiopia. The World Bank classifies Togo as a fragile state based upon its Country Policy Institutional Assessment (CPIA) score.

⁹ National accounts. Only projected national accounts figures are available beyond 2011, and these are not considered reliable.

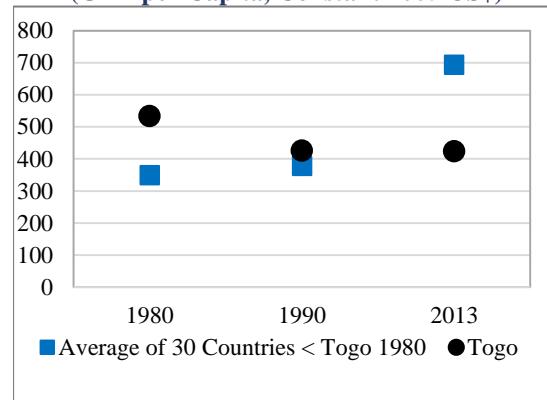
that of Uganda, Ethiopia, and Tanzania (Figure 4).¹⁰ At the same time, Togo's ranking in the UN's Human Development Index has fallen from 95th in the world in 1980 (in the bottom 23 percent among the 124 countries with data in that year) to 166th out of 187 countries (bottom 10 percent) in 2013.

Figure 2: Value Added Share of Economy by Broad Sector, 1960-2014



Source: WDI 2015.

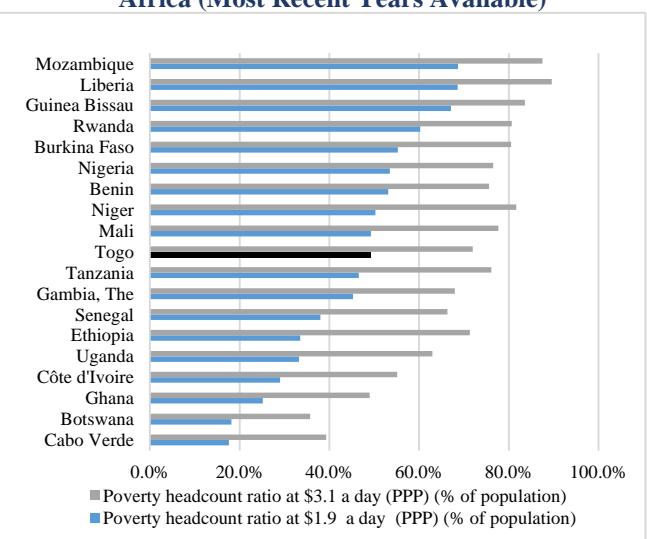
Figure 3: Income Trajectory of Togo and Countries with Lower GDP per Capita in 1980 (GDP per Capita, Constant 2005 US\$)



Source: WDI 2015.

3. This systematic country diagnostic (SCD) attempts to answer the question: what key constraints (and opportunities) does Togo face in sustainably accelerating progress in poverty reduction and shared prosperity? Answering this broad question requires a country-specific response to the following three interlinked questions: *What are the most binding (key) constraints to (broad-based) economic growth? What are the key issues constraining the inclusion of poor people in growth? And what are the main risks to the sustainability of the country's progress in reducing poverty?* Understanding the answers to these questions requires an understanding of the country's recent economic performance, context, and strengths, as well as an examination of the evidence on the full range of issues and potential constraints. The next chapter reviews Togo's recent economic performance, and Chapter 3 details its progress toward the World Bank's twin goals of poverty reduction and shared prosperity, highlighting the implications for Togo's pathways out of poverty. Chapter 4 presents the diagnostic approach and the evidence on which factors are most constraining. Chapter 5 summarizes the findings and charts pathways toward progress.

Figure 4: Comparative Poverty Rates in Sub-Saharan Africa (Most Recent Years Available)



Source: PovCalNet

¹⁰ 2015 QUIBB. Extreme poverty is defined as living on under US\$1.90 2011 Purchasing Power Parity (PPP).

2. Recent Economic Performance

Main Messages:

- Togo's economy is oriented heavily toward the services sectors and agriculture, which account for 22 and 41 percent of GDP, respectively (average 2010–2014).
- Togo's main export partners are within the Economic Community of West African States (ECOWAS).
- Economic growth over the past five years, averaging over 5 percent, has been driven by high rates of growth in commerce, other services, and building and public works, as well as growth in agriculture averaging 6.6 percent.
- Togo faces demographic and social pressures, and its economy is not resilient to external and internal shocks, especially high fiscal and political risks.
- Due to low wealth accumulation and rapid environmental degradation, Togo's net national savings rate (adjusted for environmental depletion) is negative.

4. **The growth recorded in Togo over the past five years (2010–2014), averaging 5.1 percent per year, has been driven primarily by growth in the tertiary sector, in particular in trade and other services (Table 1).** According to national accounts projections (which may not be reliable beyond 2011), growth has also been significant but volatile in agriculture, due to especially high growth in 2014. Agricultural growth through 2013 was 3 percent, and 0.3 percent according to FAOSTAT. Although building and public works comprises only 5.8 percent of the economy, the rate of growth has been highest in this sector at 14 percent per year over this period.

5. **As a small country within the Economic Community of West African States (ECOWAS), Togo's economic prospects depend upon the ability to export goods and services. Services comprise a high share of the country's exports relative to Sub-Saharan Africa (SSA) and other comparators (Figure 5).** Yet according to official statistics, the transport, warehousing, and information and communication technology (ICT) sectors have been

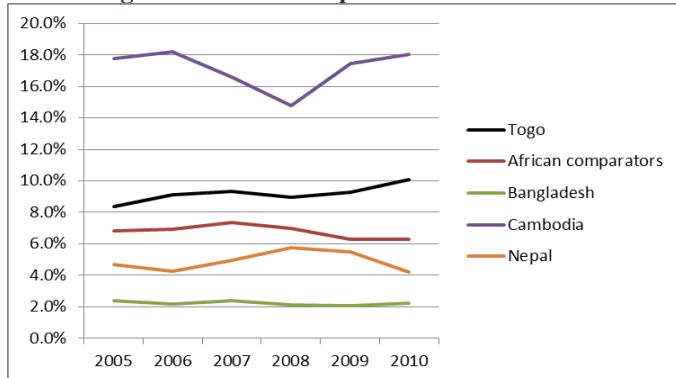
Table 1: Sources of Growth, 2010–2014 Averages (Constant Prices)

Sources of Growth from Productive Sectors	Year-on-year Growth Rate (percent)	Average Share of Economy (percent)	Average Contribution to Growth (percentage points)
Primary Sector (of which):	6.2	40.8	1.78
Agriculture (of which:)	6.6	31.1	1.20
Food crops	5.3	29.2	0.76
Cash crops	13.1	1.9	0.44
Secondary Sector (of which):	6.5	17.5	1.27
Extractives	6.7	3.4	0.19
Manufacturing	5.1	6.8	0.48
Electricity, gas, and water	0.5	2.9	-0.04
Building and Public Works	14.0	4.5	0.64
Tertiary Sector (of which):	12.0	22.1	2.87
Commerce	13.5	7.8	1.29
Transport, warehousing, and communications	2.1	5.2	0.13
Banking and Insurance	7.5	2.0	0.16
Other services	27.2	7.1	1.28

Note: Togo's National Statistics Agency has only validated figures through 2011.

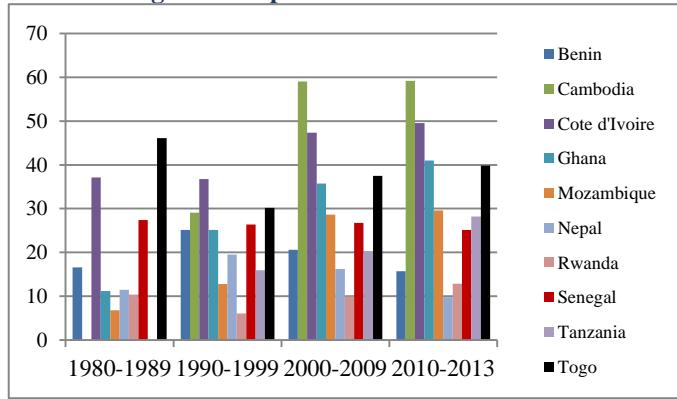
Source: National Accounts.

Figure 5: Services Exports as a Percent of GDP



Source: WDI.

Figure 6: Exports as a Percent of GDP



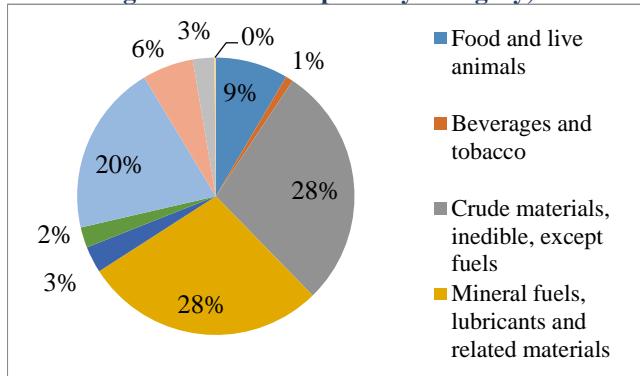
Source: WDI

partly on trade diversion and smuggling, and therefore may not provide a persistent source of growth (World Bank 2010).¹⁴ Agricultural growth is based in large part on transitory productivity increases (IMF 2015). In addition, growth depends in part upon large fiscal stimulus and infrastructure investments that will be difficult to sustain (IMF 2015). Public debt is rising rapidly and was estimated at over 62 percent at the end of 2015 (IMF 2015). Furthermore, demographic and economic pressures may portend growing social instability.¹⁵ Population growth is high at 2.7 percent. Youth unemployment and underemployment are elevated, and with 60 percent of the population at less

growing only slowly at 2.1 percent per year, on average.¹¹ Albeit high and growing, total exports have yet to attain their 1980s level and underperform rapidly growing economies such as Cambodia (Figure 6). In addition, Togo's goods exports consist mostly of highly capital-intensive goods—in particular, crude materials, mineral fuels, and lightly processed primary exports (Figure 7) which create relatively few jobs; cement clinker tops the list at over US\$165 million in 2013. (These exports are followed by cotton and a variety of processed and manufactured products (see Appendix Table 8 for the top 20 export goods).

6. Although recent growth has been significant, Togo's economy is neither resilient to shocks nor sustainable. As a relatively open economy, Togo is subject to shocks emanating from its major trading partners, which are primarily within the region,¹² from energy supply disruptions from Nigeria and Ghana, and from international commodity price movements, particularly in cotton, phosphates, and petroleum.¹³ In addition, growth in Togo's transport and logistics sector—relatively low according to official statistics through 2014—depends

Figure 7: Goods Exports by Category, 2013



Source: COMTRADE

¹¹ These figures may not reflect all informal activity and growth in transport services may have increased in 2015.

¹² According to World Integrated Trade Statistics (WITS) (importing country figures), Burkina Faso is Togo's leading export destination, followed by Benin, Ghana, Niger, and Nigeria.

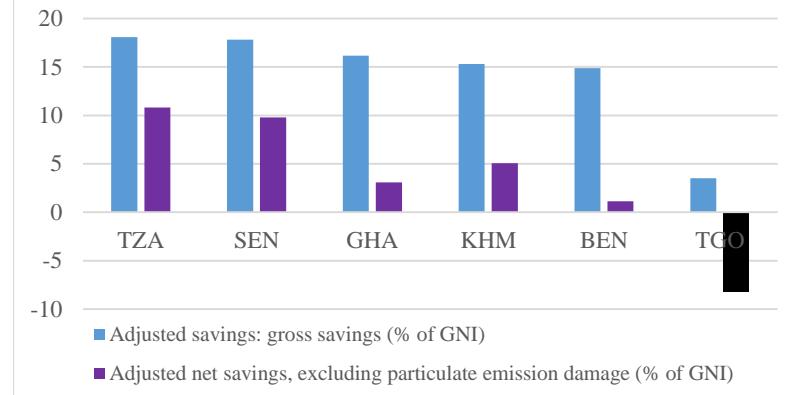
¹³ Togo is an importer of petroleum and has put in place fuel price stabilization policies, which until recently have tended to result in net subsidies.

¹⁴ For example, about half of transit trade was recently estimated to enter Nigeria unofficially (World Bank 2010).

¹⁵ See, for example, www.acled.com (discussed below).

than 25 years old and an urbanization rate of 4 percent per year, Togo faces challenges in employing its expanding working-age population. Public service needs are growing. Yet the government has faced difficulties meeting its existing payroll obligations, and public employees such as education and health workers have recently staged strikes over pay issues. Adding to these sustainability challenges is a level of environmental degradation that entirely offsets current economic growth rates. Including air and water quality, land degradation, and coastal erosion, this degradation costs the economy approximately 6.8 percent of GDP per year (RT and WB 2015).¹⁶ As a result of Togo's failure to accumulate and preserve the nation's physical, financial, and natural wealth, net national savings rates adjusted for environmental degradation are negative (Figure 8).

Figure 8: Gross Savings and Savings Adjusted for Environmental Degradation as a Percentage of Gross National Income (Average 2006-2012 as data are available)



Source: WDI

¹⁶ To compute the value of losses, a combination of methods were used, including monetization of health impacts, of future productivity losses, and of current defensive spending (in the case of coastal erosion).

3. Togo's Performance vis-à-vis the Twin Goals

3.1. Recent Trends in Poverty and Inequality

Main Messages:

- Over 55 percent of Togo's population remains poor after a slow decline from over 61 percent in 2006.
- Whereas economic growth between 2006 and 2011 did not increase the living standards of most poor people, growth between 2011 and 2015 did, while also reducing the poverty gap and inequality.
- Over 60 percent of the reduction in poverty between 2011 and 2015 is attributable to growth (with the rest due to distributional changes).
- However, the impact on the headcount poverty rate of Togo's growth (the elasticity of poverty with respect to growth) is low relative to the rest of Sub-Saharan Africa.

7. **Despite modest poverty reduction over the past several years, Togo is unlikely to meet the goal of eliminating extreme poverty by 2030.**¹⁷ Combining recent growth rates (averaging 5.5 percent from 2006 to 2015) with Togo's 2.7 percent population growth rate results in less than 3 percent per-capita income growth. Poverty rates have declined since 2006, from 61 percent to 55.1 percent in 2015 (Table 2), but this reflects a relatively low impact of growth on poverty headcount rates. Each percentage point increase in real per-capita growth has resulted in a reduction of only 0.2–0.3 percentage points in the poverty rate over the period, relative to a reduction of 0.7 percent for the continent as a whole.¹⁸

8. **The distribution of growth is also important for poverty reduction and depends on pro-poor policies, as well as temporary fluctuations in determinants such as relative prices and weather.** Gains or losses for poor people in one period can reverse in another, as has occurred in Togo's case. Consumption growth from 2006–2011 was regressive; although real consumption growth occurred for those in the top 55 percent of the consumption distribution, it fell for the bottom 35 percent (Figure 9).¹⁹ Consumption growth was positive for people living in Lomé at all levels of consumption and for the top 80–85 percent living in the regions of Maritime and Kara; yet for every other region, in both rural and urban areas, the change in per-capita consumption over the five years was negative.²⁰

Table 2: Poverty Statistics Recent Years, National Poverty Line

Poverty Headcount Ratio (Percent)				
	2006	2011	2015	Change
Lomé Urban	30.8	28.5	34.8	4.0
Other Urban	46.4	44.7	37.9	-8.5
Rural	75.1	73.4	68.7	-6.4
Total	61.7	58.7	55.1	-6.6
Poverty Gap				
Lomé Urban	26.6	24.2	12.1	-14.5
Other Urban	30.6	34.2	12.0	-18.6
Rural	40.7	45.1	29.2	-11.5
Total	38.2	41.6	22.1	-16.1
Distribution of the Poor (Percent of Total)				
Urban	21.1	22.4	23.0	1.9
Rural	78.9	77.6	77.0	-1.9

Source: QUIBB 2006, 2011, 2015.

¹⁷ This goal subsumes World Bank's other twin goal of raising the lifetime welfare (using as a proxy current consumption) of the bottom 40 percent of the consumption/income distribution, since Togo's poverty rates exceed 40 percent.

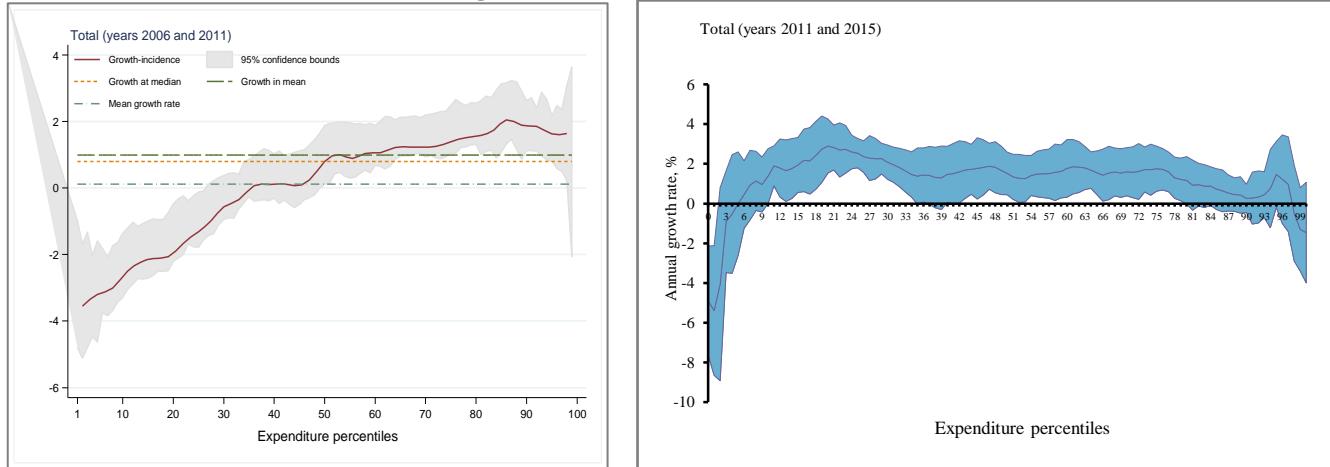
¹⁸ Real GDP per capita from WDI and national poverty rates. The poverty line for per-capita nominal consumption in 2015 is 344,408 FCFA per year.

¹⁹ This is a measure of average consumption growth at various points in the distribution in the year income is measured and is not a statement regarding mobility within the distribution of given households over time.

²⁰ The distributional pattern of growth between 2006 and 2011 could not have been the result of a single negative shock to agriculture or the effect of flooding in 2010, as agricultural statistics for 2011 show no drop in production. (République Togolaise 2011b).

As shown in the right panel of Figure 9, however, this pattern changed between 2011 and 2015, when growth in consumption for all parts of the national consumption distribution was registered, except the very bottom. Over this period, in contrast to 2006–2011, growth in consumption was largely positive in rural areas, which benefitted from real growth in agriculture, and was also positive in secondary cities (INSEED 2015, using QUIBB). A decomposition shows that most of the decline in poverty was through growth (2.2 percentage points), although a pro-poor distribution of growth also played an important role, reducing poverty by 1.4 percentage points (Table 3). The poverty gap—the average gap between the consumption of the poor and the poverty line—also declined dramatically, from 51.6 to 22.1 percent. The net effect on inequality of the trends observed between 2006 and 2015, as measured by the Gini coefficient, was an increase between 2006 and

Figure 9: Growth Incidence (Percentage Change in Consumption) by Consumption Percentiles, 2006-2011 (Annual change) and 2011-2015 (Cumulative change)



Source: QUIBB 2006, 2011, 2015.

2011 from 0.36 to 0.39, and a slight decline to 0.38 in 2015 (INSEED 2015).²¹

Table 3: Decomposition of Effects of Growth and Distributional Changes on Poverty Headcount Rates, 2011-2015

	Difference	Growth Effect	Distribution Effect
National	-3.6	-2.2	-1.4
Grand Lomé	6.3	7.8	-1.5
Other urban	-6.9	-5.3	-1.6
Rural	-4.7	-5.5	0.9

Source: QUIBB 2011, 2015.

²¹See Appendix Table 9.

3.2. Correlates and Circumstances of Poverty: Household and Spatial Characteristics

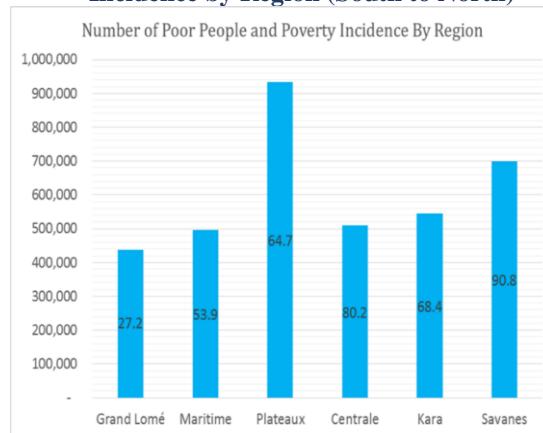
Main Messages:

- Poverty rates are higher in rural areas (68.7 percent) than in urban areas (37.9 percent) (QUIBB 2015) and are generally higher for the northernmost regions.
- Although the northernmost region, Savanes, has the highest poverty rate, the greatest number of poor people live in Plateaux, a region with high agricultural potential.
- The poorest regions, in particular Savanes and Centrale, tend to have lower access to health and education services, improved water, and electricity.
- Poor households are more likely to be employed in agriculture than nonpoor households, but with the exception of relatively few cash crop farmers, cropping patterns do not vary significantly over the income distribution. Maize is by far the most important crop.
- Poor people are more likely to live in areas that are more isolated from markets and services and to have less-educated household heads.

9. Poor people in Togo's are more likely to be living in rural areas, to work primarily in agriculture, and to live in relative isolation from markets and services. Although the rate of urban poverty has risen with the migration of poor people to Togo's cities, the rate of rural poverty remains almost twice that of urban areas, at 69 percent (Table 2), and rural areas account for approximately 77 percent of all poverty. Poverty rates generally increase as one moves away from the coastal Maritime region north to Plateaux, Kara, then (south again) to Centrale, and finally to the driest region, Savanes (Figure 10 and Map 2, Appendix C page XXII).

10. The regions with the greatest poverty headcount rates, Savanes and Centrale (over 90 and 80 percent, respectively), and Plateaux, with the greatest number of poor people, also tend to have lower access to services. An index of households' isolation, constructed using the distance and transport time to markets, primary and secondary schools, water sources, bus stations, and health centers, is correlated with poverty and increases as one travels north from Lomé, albeit not uniformly. This index is higher in Plateaux and lower in Centrale than would be predicted by the poverty incidence (Table 4). The time required to reach the nearest health facility is highest in Savanes, with 33 percent of the population living over one hour away from such a facility, as compared with only 10 percent in

Figure 10: Estimated Poor Population and Poverty Incidence by Region (South to North)



Note: The 2015 QUIBB survey is not representative at the regional level.

Source: QUIBB 2011.

Table 4: Average Isolation Scores by Region

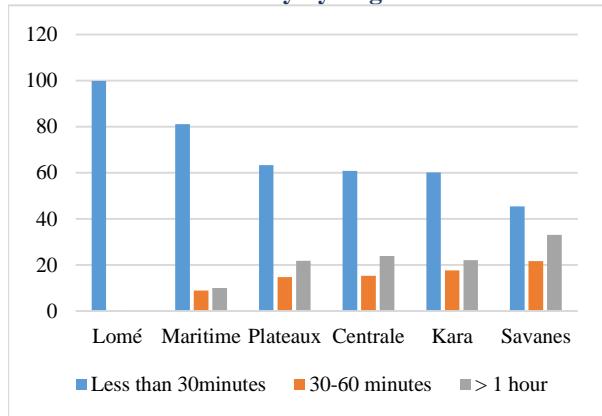
	Isolation Score, Based on Time	Poverty
Grand Lomé	-0.56	27.2
Maritime	-0.001	53.9
Plateaux	0.29	64.7
Centrale	0.12	80.2
Kara	0.26	68.4
Savanes	0.47	90.8

Source: World Bank staff, using République Togolaise, QUIBB 2011.

Maritime region (Figure 11) and just over 20 percent in Kara, Centrale, and Plateaux. Although access to primary education is similar across regions, access to a secondary school is lowest in Savanes, followed by Plateaux, then Centrale (Figure 12). Residents of Savanes and Centrale are less likely to have an improved water source (piped, bottled, pumped well, or borehole) than those in other regions. In addition, usage of electricity falls as one travels north from Lomé, and is lowest in Savanes (Figure 13).

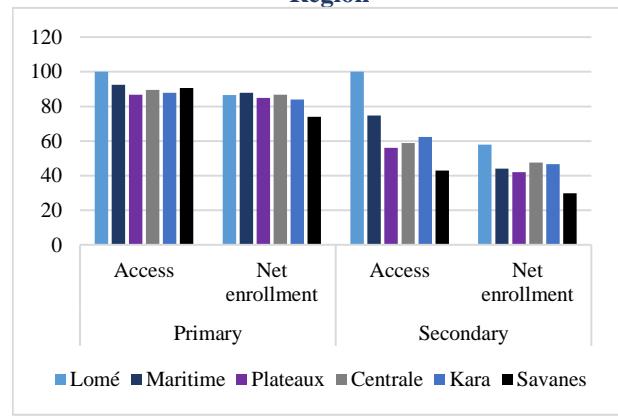
11. Poverty is associated with isolation and greater reliance on agriculture. An estimated 60 percent of the nation's active population and 97 percent of the rural active population are engaged wholly or primarily in agriculture (République Togolaise (RT) 2014b). There is a clear correlation between consumption levels and employment off-farm, with almost 60 percent of those self-employed on-farm falling into the bottom consumption quintile, versus only 12 percent in the top quintile (Figure 14). In addition, the poorest and most isolated region, Savanes, has a higher percentage of working age people primarily employed in agriculture (68 percent in 2011) and the highest rate of under-employment of all the regions (Table 5). It also has a distinctly higher percentage of under-employed seasonal or temporary workers – 34.8 percent, versus only 4.1-4.6 percent in the other regions excluding Lomé. More isolated households, which are more often located in the poorest regions, are also less likely to have a second source of income, typically outside of agriculture (Figure 15).

Figure 11: Time Required to Reach Nearest Health Facility by Region



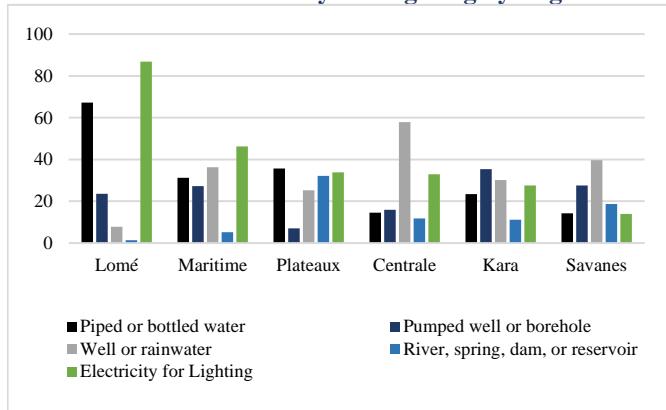
Source: QUIBB 2011

Figure 12: Access to Schooling and Net Enrollment by Region



Source: QUIBB 2011

Figure 13: Percentage of Households Using Water Sources and Electricity for Lighting by Region



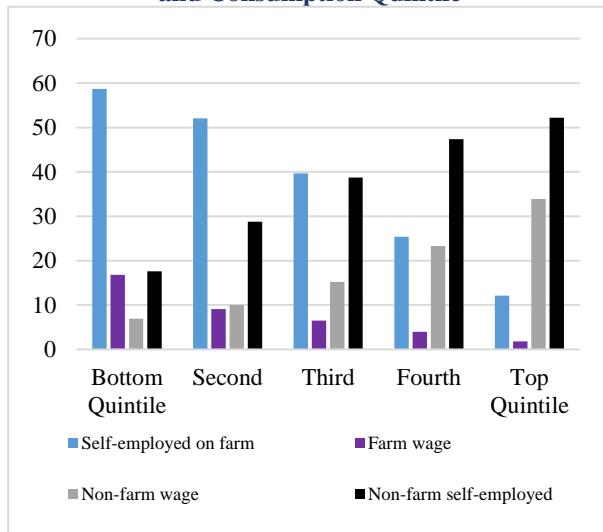
Source: QUIBB 2011

Table 5: Employment Status Indicators by Region (% of Working Age Population)

	Primarily employed in agriculture	Under-employed	Percentage of under-employed seasonal/temporary workers
Lomé	1	17.8	1.1
Maritime	24	20.8	4.4
Plateaux	58	16.3	4.5
Centrale	40	22.8	4.1
Kara	40	28.0	4.6
Savanes	68	43.7	34.8

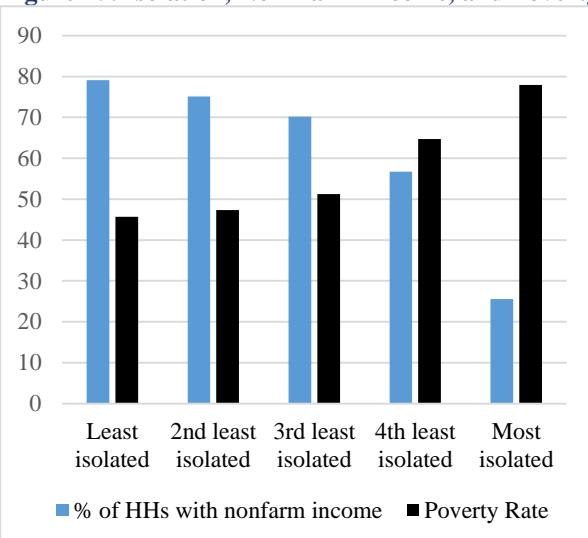
Source: QUIBB 2011

Figure 14: Percentages of Workers by Type of Work and Consumption Quintile



Source: QUIBB 2011

Figure 15: Isolation, Non-Farm Income, and Poverty



Source: QUIBB 2011

12. Few of Togo's agricultural producers engage in high-value crop production, and there is relatively little differentiation of crop choice by household consumption levels. Smallholder households cultivate on average 3.5 hectares and produce a combination of food and cash crops (RT 2014b), as well as livestock.²² The main cash crops are cotton, coffee, cocoa, and oil palm, together representing 7 percent of cropped land and contributing 9 percent of GDP. Thirty-eight percent of land under these crops lies in the Plateaux region, which hosts 85 percent of all coffee and cocoa plots.²³ Still, coffee and cocoa farmers

²² Many food and other crops are sold for cash, so here "cash crops" refers to any crops that are not produced in part for consumption by the household but rather entirely for sale.

²³ Thirty-two percent of land is in Maritime (where oil palm, cocoa, and cotton are produced), 16 percent in Savanes, 9 percent in Centrale, and 5 percent in Kara. Of the land devoted to cash crops, 67 percent is intercropped with cereals, root crops, or legumes.

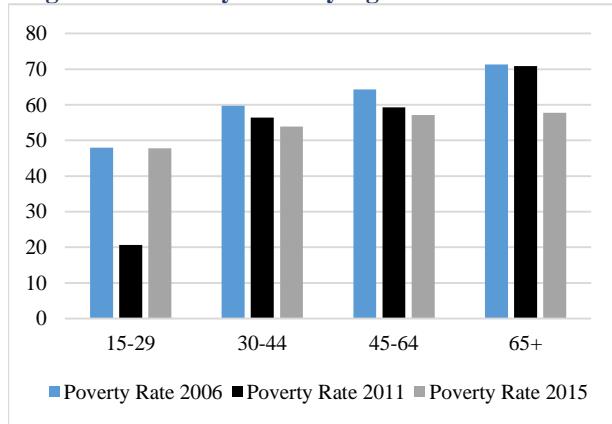
represent only 8.3 percent of the agricultural households in Plateaux (QUIBB 2011), and only 0.3 percent of households in Centrale. There is only a slight difference in the main crops grown across consumption quintiles (Table 6). Maize is by far the dominant crop for all quintiles. Yet the poorest households tend to grow more sorghum and millet than the rest, and richer households grow more cocoa and coffee. There is more differentiation in the second-most important crop grown. As shown in Appendix Table 10 (Appendix C), more well-off households tend to grow more beans and manioc as their second crop. At the same time, the poor tend to be more concentrated in livestock rearing than the non-poor (Table 7), due in part to drier conditions in the Savanes region, which are more suited to extensive livestock than to intensive crop production. In fact, landlessness is actually the lowest and livestock ownership the highest in Savanes among the regions (Appendix Table 11).

Table 6: Crop Frequencies by National Consumption Quintiles

	Quintile 1	Q2	Q3	Q4	Q5
<i>Plot-Level Average Frequency (percent)</i>					
Maize	51.6	47.5	49.7	52.6	58.
Manioc	2.7	4.6	6.4	7.3	9
Sorghum	11.1	9.3	6.6	4.3	4.4
Rice	6.1	5	3.8	3.4	3
Millet	8.8	3.6	2.5	1.4	0.6
Yams	4.5	8.5	7.3	6.5	5.4
<i>Household-Level Frequency (percent), Rural Households</i>					
Cocoa or coffee	1.5	3.5	4.1	4.2	1.5

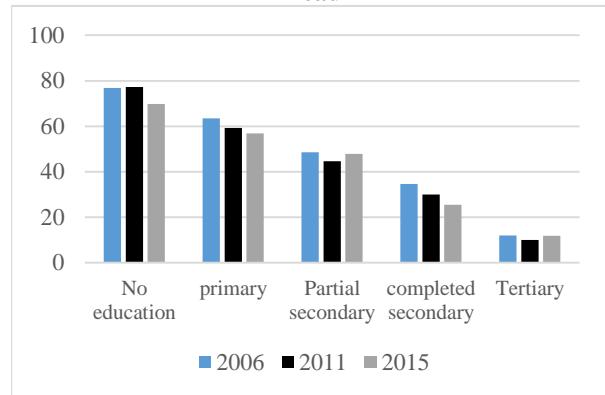
Source: QUIBB 2011

Figure 16: Poverty Rates by Age of Household Head



Source: INSEED, using QUIBB.

Figure 17: Poverty Rates by Education of Household Head



Source: INSEED, using QUIBB.

13. **Certain demographic features are associated with greater levels of poverty, although one cannot infer causality from any of these correlations.** Female-headed households in rural areas are more likely to be poor. Poverty rates for households with a young household head aged 15–29 have risen since 2011, whereas those for households headed by a person aged 65 and over have fallen (Figure 16). Households with a more educated household head have higher consumption levels (Figure 17). In addition, holding constant regional and other household characteristics, larger households with a spouse of the household head having

completed only primary education, and those with monogamous marriages (rather than polygamous marriages or widowed) are more likely to be poor (Appendix Table 12.)

Table 7: Livestock Holdings by Consumption Quintile

Consumption Quintile	No livestock	TLU
Poorest	29.9	1.47
Second quintile	33.5	1.16
Third	50.3	0.78
Fourth	62.3	0.43
Richest	75.5	0.33

Note: TLU =an aggregate measure of livestock holdings; one cow equals 0.7 TLU.

Source: World Bank staff, using QUIBB 2011

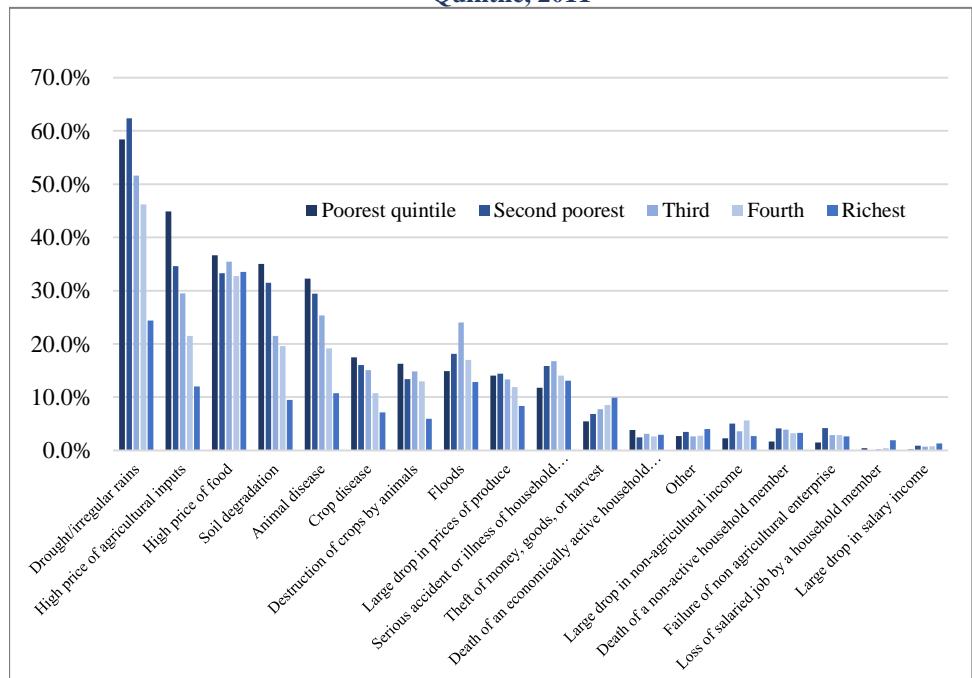
3.3. Sources of Vulnerability

Main Messages:

- Poor people are increasingly vulnerable to environmental factors affecting their health, well-being, and incomes.
- The groups most vulnerable to a life of chronic poverty or exploitation are poor children who have been orphaned or otherwise separated from their parents, as well as youth at risk for human trafficking.
- Approximately one-fifth of Togo's nonpoor population remains vulnerable to adverse climatic and health shocks, and a substantial share (more than 40 percent) of the population is food insecure.
- The annual costs of environmental degradation exceed Togo's rate of economic growth. Of measurable components, approximately 6.8 percent of GDP is lost each year through the effects of reduced air and water quality, land degradation, natural disasters, and coastal erosion.
 - Of these, the degradation of air, water, and land resources is likely to have the greatest direct impact on poor people.

14. **Despite recent progress in reducing poverty, Togo's nonpoor population remains vulnerable to a variety of adverse shocks, including economic downturns, natural disasters, normal weather variability, and illness.** Uninsured risk is an issue for agricultural producers, who are vulnerable to changing weather and price fluctuations, and the vast majority of Togo's rural poor depend upon rainfed agriculture. In 2011, over 50 percent of households in the bottom three quintiles of the consumption distribution claimed that drought or badly timed rainfall have adversely affected them in the previous year (Figure 18). Households also report experiencing adverse price movements, crop and animal disease, floods, and illness of a household member in significant percentages. Soil degradation, high input prices, and weather shocks were reportedly more pronounced problems for poor people. Given such risks, approximately 22 percent of the population was recently estimated to have fallen into poverty as a result of temporary adverse shocks, and another 20 percent of the population was

Figure 18: Percentage of Rural Households Affected by Shocks by Consumption Quintile, 2011



Source: République Togolaise, QUIBB 2011.

determined to be nonpoor but vulnerable to falling into poverty (World Bank 2012d).²⁴ In 2015, 10 percent of people consume only 20 percent more than the poverty line, and 70 percent of the population lives on under US\$3.10 per day (2011 PPP). In the presence of these risks, households without sufficient buffer savings or risk-mitigation instruments will tend to reduce the use of productive inputs, which makes exiting poverty more difficult.²⁵

15. With high levels of poverty and risk, food insecurity remains a major issue. In 2011, the percentage of households without adequate food was highest in the Maritime region, at 80 percent, followed by Savanes at 65.7 percent and then Kara—the three driest regions, generally. Yet the rate of food insecurity was higher than 40 percent for all regions, including Lomé (Table 8). For those households considered food insecure, the frequency cited of a poor harvest as the reason increases as one progresses north, to 77.5 percent of the food insecure population in Savanes (Figure 19). In contrast, the frequency of inadequate financial resources is higher further south.

16. Climate change increases the population's vulnerability to weather-related risks. Average rainfall has trended downward since 1946 (Figure 20), and mean temperatures have risen by an estimated 0.24 degrees Celsius per decade from 1960 to 2009 (McSweeney et al. (undated)). The drier, hotter conditions in the poorest, northern part of the country (particularly the Savanes region) will make it increasingly difficult for its residents to generate a livelihood from agricultural activities on which they disproportionately depend. In addition, periodic flooding can cost a significant amount to the economy. In 2010, according to World Bank and government figures, flooding was estimated to have cost 1.2 percent of GDP, and this risk will likely grow with the effects of climate change.

17. Poor people are also vulnerable to local environmental degradation that affects their access to fertile soils, water, clean air, and fisheries. Togo ranks 161st out of 180 countries with respect to environmental performance, according to the 2015 Environmental Performance Index, with an overall score of 27.91 out of 100. By comparison, neighboring countries Benin, Burkina Faso, and Niger rank 150th, 126th, and 142nd, respectively.

18. The cost of various forms of resource degradation, estimated to total 6.8 percent of GDP per year, arises through water and ambient air pollution, land degradation, and coastal erosion (Figure 21). Health outcomes are increasingly affected by air pollution from dust, exhaust fumes, factory smoke, bush fires, and waste incineration (RT 2010). The lost economic value from declining water quality, as a result of pollution from feces, domestic sewage, industrial effluent, filtrate pits, and dumps, is estimated at 1.13 percent of GDP (RT 2010). Moreover, land degradation is estimated to cost 0.82 percent of GDP per year.²⁶ Natural ecosystems are subject to a vicious circle of deforestation due to the use of biomass and increased clearing of land for agriculture, worsening microclimates, declining availability of surface water, rising

Table 8: Percentage of Households Facing Lack of Food over Preceding 12 Months, by Region, 2011

Region	Percentage
Lomé	59.1
Maritime	80.0
Plateaux	48.6
Centrale	41.7
Kara	56.1
Savanes	65.7

Source: République Togolaise, QUIBB 2011.

²⁴ 2006 data. Although no vulnerability assessment has been done using more recent data, these magnitudes are likely to be similar today. By definition, the distribution of shocks is relatively persistent over time, and the risks of a major macro crisis have not diminished.

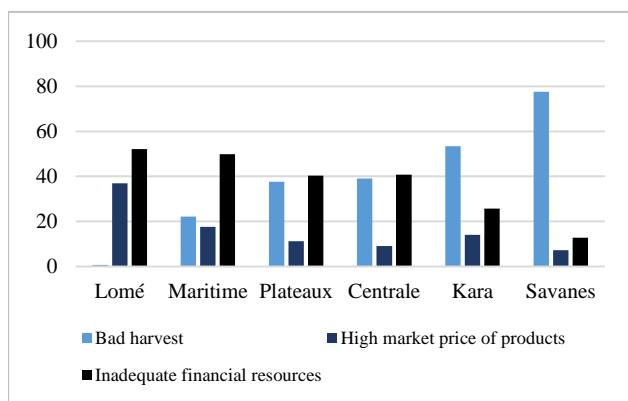
²⁵ See, for example, Christiansen and Dercon (2011), Osborne (2006), and Zimmerman and Carter (2003), which underscore the importance of risk in farmers' decisions to utilize lower-investment, lower-return technologies. Risk alone does not generate a poverty trap according to its technical definition, but can induce greater persistence of poverty if there is no expansion of opportunities, change in technologies, or rise in the returns to the assets held by the poor.

²⁶ According to WDI, the rate of forest depletion is over 7 percent of GNI per year. While data sources therefore differ on the economic costs of these trends, the general conclusion is that they are alarming.

evapotranspiration, and declining yields (RT 2010). Other geographic assets to the Togolese economy are also at risk. The rate of mineral depletion, at 1.3 percent of gross national income (GNI) per year over the period 2006–2013 (WDI), is also high if this wealth is not reinvested for the benefit of the population. If not addressed more proactively, the mitigation costs of coastal erosion will increase. Out of Togo's 55 km of coastline, 40 km (the entire coast east of Lomé) is eroding at an average yearly rate of 6–10 meters per year, at an accelerating rate all along the coastline. During some extreme events, this retreat can reach up to 15 meters in four months. In addition to rising sea levels and changing sea and weather patterns, the main causes of erosion have been port construction, sand mining (now illegal), and the construction of a dam in Akossombo (Ghana), which prevents inland sediments from reaching the coast.²⁷ There are no available studies quantifying the economic impacts on poor people, but there are local media reports of the disruption of some fishing livelihoods. The costs to the economy of a failure to put in place a more permanent solution, at least as measured by the annual costs of defensive spending, are high, as shown in Figure 21.²⁸ In addition to these issues, a range of environmental, economic, and social factors threaten Togo's savannah and wetland biodiversity and ecosystems.

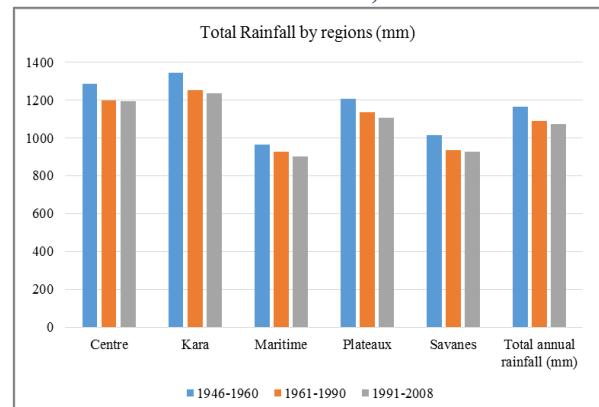
19. Without more data on the distribution of impacts of these issues, it is difficult to rank them with confidence in terms of their poverty impact. Whether directly or indirectly, all of these issues are likely to affect poor people through deteriorating health, reduced agricultural productivity, or shrinking employment opportunities in sectors that depend upon coastal assets. Nonetheless, based on the importance of health as a precondition to well-being, and the size and directness of effects on the incomes of the poor, the most costly environmental issues in terms of sustaining poverty reduction appear to be land degradation and ambient air quality, issues that this study discusses further below.

Figure 19: Reasons Given for Food Insecurity by Region



Source: République Togolaise, QUIBB 2011

Figure 20: Rainfall Trends by Region (Annual Millimeters)

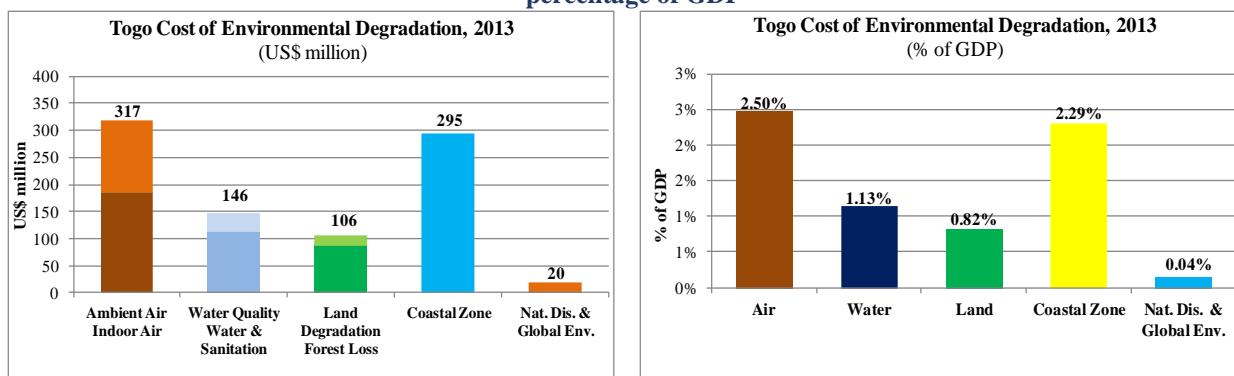


Source: PRIO GRID (monthly meteorological statistics from the University of Delaware (NOAA 2011)

²⁷ As a result, the sediment deficit along the coasts of Togo and Benin is estimated at around 1 million m³/year. It will be important for Togo and its neighbors to mitigate and reverse this damage to protect landed assets along the coast and economic activities that are dependent upon them. More than 90 percent of the country's industries are located on the coastline, including the port. Already, some local fishing communities have had to adjust by fishing further out to sea, changing occupations, or moving away.

²⁸ The government is considering a US\$100 million investment plan to build approximately 100 groins along the coast. However, this plan might prove to be insufficient, and would induce strong negative downstream effects, especially in Benin.

Figure 21: Annual cost of environmental degradation by environmental category in 2013, US\$ million and percentage of GDP



Source: Republic of Togo and World Bank 2015.

20. Certain circumstances tend to render poverty more persistent for the poorest of the poor. Among Togo's chronically poor population are some specific groups that face greater vulnerability to a life of deprivation. Perhaps the most vulnerable group is poor children affected by disease or disability within the family, as well as orphans and children separated from their biological parents. These groups are especially vulnerable to neglect and exploitation; for example, orphans are 13 percentage points less likely to attend school (World Bank 2012d). Poor and socially vulnerable children are at greater risk of malnutrition, of engaging in child labor in its worst forms, or of being caught in human trafficking. For both boys and girls, according to the United States State Department, falling into forced servitude is a peril of poverty and vulnerability that disproportionately affects young women and children.²⁹ Other vulnerable groups face additional challenges. Having a disability is linked with higher poverty rates. For example, in Lomé, a household with a disabled household head is 17 percent more likely to be poor than a household with an able-bodied head, and those affected by HIV/AIDS and other diseases are most vulnerable to lifelong poverty.³⁰

21. Safety net programs to address the vulnerability issues in Togo have historically focused on emergency interventions, but have increasingly included a broader array of programs. Interventions in Togo include in-kind transfers such as school feeding, nutrition supplements, and food aid, as well as cash transfers, temporary employment through labor-intensive public works, and waivers for services (for example, free cesarean sections or school fee waivers). More spending goes to reactive, coping responses than preventative measures; approximately half of the total amount spent on safety nets has been for emergency in-kind distribution, and in-kind transfers of food are the most common type of safety net program used.

²⁹ Togo is a Tier 2 country in the Trafficking in Persons 2015 report, the tier where most countries of the world fall. (Tier 2 Watchlist and Tier 3 are worse rankings, and Tier 1 the best.) According to the United States State Department, “Togo is a source and transit country for men, women, and children subjected to forced labor and sex trafficking. The majority of Togolese victims are exploited within the country; forced child labor occurs in the agricultural sector—particularly on coffee, cocoa, and cotton farms—as well as in stone and sand quarries. Children from rural areas are brought to the capital Lomé and forced to work...or are exploited in prostitution. Near the Togo-Burkina Faso border, Togolese boys are forced into begging by...religious teachers... Togolese girls and, to a lesser extent, boys are transported to Benin, Gabon, Nigeria, Ghana, Côte d'Ivoire, and the Democratic Republic of the Congo and forced to work in agriculture. Children from Benin and Ghana are recruited and transported to Togo for forced labor. Traffickers exploit Togolese men for forced labor in agriculture and Togolese women as domestic servants in Nigeria. Togolese women are fraudulently recruited for employment in Saudi Arabia, Lebanon, the United States, and Europe, where they are subsequently subjected to domestic servitude or forced prostitution.” <http://www.state.gov/j/tip/rls/tiprpt/countries/2013/215635.htm>

³⁰ In 2009, the Joint United Nations Programme on HIV/AIDS (UNAIDS) estimated that approximately 120,000 Togolese were living with HIV/AIDS, 62 percent of whom were women. There are about 66,000 orphans due to AIDS between the ages of 0 and 16. Increased health costs, reduced productivity, and the effects on families of AIDS-related deaths makes these households particularly vulnerable

Additional transfer programs target highly vulnerable groups, and coverage has been limited, with the exception of universal programs like fee waivers for primary education. As a result, total expenditures on safety nets have been low as a share of the national budget, as a share of GDP, and compared with expenditure levels in other African countries (World Bank 2012d).³¹

³¹ On average, between 2008 and 2010, not including general price subsidies, annual spending on safety nets amounted to 12 billion FCFA, which represents about 7 percent of total social spending in the country, 1.8 percent of the national budget, and 0.5 percent of GDP.

3.4. Macro-Micro Linkages and Pathways out of Poverty

Main Messages:

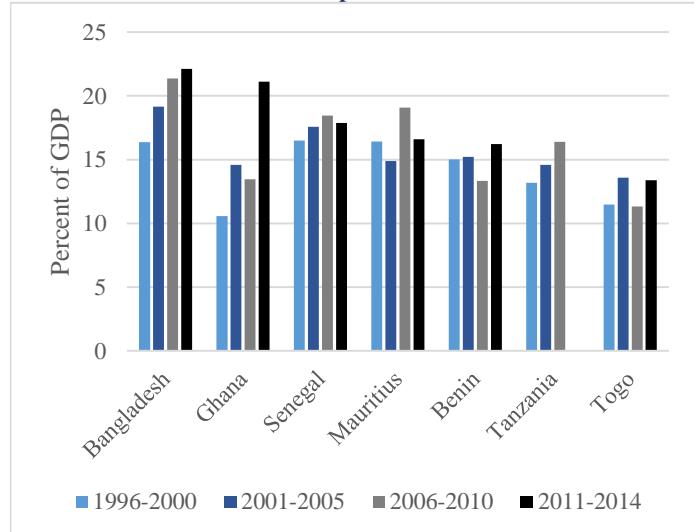
- Togo has been unable to sustain inclusive growth—growth that is broad-based across sectors and inclusive of a large part of the country’s labor force—over recent decades.
- Private investment has been persistently low, as have productivity growth, firm entry, labor productivity, and wage growth.
- Formal firms, which have 7.5 times greater labor productivity than informal firms, are few, and wages of nonfarm workers are 6 times those of on-farm workers.
- Agricultural productivity growth has been relatively flat since 1990, in contrast to that of neighboring Benin, with its similar agro-climatic conditions.
- For Togo to accelerate and sustain poverty reduction, it will need to unleash a more vigorous, inclusive, and sustainable growth process, led by private economic agents in both agricultural and nonagricultural sectors, and supported and amplified by more effective government policies, public investments, and public services, to:
 - Generate growth in increasingly formal and productive off-farm businesses for more remunerative employment; and
 - Transform the agricultural sector into a more competitive, higher value-added sector.
- More specific pathways and the key constraints or blockages along these pathways will be identified in Chapter 4.

22. Over recent decades, Togo has been unable to sustain a growth process that is sufficiently robust and broad-based across sectors to include a large part of the country’s labor force—growth to which poor people contribute and from which they benefit.³²

Inclusive growth requires participation by private economic agents, including smallholders in agriculture, micro and small businesses, and larger private entrepreneurs who can identify and make productive investments, create value, and stimulate increasingly productive and remunerative employment opportunities.

23. Togo has not achieved an adequate level of private investment. The average level of 12 percent of GDP over 1996–2014 is lower than for comparator countries (Figure 22). Foreign direct investment (FDI), which averages around 5 percent of GDP over the past decade (WDI), is, however relatively high, due most recently to investment in the country’s port (WDI). Thus, domestic private investment is particularly low. The rate of entry of new

Figure 22: Private Investment as a Percent of GDP, Togo and Comparators

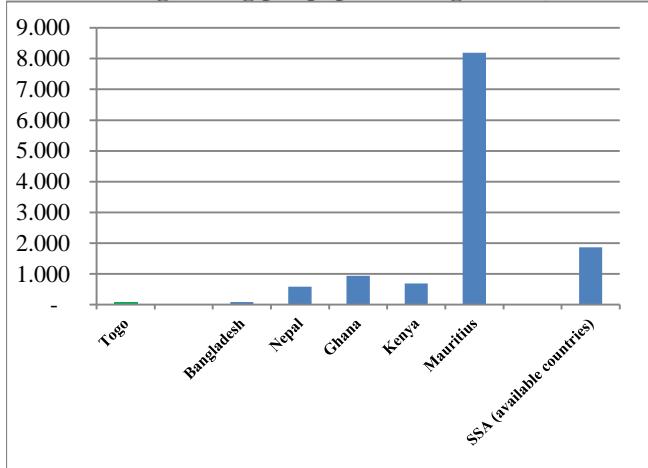


Source: WDI

³² See Ianchovichina and Lundstrom (2009), who provide this definition of inclusive growth.

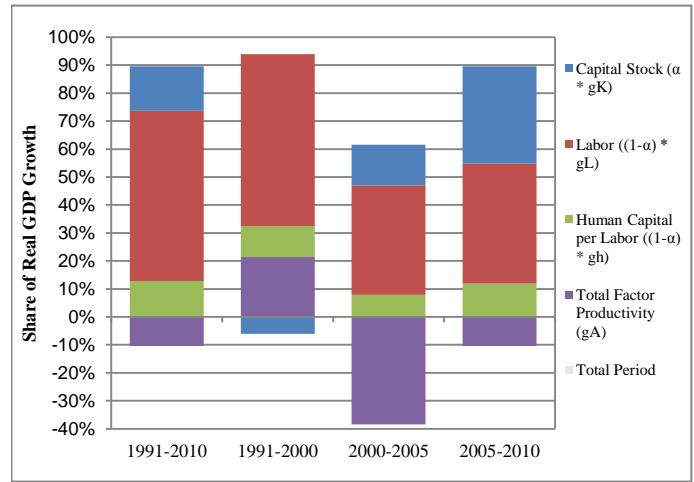
registered firms, a proxy for the dynamism of the formal private sector, is also low relative to that of Sub-Saharan Africa and comparator countries such as Nepal and Ghana (Figure 23), and total factor productivity growth has been negative for the decade through 2010 (Figure 24). The main factor contributing to aggregate growth has been increasing labor supply, which does not bring higher average incomes if not accompanied by increased physical and human capital. Total capital stock has grown slowly, with public investment totaling, on average, 5 percent of GDP over the past 15 years, and dipping to negative levels in some periods. Allocative efficiency is low; transferring 1 percent of labor from agriculture to nonagricultural sectors would increase output by an estimated 1.9 percent (IMF 2015a).

Figure 23: New Firm Density (Number of Firms registering per population age 15-64)



Source: World Bank Doing Business

Figure 24: Contributions to Growth 1991-2010



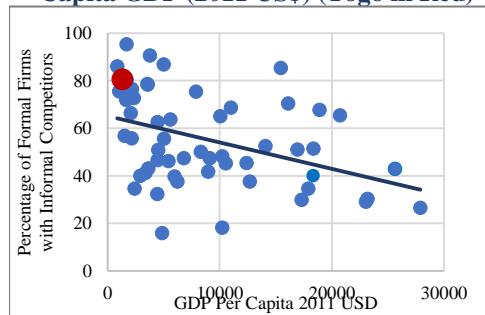
Note: National accounts data beyond 2010 are projections only.

Source: World Bank staff calculations.

24. **Togo's enterprises are overwhelmingly smaller and less formal than is typically required for a dynamic economy with increasing productivity.** Firm size (as measured by the number of employees per firm) is positively correlated with per-capita income internationally, in part because larger firms tend to be more productive.³³ Although reliable data do not exist on Togo's firm sizes, tax records for formal firms suggest that at least 90 percent of such firms have fewer than six employees, and a high percentage of Togo's workforce is informally employed, even relative to West Africa (Grimm et al. 2011). In addition, size and formality are associated with greater productivity: value added per worker in Togo's formal sector is approximately 7.5 times greater than that in the informal sector (World Bank 2015f, 2015g). Yet even for a country with low income, Togo's economy is more informal than is typical (Figure 25).

25. **In addition, agricultural performance has not exhibited positive trends.** Accounting for approximately 41

Figure 25: International Comparison of Indicator of informality Relative to Per Capita GDP (2011 US\$) (Togo in Red)



Source: WBES and WDI

³³ See, for example, Poschke (2014) and Haltiwanger et al. (2010).

percent of Togo's GDP,³⁴ productivity in agriculture has been relatively stagnant since 1990. Agricultural productivity per worker is higher than in countries with drier climates (Figure 26). Its performance is relatively flat, however, and even growth in 2014 does not put it above its 2008 levels. These trends contrast with those of Benin, which has similar agro-climatic conditions, but which entered 1990 with lower value added per worker. Although Togo's agricultural productivity has increased since 2009, there remains a major gap with that of its neighbor. Moreover, cereal yields are the lowest of comparator countries, including Ghana and Côte d'Ivoire, which fall in a similar climatic zone (Figure 27).³⁵ The low cereals yields for Benin coupled with high agricultural productivity per worker suggest that some of the gains in the latter are due to higher value crop choice.

26. Given trends in productivity, demand for labor and the remuneration of work are low, especially in agriculture. One-third of active workers are either unemployed or underemployed. Togo's unemployment rate was 7.4 percent in 2011, an increase over an estimated 6.4 percent in 2006, despite a decline in labor participation rates from 79 to 70 percent. In addition, 23 percent of active workers were underemployed—that is, working fewer hours than

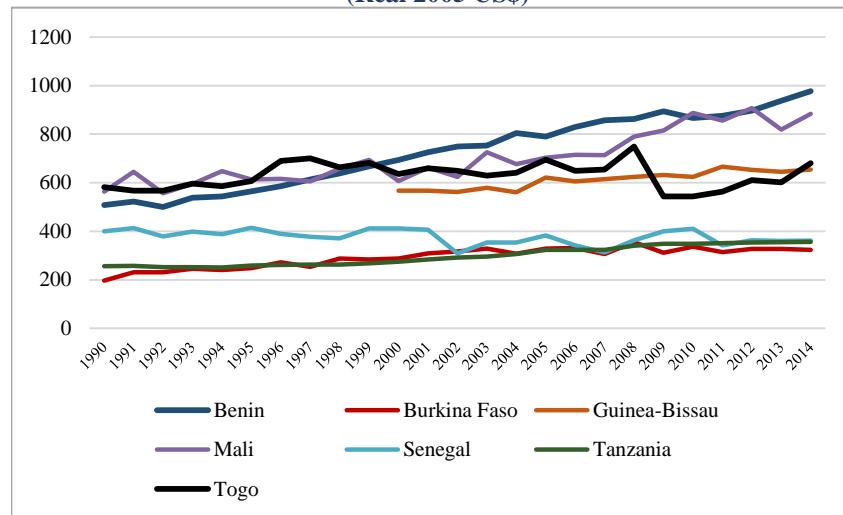
Table 9: Employment and Median Earnings

	Median earnings (year)	% of remunerated workers
Farm self-employed	100,000	34.7
Farm wage-employed	60,000	7.3
Nonfarm wage-employed	360,000	19.4
Nonfarm self-employed	272,790	38.6

Note: Only remunerated workers reporting earnings are included.

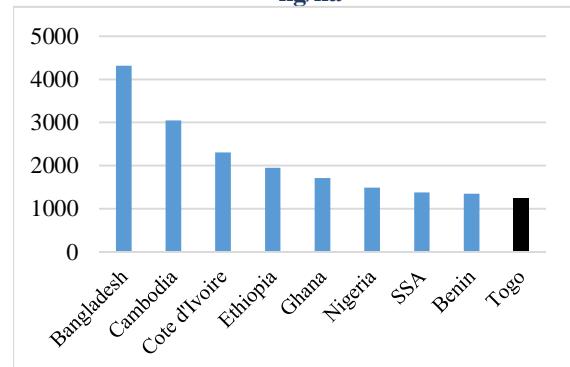
Source: World Bank staff, using QUIBB 2011

Figure 26: Agriculture Value Added per Worker Togo and Comparators (Real 2005 US\$)



Source: WDI

Figure 27: Cereals Yields (Average 2009-2013) in kg/ha



Source: WDI

desired or in a lower-skilled job than would be commensurate with their level of education and training. Wages are generally low, especially for those employed in agriculture. As shown in Table 9, median earnings of agricultural laborers and on-farm self-employed workers in 2011 were approximately one-quarter those for nonfarm self-employed and nonfarm wage employed workers (at 60,000 and 100,000 FCFA per year, relative to 272,790 and

³⁴ This figure reflects the mean value for 2010–2014, as derived from national accounts data.

³⁵ Cereal yields are a measure of the productivity of land (whereas per-worker productivity proxies for the productivity of labor). Data on agriculture value added per worker are not available for Ghana or Côte d'Ivoire.

360,000 FCFA per year, respectively).³⁶ Table 10 demonstrates the relationship between hourly earnings, hours of work, and consumption levels. As shown, median hourly earnings for those at the 50th percentile of the consumption distribution are over five times those of the bottom decile. Combining higher wages with the ability to work more hours, earners in the top decile of the distribution are able to earn over 50 times more than those in the bottom decile.

Table 10: Hourly Earnings Distribution, All Jobs, 2011 FCFA

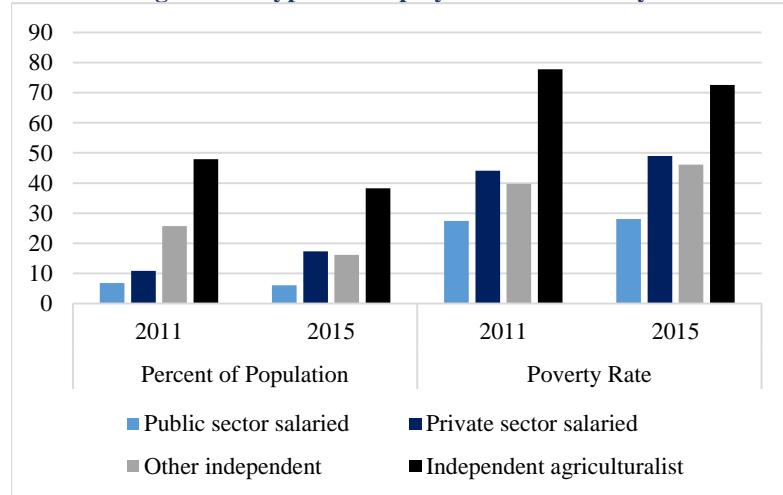
Consumption Percentile	10	25	50	75	90
Median annual earnings all jobs	27,984	77,940	216,000	600,000	1,558,800
Average hours worked per week	26	30	33	40	40
Hourly earnings all jobs	21.05	50.00	125.00	288.68	750.58

Source: World Bank staff using QUIBB 2011

27. A shift from agriculture to off-farm private employment has contributed to Togo's recent improvement in poverty rates. Given recent growth in tertiary sectors and construction and public works, between 2011 and 2015 the percentage of the population employed as independent agriculturalists fell from approximately 48 to 38 percent, while salaried private sector workers increased from 11 to 17 percent (Figure 28). Although the poverty rate for independent agricultural workers fell over the period from 78 to 73 percent, since the poverty rate (49 percent) is lower for private sector employees, this shift out of agriculture is responsible for a substantial part of the decline in poverty over the period. Shifts between employment categories are responsible for reducing the poverty rate by approximately 5 percentage points, and increasing agricultural incomes by 1.8 percentage points.³⁷

28. Togo's population is mobile and responsive to economic opportunities. Approximately 49 percent of the working-age population has moved between prefectures (a subregional unit, of which there are 39 in Togo) since birth, and approximately 34 percent have moved between regions (QUIBB 2011). Many have moved to take higher-paying occupations and diversify household income sources, as illustrated by the fact that 16 percent of households receive domestic private transfers averaging approximately 64,000 FCFA per year (or 26 percent of GNI per capita in 2014). In addition, many Togolese live and work outside the country and send back remittances. Eight percent of Togolese households receive transfers from overseas, averaging 118,000 CFA (approximately US\$238). In total, this represents 11 percent of GDP in 2010 and an estimated 8 percent of GDP in 2014, making Togo somewhat dependent on remittances.

Figure 28: Types of Employment and Poverty Rates



Source: INSEED 2016, using QUIBB

³⁶ These are close to the poverty line of 264,000 FCFA per capita in that year, although one worker must typically support several household members.

³⁷ World Bank staff decomposition, using QUIBB 2011 and 2015. These improvements are partially offset by increased poverty rates outside of agriculture, and total changes are also affected by shifts in the dependency ratio and employment rates of the working-age population.

3.4.1. Implications for Togo’s Pathways out of Poverty

29. **To accelerate and sustain poverty reduction, Togo will need to unleash a more vigorous, inclusive, and sustainable growth process, led by private economic agents and supported and amplified by more effective government policies, public investments, and public services.** International evidence suggests that the conditions that spur sustained, broad-based growth also tend to reduce poverty (Ravallion 1995; Kraay 2006), as well as shared prosperity (Dollar et al. 2014). Moreover, the efforts of Togo’s population engaged in productive work will be needed to lift almost half of the population out of poverty. Given the economic trends and poverty dynamics discussed above, an essential pathway to poverty reduction for Togo will be growth in increasingly formal and productive off-farm businesses that can create employment opportunities. Alleviating urban poverty, which may continue to grow as migrants arrive from rural areas, requires urban-based employment sufficiently productive to provide a living wage, as well as more resources to finance improved services. At the same time, given Togo’s unexploited comparative advantage in agriculture and concentration of poverty in rural areas, an additional key pathway for poverty reduction will be to transform this sector toward more productive, higher-value activities (potentially including livestock, vegetable and tree crops, and fisheries), and more environmentally sustainable production by both smallholders and commercial operators. Pursuing these pathways requires that private actors, including agriculturalists, micro and small businesses, and larger private entrepreneurs identify and make productive investments, create value, and stimulate expanding and increasingly remunerative employment opportunities.³⁸ Generally, rising income in agriculture and urban-based sectors will tend to increase demand for goods and services provided by the other; strengthen supply linkages; and increase the productivity of land and labor—the assets that poor people possess. Remittance income, food security, and the overall resilience of the economy would also rise with more inclusive growth along these pathways. Within a conducive public governance framework, growth can in turn provide the resources needed to invest in the public goods and services needed to enhance well-being and equity of opportunity, while also shoring up fiscal and environmental sustainability risks. Additional pathways, therefore, must also be taken to strengthen the equity and sustainability pillars of poverty reduction. To further define and pursue these pathways requires identifying the key constraints blocking Togo’s progress, so that interventions can be prioritized and often-difficult reforms well targeted. Identifying Togo’s key constraints to growth and to the inclusion of the poor, as well as key sustainability risks, is the topic of Chapter 4.

³⁸ According to both theory and empirical evidence, wages can only rise along with employment in a sustained manner if complementary investments are made and/or total factor productivity increases.

4. Togo's Key Constraints to the Twin Goals

4.1. Diagnostic Framework, Key Questions, and Approach

Main Messages:

- As detailed in Chapter 3, Togo has failed to deliver on all three pillars of the SCD framework: (1) it has shown inadequate inclusive growth—and indeed shows a long-run trend of negative real growth per capita, albeit partially reversed by a recent spate of growth; (2) when growth has occurred it has not proven sustainable, and sustainability risks remain high; and (3) the government has not adequately ensured that growth is consistently inclusive and that opportunities are equitable.
- The SCD framework, detailed for the Togolese case, is presented at the end of this section, with the key SCD pillar questions, the key symptoms of Togo's difficulties, and remaining questions to be answered.
- Given Togo's status as a fragile state and growing international evidence linking governance to economic performance, the framework includes the questions: *Is poor governance a key constraint to (Togo's) poverty reduction? If so, how (through which broad channels) does Togo's governance affect poverty?*
- In addition to characterizing overall governance challenges, the SCD identifies and prioritizes more specific constraints by examining the evidence on a full range of candidates. The issues to be examined can be broadly classified (along the lines of the Growth Diagnostics Framework by Hausmann, Rodrik, and Velasco (HRV)) as follows:

Are there large distortions affecting private economic incentives that are binding for growth or key constraints to equity/inclusion? If so, what are they?

Is access to finance adequate to support (or rather a binding constraint to) inclusive growth?

How costly are infrastructure constraints for inclusive growth or equitable opportunities, and which ones are most costly?

Are there key failures in delivering social services, important for building the human capital needed for growth—that is, sufficiently skilled and healthy workers—or for inclusion? If so, which areas are most constraining?

- Sustainability issues, discussed in the previous chapter, are integrated into the most relevant sections of the report.

30. **The primary task of this study is to diagnose the underlying reasons for Togo's poor performance, as described in Chapters 1–3.** Each of the three central SCD questions is relevant: *What are the key constraints to (and opportunities for) economic growth in Togo? What are the key issues constraining inclusion of poor people? What are the country's main sustainability risks?* (Appendix Figure 1: SCD Guidance on Framing the Issues). A logical framework for organizing the diagnostic is presented at the end of this section in the form of a diagram that maps the reasons for poor performance in Togo, from deeper causes at the bottom to the high-level SCD pillars at the top (Figure 29). In Togo's case, the observed outcomes include insufficiently inclusive growth, poor sustainability, and inadequately equitable opportunities. Insufficiently inclusive growth is associated with slow structural transformation, low labor productivity and wages, underemployment, and low agricultural productivity, as discussed in Section 3.3. Although Togo's failure to sustain growth in the past is clear, the question remains: *What are Togo's key sustainability risks today?*

31. **Beneath the three high-level outcome pillars are the general drivers of these outcomes.** First is low private investment and entrepreneurship. Private investment and entrepreneurship—the process of identifying and pursuing economic opportunities and creating value—are generally the basis for sustained, inclusive economic growth over the long term, as illustrated by Togo’s experience with state-led growth in the late 1970s. At the same time, Figure 29 captures Togo’s inconsistently pro-poor distribution of growth (Section 3.1) due to a lack of pro-poor policies, as well as slow progress in improving human development indicators (Chapter 1) as drivers of inadequately equitable opportunities, but also potentially of low growth.

32. **The bottom of Figure 29 explores whether poor governance is a key constraint and central challenge for poverty reduction in Togo and, if so, how—through what channels—it might cause or perpetuate poverty.** “Governance” is defined as the exercise of economic, political, and administrative authority to manage an entity’s (in this case a country’s or a sector’s) affairs, including the mechanisms and processes through which citizens and groups (including organizations and interest groups) articulate their interests and through which these interests are mediated and reflected in the exercise of authority. Given Togo’s status as a fragile state, as well as the growing international evidence linking governance to economic development, these questions could prove fundamental to contextualizing the other constraints identified, which may not be amenable to purely technocratic solutions.³⁹ They may also present key sustainability risks.

33. **In addition, the diagnostic would not be complete without identifying key specific policy or institutional constraints—in particular, those that are either binding constraints to growth or otherwise key to inclusion or sustainability.**⁴⁰ To assess which specific constraints are binding for growth, the diagnostic applies an augmented version of the Growth Diagnostics Framework developed by Hausmann, Rodrik, and Velasco (HRV) (Hausmann et al. 2005). HRV represents the most comprehensive feasible method for responding to the question posed in the growth pillar of the World Bank’s SCD guidance (Appendix Figure 1): “*What Constrains Private Investment and Entrepreneurship?*” The possible constraints affecting private economic activity are many, but can be grouped into four broad questions: (1) *are there large distortions affecting private economic incentives to contribute to Togo’s growth and, if so, what are they?*; (2) *is access to finance adequate to support (or, rather, binding for) inclusive growth?*; (3) *how costly are infrastructure constraints for inclusive growth, equitable opportunities, and well-being, and which are most constraining?*; and (4) *are there key failures in delivering needed human capital for growth—that is, sufficiently skilled and healthy workers—and/or are there key deficits in the area of social service delivery, whether for inclusive growth or well-being?* Within each broad question are a number of more specific issues to be examined. Combined, they span the key questions posed in the HRV tree (Appendix A, Box 3).⁴¹

34. **To implement the HRV approach to diagnosing constraints to growth, four types of hypothesis tests of a binding constraint to growth are used (Box 1).** The spirit of these diagnostic tests, proposed by Hausmann, Klinger, and Wagner (2008), is to ask: *if the lack of a factor—for example, human capital or peace and security—were a binding constraint, then what economic behavior or symptoms would one expect to see in the economy? Does one observe these symptoms?* If a constraint is binding, given the need for broad-based growth, it is also key to poverty reduction. Appendix A provides greater detail on the methodology, its limitations, and other methodological options considered, as well as the rationale for comparator countries chosen (Appendix Table 1) and details on Togo-specific data used (Appendix A, Table 2).

³⁹ See, for example, Acemoglu and Robinson (2012).

⁴⁰ We use the term “binding” as synonymous with “key” for the inclusive growth pillar, and “key” for the equity and sustainability pillars, as the term “binding” may not be as apt with respect to all issues.

⁴¹ One question in the HRV tree that is not included in the diagram is whether a lack of natural capital is binding on growth. This (and environmental sustainability issues) are addressed in an integrated manner in this SCD and is not shown in the diagram to simplify the presentation.

35. Although the HRV methodology was designed to diagnose constraints affecting growth that is broadly based and broadly shared, this study augments the approach to ensure that the constraints identified are also key to poverty reduction. First, it conducts a separate diagnostic within the agricultural sector, where growth is necessary for poverty reduction in the short- and medium-term. Second, it focuses efforts on identifying constraints that affect nonfarm sectors where employment opportunities can be expanded. In addition, the SCD identifies constraints that are not binding for growth but are otherwise key for inclusion. These could be constraints that specifically affect the real incomes or the well-being of the poorest or least advantaged groups, whether these arise through human capital constraints, discrimination, or deprivation of fair or adequate returns to the assets of poor people (such as land and labor). To prioritize inclusion appropriately, the diagnostic examines evidence, where available, of: (i) significant lost income for poor people (or possibly adverse distributional effects), in the case of constraints to growth; and in the case of service delivery, of (ii) unusual disparities in access; (iii) the number of people affected; and/or (iv) severe losses in terms of well-being for poor people.⁴² Finally, in identifying and prioritizing sustainability risks, the approach is to weight the approximate magnitude of effects on growth and on poor people, and the likely timeframe for such effects to occur.

36. This diagnostic draws upon a wide array of sources. These include household surveys, agricultural census surveys, informal and formal firm surveys, impact evaluation data, third-party indicators of policy performance, data on aggregate outcomes, press reports, sector-specific indicators, reports, research, and interviews. At the time of launching the study, the team held a series of meetings with government officials as well as civil society and private sector groups, both in Lomé and in the country's interior, to help frame the issues and context. In addition, because data at the level of firms—the engines of growth—were lacking, the team conducted a survey of formal firms in July 2015 (TFFS). This survey was drawn from the population of all firms filing tax declarations, and includes a larger and more representative sample of formal firms than do the World Bank Enterprise Surveys (WBES). In particular, the TFFS includes microenterprises—firms with fewer than five employees, which were estimated to comprise 40 percent of all formal firms.⁴³ Whereas the respondents to the WBES for Togo, conducted in 2009, comprised 58.7 percent small firms (with over five employees and less than 500 million FCFA in revenues), 29 percent medium-sized firms, and 12.3 percent large firms, the 2015 TFFS included much smaller enterprises: 34.2 percent were microenterprises, 45.5 percent were small enterprises, 15.8 percent were medium-sized enterprises, and 4.5 percent were large

Box 1: The Mindbook Approach to Diagnostics

The Mindbook (2008) proposes a way of viewing data that matches and checks symptoms against a series of hypothesized conditions (or “diseases,” to use a medical analogy). It provides examples of tests motivated by the general question: If the *lack* of a factor—for example, human capital, road networks, or electricity—or of a condition—such as peace and security or predictable property rights protections—were a binding constraint to growth, then what symptoms would one expect to see in the economy? And does one observe them?

This approach proposes to test for four possible conditions or symptoms of a binding constraint, as follows: (1) the costs to economic actors (businesses and producers) of the constraint are high; (2) economic actors would be attempting to get around the constraint; (3) actors or activities that are intensive in the constrained factor would tend not to survive or thrive (for example, one would not expect to see water-intensive manufacturing in a desert); and (4) over time, periods when the constraint was relaxed should see a positive growth response (unconditional on other factors.)

Source: Hausmann, Klinger, and Wagner (2008).

⁴² This does not necessarily imply that a specific measure of inequality would be reduced, but that the effect of the constraint is negative on the poor. It was not feasible to assess each policy or circumstance affecting the distribution of benefits or costs within the population, given the data and time available. Moreover, given the World Bank's twin goals, this is not required for an SCD.

⁴³ The population contained firms with revenues ranging from 15,000 FCFA (US\$30) to over 108 billion FCFA (US\$218 million) annually.

enterprises.⁴⁴ Ten percent of firms earned less than US\$4,700 in annual revenues, 25 percent less than US\$15,000, and 50 percent less than US\$71,000. The TFFS surveyed firms in Lomé, as well as Sokode and Kara, the country's second- and third-largest cities. The questionnaire departed somewhat from a standard WBES in that it was more specifically designed to permit tests of binding constraints.⁴⁵ Finally, formal consultations were conducted in three of the country's regions, plus Lomé, with a broad range of stakeholders to discuss and contextualize general findings.

37. The rest of this chapter is broadly organized according to the structure of the logical framework diagram (Figure 29). First, it considers the issue of governance (at the bottom) as it relates to Togo's history and political economy. Next, the report proceeds broadly from left to right across the row on "specific key (including binding) and moderate constraints," to ask whether an issue (for example, a lack of sufficient human capital, gender equality, infrastructure, lack of financing, or other constraint) represents a binding constraint to broad-based growth or a key constraint to inclusion. The focus of this chapter is on presenting evidence to answer these questions, rather than describing each problem in detail. The question on whether there are key economic distortions and risks to private entrepreneurship is addressed in Sections 4.4 and 4.5. Section 4.6 diagnoses constraints in agriculture separately, covering the range of HRV questions where relevant. It is presented next given the significant overlap with issues explored in the previous two sections. Section 4.7 resumes the issue-by-issue inquiry shown in Figure 29 by answering the question of whether a lack of financing is a binding constraint to inclusive growth. Section 4.8 presents the evidence available regarding inadequate provision of infrastructure. Sections 4.9–4.11 present the growth and equity issues associated with investment in and utilization of Togo's human capital—namely, education, skills, health, and disease prevention, as well as gender bias issues.

⁴⁴ Population weights were used to compute all descriptive statistics to ensure that they were representative of the underlying population.

⁴⁵ One must always be careful in interpreting firm-level data to take into account that firms in existence are somehow able to circumvent constraints and therefore may not fully represent all potential investors or entrepreneurs. At the same time, it is likely that the issues that impact these firms and the ways they operate to circumvent constraints are informative not only regarding their own constraints, but those of the investors and entrepreneurs, farmers and small business entrepreneurs that are too discouraged to invest.

Figure 29: Diagnostic Framework and Key Questions

Levels of Causation

Proximate Causes of Poverty

Outcomes of these Constraints

Specific Key/
Binding and Moderate Constraints

Deeper Causes

What Key Constraints Does Togo Face in Eliminating Extreme Poverty?

Inadequate (Inclusive) Growth

(Slow structural transformation, low labor productivity and wages, under-employment, and low agricultural productivity)

Low Sustainability:

What are the main sustainability risks?

Inadequate Equity of Opportunity and Well-Being for Poor People

Low private investment and entrepreneurship (including in smallholder agriculture)

Inconsistently pro-poor distribution of growth and lack of pro-poor distributional policies

Slow progress in improving human development

Are There Large Distortions to Economic Incentives?

Is Access to Finance Adequate or Binding?

How Costly Are Various Infrastructure Constraints?

What Are the Key Weaknesses and Impacts in Human Capital and Social Service Delivery?

If so, how does poor governance affect poverty?

Is poor governance a key constraint?

Medium blue = findings. Light blue = questions remaining.

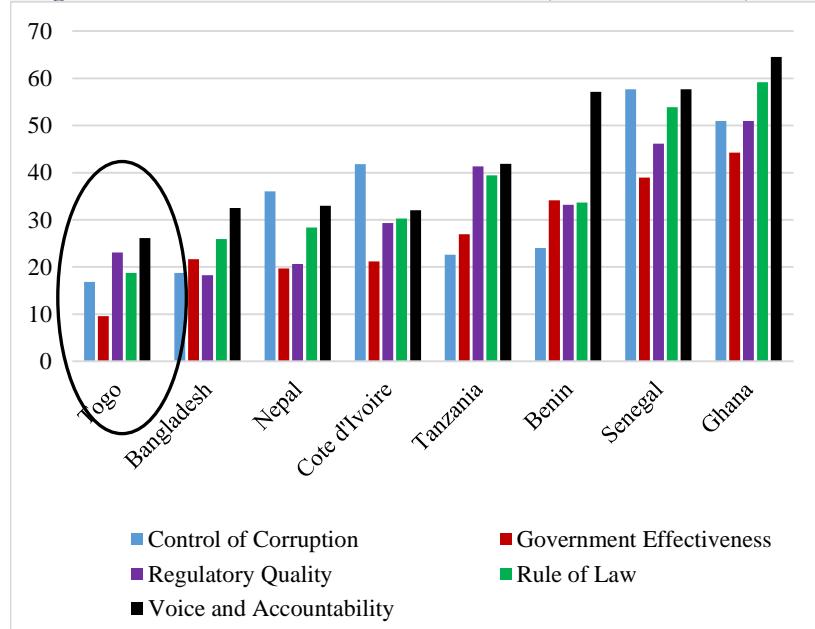
4.2. Key Constraint 1: Governance Challenges

Main Messages:

- Togo's system of governance has provided relatively weak incentives to public institutions for accountability to the Togolese population, and these institutions in turn do not provide a favorable policy framework for inclusive growth. This governance challenge presents a key, cross-cutting constraint to poverty reduction, and operates through the following channels:
 - High corruption and low government effectiveness in formulating and implementing policies affecting private economic activity, including agriculture.
 - Poor fiscal governance.
 - Low government effectiveness in setting priorities for and delivering public goods and services.
- These governance failures result in a high risk of recurrent fiscal crisis and ongoing risk of political instability, as well as more specific policy and institutional constraints to poverty reduction, to be diagnosed in the rest of this report.

38. **Togo faces challenges in key aspects of governance that are central to the achievement of sustained economic growth.** It ranks below all comparator countries on the Worldwide Governance Indicators (WGI)—*voice and accountability*, *rule of law*, *government effectiveness*, and *control of corruption*, and worse than all comparators except Bangladesh and Nepal on *regulatory quality* (Figure 30). Among these dimensions of governance, at least two have been related empirically to growth in international studies. One is *control of corruption*, defined as “the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests.” The other is *government effectiveness*, defined as “the quality of public services, the civil service and degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.” Although Togo has made major efforts to improve its government effectiveness since 2005, it still ranks above only 9.6 percent of countries in the world on the WGI measure. It rates only slightly higher—in the 16.8th percentile of countries—on *control of corruption*. On this indicator, Togo’s ranking has actually declined since 2010 (Figure 31). Moreover, for Togo, as in the international data, improvements in either of these indicators appear to positively

Figure 30: Worldwide Governance Indicators, Percentile Rank, 2014



in the world on the WGI measure. It rates only slightly higher—in the 16.8th percentile of countries—on *control of corruption*. On this indicator, Togo’s ranking has actually declined since 2010 (Figure 31). Moreover, for Togo, as in the international data, improvements in either of these indicators appear to positively

affect growth. In years when either indicator of governance has risen, growth has responded positively in subsequent years (Table 11).⁴⁶

4.2.1. Summary of Historical and Political Economy Factors

39. Formerly a part of the German protectorate Togoland, Togo was granted as a mandate to France by the League of Nations after World War I and remained a French colony until 1960. The country's first post-independence constitution, drafted in 1961, gave the presidency a quasi-monopoly on executive power and the authority to dissolve the elected national assembly, thereby providing no real legislative check on the power of the president. Early difficulties in establishing independent civil institutions, effective political competition, or other systemic checks on the dominance of the executive have since impeded the establishment of accountable public institutions. This has in turn adversely affected the effectiveness of state action and limited country's economic development.⁴⁷

40. Efforts to introduce effective political competition and civilian rule lost traction early. After a short period of struggle to establish and preserve multipartyism, Togo experienced two military coups, the second of which occurred in 1967 when Etienne Eyadéma (later renamed Gnassingbé Eyadéma) took power. He subsequently ruled for 38 years until his death in 2005.

41. Under President Eyadéma, Togo's political and economic systems became increasingly centralized. The president's office appointed the officials and controlled the budgets of all subnational government entities, including prefectures and municipalities, and influenced the selection of traditional chiefs.

The ruling party, the Rally for the Togolese People (RPT in its French acronym), dominated all levels of the state bureaucracy. The Eyadéma Government also adopted increasingly state-controlled economic policies. Whereas the period 1960–1973 was a phase of broadly pro-market, open economic policies, in the mid-1970s

Figure 31: Trends in WGI on Control of Corruption, Government Effectiveness, and Regulatory Quality

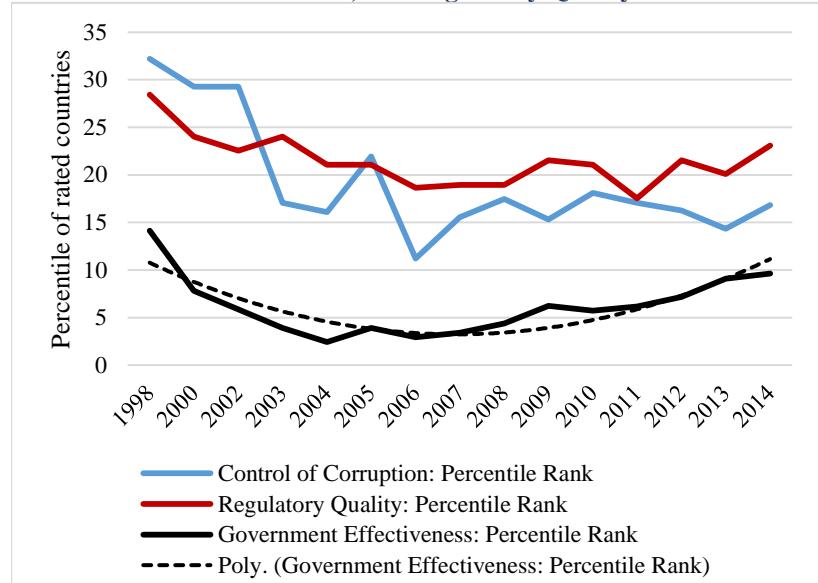


Table 11: Vector Auto-regression Results of WGI Sub-Components on Log GDP

	Lag 1	Lag 2
Government Effectiveness	0.174***	-0.007
Control of Corruption	0.102***	0.082**

***Statistically significant at 1 percent level.

** Statistically significant at 5 percent level.

⁴⁶ While this correlation does not prove causation, one can say that improved governance “Granger caused” the response, meaning that changes in the governance indicator help to predict GDP in subsequent periods..

⁴⁷ See Acemoglu and Robinson (2012) for a historical analysis of the role of what they call “inclusive” versus “extractive” governance institutions, and Acemoglu et al. (2014) for recent empirical evidence linking democratic institutions to growth.

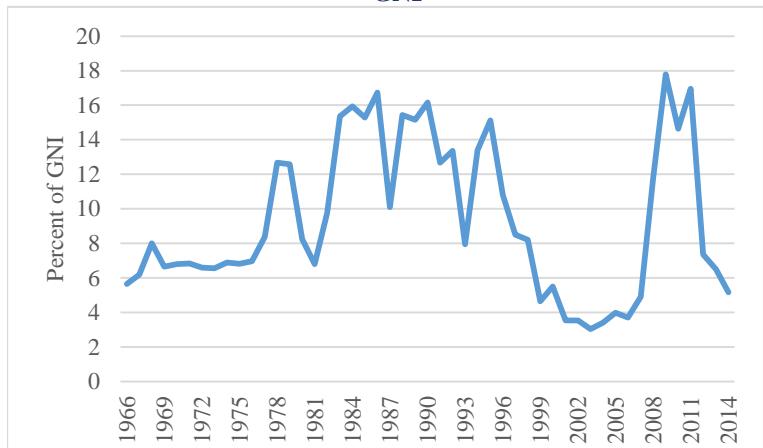
the government began shifting aggressively to inward-oriented, state-led industrial development policies (World Bank 1996). It created public enterprises, nationalized private companies, adopted stringent price controls, and instituted high rates of effective protection, averaging over 200 percent and reaching over 600 percent in some sectors. By 1976, an estimated 68 percent of mining and 48 percent of manufacturing sectors were state-owned (Tchaboure and Kodjo 2004).⁴⁸ The executive branch directly or indirectly controlled all important economic activities, including strategic state-owned enterprises producing cotton and phosphates, Togo's main export commodities. Without more scope to operate, the private sector shrank, and as the government expanded, fiscal deficits became a perennial problem. With large public spending programs, undisciplined budget flows between the government and state-owned enterprises (SOEs), and inadequate fiscal receipts, the government began to rely increasingly on external borrowing. Although fiscal stimulus initially helped maintain GDP growth through 1980, public debt service increased from 11 percent of fiscal revenues in 1973 to 76 percent in 1981. As soon as Togo experienced a significant terms of trade shock, as it did in the late 1970s, its debts became unpayable.

42. Between 1979 and 1990, with the aid of the World Bank and the International Monetary Fund (IMF), Togo took steps to implement structural adjustment programs to improve public sector management, rehabilitate and privatize viable public enterprises, and liquidate nonviable ones.⁴⁹ Programs designed to improve economic incentives were adopted—for

example, to liberalize some agricultural markets, simplify the tax system, lower and unify tariff rates, and abolish many price controls and the state's monopoly on imports (World Bank 1996). Growth returned from 1984–1989, despite an unfavorable external environment, and private investment more than doubled from 4 percent to 10 percent of GDP.

43. Subsequent years were marked by demands for more open and democratic governance, political instability, and recurrent fiscal difficulties. Internal pressures for multiparty democracy had begun to grow in the late 1980s, and by 1991 Togo had entered a prolonged period of political crisis. Official development assistance fell from 1992 to 2002 (Figure 32), and the declining level of partner engagement exacerbated the government's difficulties in delivering public investments and services. In 1999, after several years of political instability, the government signed the Lomé Framework Agreement, which included a pledge by the president to respect the constitution and not seek another term in office. It also included the negotiation of legal status for opposition leaders and former heads of state (including their immunity from prosecution for acts in office) and the provision of rights and duties of political parties and the media. The president also agreed to dissolve the National Assembly in March 2000 and to hold new legislative elections, to be supervised by an independent electoral commission. However, after a number of postponements and an opposition boycott of the eventual election, the resulting legislature amended the constitution to allow unlimited presidential terms.⁵⁰

Figure 32: Official Development Assistance to Togo as a Percent of GNI



Source: WDI

⁴⁸ The phosphates industry was nationalized in 1974. See Decalo (1990), p. 58.

⁴⁹ Togo privatized 30 of 73 public enterprises under this program (World Bank 1996).

⁵⁰ <http://www.state.gov/outofdate/bgn/togo/196489.htm>; <http://www.globalsecurity.org/military/world/war/togo.htm>

In 2002, when the country could no longer pay its debts, the World Bank joined other donors in suspending its assistance. In 2005, President Eyadéma died suddenly and the military named his son, Faure Gnassingbé, as head of state, in lieu of the speaker of the National Assembly as stipulated by the Constitution.⁵¹ The government later reversed itself and agreed to hold near-term presidential elections, and in an election marked by violence and widespread instability, President Faure was declared the winner.⁵² A further decline in donor support aggravated unsustainable public debt levels, which grew to almost 115 percent of GDP in 2005 (IMF 2007).

44. Steps taken since 2006 have helped stabilize the country and resulted in some reform. In August 2006, a national dialogue involving various political parties led to the government and opposition signing a Global Political Accord, ushering in a new round of democratic reforms, including the professionalization of the military. Legislative elections in 2007 were deemed free and fair. These moves brought optimism regarding the government's commitment to fundamental reform and the full reengagement of development partners. The Togolese government has since delivered a range of structural economic reforms, and on this basis achieved debt relief under the Heavily Indebted Poor Countries (HIPC) initiative in 2010, as well as additional multilateral and bilateral debt relief. Togo was named a Top Reformer by Doing Business in 2015 for significant improvements on the cost of starting a business, registering property, protecting minority investors, and paying taxes, jumping from 164th in the rankings in 2014 to 152nd in 2015 and then to 150th out of 189 countries in 2016. Other steps have been taken recently to increase transparency, such as the publication of an audit of public procurement (Grant Thornton 2015) and the reestablishment of a national anticorruption commission. Some progress has been made to improve budget transparency and public administration. The *Office Togolaise des Recettes* (OTR) was established to alleviate corruption and complexity in the country's tax administration. Indicators of democratic governance have also improved. Freedom House has reclassified Togo as "partly free," an improvement on its 2006 designation as "not free." Similarly, its ranking in the Economist Intelligence Unit's Democracy Index improved from 164th out of 167 countries in 2006 to 130th in 2015.

45. Yet the scope and success of reform efforts have been limited by the lack of strong, independent institutions that can adopt and translate reform measures into more meaningful change.⁵³ Decision making remains centralized, and the office of the president appoints the prime minister and all high-level administration officials. Despite calls for decentralization as a means to introduce greater accountability and permit improved service delivery at the regional level, prefects and mayors are chosen by the central government. In addition, the government faces continued pressure to implement more fully the terms of the Global Political Accord. Although the number of military officers in high government office has diminished recently, progress on professionalizing the military and placing it under civilian control remains incomplete. The government also faces continued pressure to reestablish presidential term limits, and civil society and opposition political parties have struggled to find ways to influence Togo's political and economic course.

46. Further adding to the country's challenges are serious problems of drug trafficking, illicit financial transfers, and maritime piracy. Togo has emerged as a key transit point in the trafficking of

⁵¹ Associated Press. The constitution was changed to obviate the need for an election within 60 days and was originally scheduled for 2008 (nytimes.com).

⁵² Seventeen incidents of violence were recorded before the election and six afterwards, according to ACLED. Fearing further violence, individuals claiming to be opposition supporters fled Togo. See UNHRC: <http://www.refworld.org/pdfid/42f762f54.pdf>. Freedom House rated Togo "not free" in 2005 and 2006 due to low scores on political rights (6 out of 7, where 7 = worst). The Economist's Democracy Index ranked Togo 164th out of 167 countries in 2006.

http://www.economist.com/media/pdf/DEMOCRACY_INDEX_2007_v3.pdf.

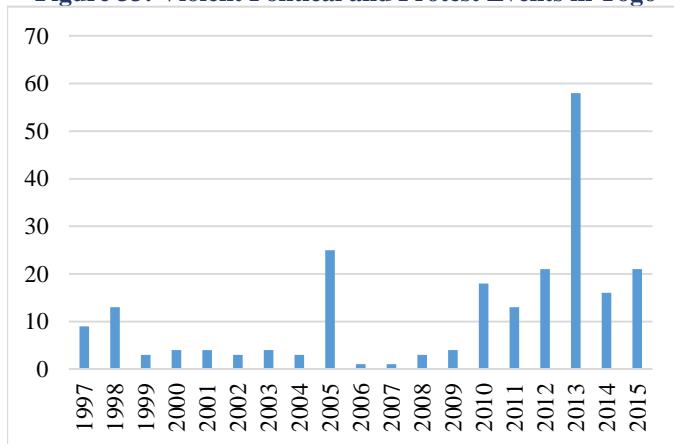
⁵³ For example, the anticorruption agency has no legal authority to bring sanctions, and without stronger mechanisms to redress defects in the conduct of public procurements, the release of information is likely to have limited impact. See Pritchett and Werker (2012), who document the lack of correlation between Doing Business (proxying for *de jure*) and WBES (proxying for *de facto*) outcomes.

cocaine between Latin America and Europe and a transit hub for methamphetamines and heroin. Moreover, the seas off the West African coast have recently supplanted the Gulf of Aden as the main hot spot for piracy. Despite international support for Togo's efforts to combat these problems, they increase the country's vulnerability to penetration by powerful criminal organizations and to deteriorating governance.⁵⁴ According to studies by Global Financial Integrity and the Open Society Initiative for West Africa (OSIWA), Togo tops the list of all countries regarding the level of illicit outflows of financial resources as a percentage of GDP (GFI 2015a), which reached 76.3 between 2008 and 2012. Using a longer time frame, flows representing 69 percent of cumulative GDP were illegally earned, transferred, or used over the period from 2003 to 2013, and 84 percent between 2006 and 2013 (GFI 2015b; Dahlberg 2015).⁵⁵ While the precise provenance of Togo's illicit funds transfers is not clear, it appears to be some combination of illegal trade transiting through and originating in Togo, the avoidance of foreign exchange deposit/surrender requirements, and laundering of illegally obtained funds.⁵⁶ Depending upon the actual breakdown of these sources, the transfer of illicit funds could represent a major loss of resources that could otherwise be devoted to public and private investments in the country.

4.2.2. Political Sustainability Risks

47. **Further risk of political crisis presents a key sustainability risk for Togo over the next five to ten years.** Togo's apparent peace and security and recent economic gains belie its vulnerability to a political crisis or other precipitating economic shock. Togo remains a fragile state, vulnerable to episodes of violent conflict. The government therefore faces the difficult task of advancing reforms to broaden and accelerate economic opportunities, while also preserving the support of key vested interests. Social and economic dissatisfaction increases vulnerability to internal or external shocks. The strikes staged in recent years by health and education workers protesting low wages and inadequate working conditions signal escalating social tensions. Growing conflict over land, evident in the past year, is also likely under increasingly difficult environmental conditions. Although interethnic social relations are generally good, perceived interregional inequities could exacerbate other tensions. Election seasons are also a source of tension: Togo has seen an uptick in violent events since 2010 relative to the period 2006–2009, notably in 2013 when

Figure 33: Violent Political and Protest Events in Togo



Source: ACLED

⁵⁴ Together with other governments of ECOWAS and under the supervision of the United Nations, Togo has implemented more stringent controls at ports and airports and has participated in capacity-building programs launched by the United States to strengthen local responses to piracy and illegal trafficking.

⁵⁵ Illicit outflows from or passing through Togo are also overwhelmingly (99 percent) conducted through misinvoicing of trade as a means to disguise financial transfers to overseas accounts. This percentage has grown, not fallen, since 2000. In fact, these levels are likely to be an underestimate. They exclude any transactions conducted in cash, funds transfers conducted through misinvoicing of trade in services (rather than goods), or through fake same-invoicing. And in at least one notable case—that of gold originating in Burkina Faso and smuggled into Togo before being exported to Lebanon and Switzerland—such transfers were not included in the above figures; Switzerland only began reporting the source of its gold imports in 2014. The purpose of this routing of gold exports is to evade taxation by the authorities in Burkina Faso and to avoid detection of the poor safety and other conditions of minor children working in Burkinabe mines (Berne Declaration 2015).

⁵⁶ These flows rose from 13 percent of GDP in 2003 to an average of 98 percent from 2006–2010 and 85 percent from 2011 through 2013, indicating little evidence of a positive trend. One arguably “licit” source of these funds flows, through transfer pricing by multinationals to avoid taxation, is not an important factor in Togo.

legislative elections were held (Figure 33). Most recently, these events have taken the form primarily of protests, but there have also been cases of violence against civilians. Election periods remain a delicate and potentially destabilizing juncture, with the next presidential vote scheduled for 2020.

4.2.3. Three Channels of Poor Governance

48. **In addition to raising fragility concerns, Togo's governance challenges remain a key, cross-cutting constraint to poverty reduction.** Togo's system of governance results in low capacity, a lack of independence, and weak policy formulation and implementation on the part of public institutions. In addition, corruption is rooted in a relatively centralized system rife with conflicts of interest spanning public, quasi-public, and private spheres. These limit improvements to governance and the effective scope for private sector-led growth, thus reinforcing Togo's limited public revenue base, the economy's lack of resilience, and its vulnerability to fiscal and political risk.

49. **The effects of a weak system of governance operate through three broad and inter-related channels** (Figure 34). These include: (1) high corruption and low government effectiveness in formulating and implementing policies toward private economic activity, including in agriculture; (2) low government effectiveness in setting priorities for and delivering public goods and services; and (3) at the fulcrum of these issues and concerns over fiscal sustainability, poor fiscal governance. These governance challenges produce a high risk of recurrent fiscal and political crisis, the key risks to sustainability. They also represent deeper causes of more specific constraints identified in subsequent sections. Although governance challenges affect the performance of many, if not all, of Togo's public institutions, its policies, and its ability to provide the conditions and public assets needed for poverty reduction, weaknesses in some of these areas are more binding for growth or limiting to inclusion than others. The task of the rest of this chapter is to identify which of the more specific factors that could potentially impede poverty reduction are the most constraining—those that, if alleviated, would bring the greatest positive effects in reducing poverty.

4.3. Key Constraint 2: Weaknesses in Fiscal Governance

Main Messages:

- Togo's poor fiscal governance has resulted in periodic fiscal crisis and generates risks in the near term, as the debt-to-GDP ratio has risen rapidly following debt forgiveness in 2010.
- The nearly routine approval of the supplemental budget law each year in Togo diminishes the credibility of the budget preparation process and generates difficulties in the performance of treasury functions such as cash and liquidity management.
- Reforms introduced in recent years to improve budget management have not yet yielded meaningful results.
- Public investment and financial management procedures require improved transparency and controls to strengthen budget discipline, as well as streamlining and simplification in some areas.
 - Further analysis and commensurate steps are required to address the risks to budget sustainability posed by financing mechanisms (such as “pre-financing”) which increase the financing cost of public investments and obscure the total magnitude of public liabilities.
- Governance issues in the extractives sector impede the generation of greater fiscal revenues from this source.
- The budget risks arising from inadequate supervision and governance of public enterprises need to be addressed and taken into account in the central government's budget policy.

50. **Togo has made some efforts to reform public financial management (PFM) in accordance with WAEMU directives**, in particular: (i) the publication of quarterly budget execution reports; (ii) the establishment of an integrated financial management information system (IFMIS); (iii) the creation of oversight bodies such as the Court of Accounts and the IGF (*Inspection Générale des Finances*); (iv) the creation of a procurement website; and (v) the publication of a procurement newsletter.

51. **Nonetheless, weaknesses in Togo's fiscal management have adverse effects on the country's macroeconomic framework and hinder the sustained and effective implementation of poverty reduction policies.** The accumulation of public debt, observed each year since debt relief in 2010, increases the likelihood of payment arrears. The disconnect between the government's proposed medium-term expenditures and the annual budget compromises credibility in the budget, as significant budget revisions have had to be made in the course of every recent fiscal year. Deficiencies in budget preparation have led to over-estimation of revenues and the authorization of expenditures which the state treasury has difficulty covering. In turn, fiscal constraints amplify the government's need to borrow to cover expenditures and thus increase the public debt. Although public resources have totaled on average over 18 percent of GDP in recent years (2006–2012), undisciplined spending and financing practices combined with weak management of SOEs place Togo in a structural fiscal deficit position.

52. **In addition, reforms have not yet resolved the lack of strategic budget coordination, transparency, and budget discipline.** They have not addressed the broad discretionary power of the minister of finance over the government's accounts at the central bank, an arrangement that creates delays and a more burdensome process for executing public expenditures, while also weakening intra-governmental coordination and transparency. The operationalization of newly created institutions for internal and external public financial control has been slow and their span of controls is limited, and the absence of effective sanctions greatly

diminishes the impact of these institutions. The process for preparing and monitoring public investment needs to be significantly strengthened, and further enhancement of the country's IFMIS is needed to facilitate improved management and transparency of the budget and public investments and expenditures. In addition, the ministry should take steps to reduce and clarify the modalities for managing extra-budgetary revenues and expenditures. For example, the financing of electoral campaigns and political party activities is not adequately regulated. The budget is not aligned with the government's recently adopted strategy (*Stratégie de Croissance Accélérée pour la Promotion de l'Emploi* or SCAPE), well prioritized, or formulated with sufficient coordination. Thus, steps to strengthen budget formulation and execution are needed to ensure a better involvement of the concerned actors and to take into account the medium-term strategies being implemented by line ministries. In addition, the tax base—in particular, revenues from the small formal private sector (and SOEs)—remains narrow, with only 20 companies paying two-thirds of corporate tax revenue,⁵⁷ and public revenues systematically fall short of projections. Faced with pressing fiscal constraints, the government sometimes seeks recourse to public enterprises. This adds to insufficient public enterprise governance and supervision to further damage their performance and financial position. Moreover, the budgetary risks posed by these enterprises are not sufficiently analyzed or considered in the central government's budget strategy. As a result of this confluence of issues, Togo has an unusual tendency to accumulate debt and fall into arrears. It shows a historical pattern of growth episodes punctuated by large downturns arising from fiscal or political crisis. Over a period of 16 years, from 1979 to 1995 (IMF 2006), Togo rescheduled its public debt 10 times, followed later by multilateral debt forgiveness under HIPC in 2010 and other multidonor debt relief programs.

53. Togo's significant reserves of mineral resources hold the potential to expand the fiscal space if successfully promoted and efficiently taxed. Togo's proven resource reserves include over 2 billion metric tons (MT) of carbonated phosphates, 70 million MT of "uncarbonated" phosphates, 325 million MTs of limestone (used to make cement clinker), and considerable iron ore deposits, as well as marble, manganese, bauxite, and ornamental stones. Yet the strategic sectors are primarily state-owned and underperforming. In 2013, according to the Extractive Industries Transparency Initiative (EITI), Togo's declared fiscal receipts from extractive industries were only US\$31 million, or 0.7 percent of GDP, which amounts to approximately 3.5 percent of (non-grant) fiscal receipts. Negotiations are ongoing between the government and an international company that is bidding on a new carbonated phosphates and fertilizer production venture. Depending on final investment terms, royalty rates, and construction timelines, the government can expect an increment of between 1.0 and 2.5 percent of fiscal receipts (vis-à-vis total 2014 fiscal revenues) beginning in 5–10 years. Another venture under discussion could raise this to 3.5 percent of fiscal revenues in 10–15 years, as estimated by World Bank staff models, thus potentially contributing significantly to a resolution of Togo's fiscal deficits. Other developments of smaller-scale phosphates, manganese, or iron ore deposits are also possible. Whereas the expansion of mineral operations would have a limited direct contribution to employment creation, sound management of resource revenue in other resource-rich countries has expanded fiscal space, helped solidify the macroeconomic framework, and financed investments in public services and infrastructure. In principle, resource rents can provide a revenue source for direct social transfers to poor people as well. However, international experience provides limited examples of success in accomplishing this, and most examples are from advanced economies (such as Alaska in the United States and Alberta, Canada; see Gupta et al. 2014).

⁵⁷ Based on 2013 tax filings, as per OTR. Note that the informal sector also pays taxes, as discussed further below.

Table 12: Togo's Fiscal Accounts (billions of FCFA)

	2013b	2013e	2014b	2014e	2015b	2015e
Tax collection (Tax)	158.8	171.7	182.9	212	209.8	222.3
Customs receipts	205.1	232.5	331.1	246.2	270.5	294
Non-fiscal revenue	46.3	43	47.6	54.3	52.1	52.3
Grants	95.7	73.5	86.9	45.8	58.9	57.2
Special accounts		3.2	2.3	3.8	2.5	2.5
Total Revenues	505.9	523.9	650.8	558.3	593.8	628.4
Salaries	125.3	130.6	153.8	143.4	162.9	170.5
Other current spending	196.3	265.7	283.6	252.1	269	281.9
Interest on public debts	30.1	25.7	33.8	29.9	33.1	45.4
Non-budget current	0	3.2	0	0	0	8.7
Special accounts		3.2	2.3	3.8	2.5	
Total current spending	351.8	428.4	473.5	429.2	467.5	500.3
Investment, external	247.6	100.6	141.9	103.2	114.6	138.5
Investment, internal sources	103.3	76.9	118.6	104.1	142.6	139.2
Total investment	350.9	177.5	260.5	207.3	257.2	277.7
Total spending	702.7	605.9	734	636.5	724.7	780.2
Overall surplus / deficit	-196.8	-82	-83.2	-78.2	-130.9	-151.8
en % du PIB	-9.8%	-4.1	-3.7%	-3.5	-5.6%	-6.5%
GDP	2016	2016	2216	2216	2329	2329

b=initial budget; e= executed

Source: Ministry of Economy, Finance, and Development Planning (Togo)

54. **For Togo to realize these potential benefits would require significant governance improvements, and natural resource wealth can create and magnify governance challenges.** Although Togo was certified as compliant with EITI guidelines as of 2013, the government has not succeeded in increasing revenue from mining or attracting new investment to develop proven reserves. In 2012, the president committed to reforming the sector in order to boost production, diversify mining resources, and more equally distribute benefits. Some steps have been taken to raise production through investments in the *Société Nouvelles de Phosphates Togolaise*, the state-owned phosphates company, but a combination of governance, strategic, and technical challenges has resulted in flat production figures. A private concession to develop the proven carbonated phosphates deposit has been awarded to an Israeli-Chinese consortium, but as of January 2016, no firm investment agreement had been made and no date for expected production determined. Progress will remain uncertain for some time. So far, moreover, Togo has not put in place a strategy for improved distribution of mining revenues. A Mining Sector Governance and Development Credit was approved by the World Bank's Executive Board in November 2015 with the objective of enhancing sector governance and transparency and strengthening environmental and social management of the mining industry. However, improved management of mining revenue and income redistribution will require a more comprehensive reform of public management and sector governance. The principal challenges concern the management, accounting, and monitoring of sales and the accounting of available resources. Inspection and reporting capacities require immediate upgrades to ensure that profits from mineral extraction are captured in the state budget. Moreover, the regulatory framework in the mining industry is not yet adequately developed for the authorities to plan, regulate, and enforce operators' performance. These issues range from environmental standards to fiscal management and

tax administration for the industry. Finally, the mining code remains in flux since the government expressed an interest in promoting new policy priorities in the sector, including accelerating operators' research and development of mineral deposits, promoting national investors and subcontractors, and achieving a more direct correlation between project profitability and government revenue collection.

Table 13: Evolution of Togo's Public Debt

	End-2012			End-2013			End-2014		
	(billions of FCFA)	(% of public debt)	(% of GDP)	(billions of FCFA)	(% of public debt)	(% of GDP)	(billions of FCFA)	(% of public debt)	(% of GDP)
Total Public Debt	922.4	100	46.1	1075.9	100	50.1	1330.9	100	58.5
External Debt	351.2	38	17.6	432.9	40	20.1	613.5	46	26.9
Central Government	278.8	30	13.9	357.4	33	16.6	470.5	35	20.7
Multilateral	164.1	18	8.2	209	19	9.7	243.1	18	10.7
Bilateral	35.9	4	1.8	28.6	3	1.3	26.7	2	1.2
Commercial Banks	78.8	9	3.9	119.8	11	5.6	200.7	15	8.8
SOEs ¹	72.4	8	3.6	75.5	7	3.5	143	11	6.3
Domestic Debt	571.2	62	28.6	643	60	29.9	717.5	54	31.5
T-Bills+Bonds	224.5	24	11.2	326.8	30	15.2	418.4	31	18.4
Domestic Arrears	263.8	29	13.2	254.3	24	11.8	249.3	19	10.9

¹Details on SOEs' 2010 external debt have not been communicated by the authorities.

Sources: Country authorities and IMF calculations.

55. The current rate of accumulation of public debt raises severe sustainability concerns. Although Togo's total fiscal deficit was only 1.9 percent of GDP in 2013, it widened to 4.1 percent in 2014 and is projected at 6.5 percent in 2015 (Table 12). Rapidly increasing current expenditures are only partially offset by investment spending that is lower than projected. The most recent debt sustainability analysis, based on IMF estimates, places Togo's level of debt distress at moderate for external debt and high for internal debt. Whereas HIPC and Multilateral Debt Relief Initiative (MDRI) debt relief in 2010 reduced Togo's stock of public debt to 32.1 percent of GDP, it has grown rapidly in just a few years. According to the authorities, between 2012 and 2015 total public debt grew from 46.1 percent to 58.5 percent of GDP (Table 13). These figures differ from the most recent IMF Article IV report, which estimates public debt to have reached 62.5 percent of GDP in 2015. While this level compares favorably with the WAEMU standard of 70 percent of GDP, such a rapid accumulation of debt so soon after debt relief suggests increasing risk. Furthermore, the large share of domestic debt in the total debt stock (54 percent in 2014) raises concerns given the higher average borrowing costs and shorter maturities associated with this financing.

56. Furthermore, these numbers do not fully account for fiscal liabilities. Unbudgeted contingent liabilities arise through public ownership of companies that have tended to require periodic subsidies or recapitalization. Key examples include the cotton and electricity sectors, but others as well. The government was obligated to reimburse over 24 billion FCFA in the debts of the former cotton company in 2007 and 2009, for example. Although the promise of fiscal resources may motivate the government's continued equity holdings, in most sectors where SOEs have operated they have suffered from mismanagement, inadequate budgetary discipline, and/or bankruptcy, in some cases due to financial leakages. One recent, striking example is that of Togo Telecom—a monopoly that would normally be highly profitable—but has instead suffered from

conflicts of interest.⁵⁸ The resulting fiscal losses and required recapitalization of SOEs typically crowd out beneficial uses of public resources.

57. In addition, the government has adopted a practice of “prefinancing” investments (*préfinancements*), which is associated with a lack of transparency in the budget and in the choice of public investments and an increased cost of financing those investments. Through this mechanism, commercial banks finance investments undertaken in the current year at a higher interest rate with a government guarantee, and the government later reimburses them. These liabilities are not budgeted in the year they are assumed, and the servicing costs are mounting. In the 2014 budget, 81 billion FCFA (3.5 percent of GDP and 11.2 percent of the 2014 budget) was used to service prefinanced investment obligations from previous years. This amount rose to 118 billion FCFA in the initial 2015 budget (5 percent of GDP or 14.2 percent of the 2015 budget), and 125 billion FCFA with a supplementary budget. It is unclear how Togo will manage to service these debts while also meeting its other obligations, but based on the information made available, the country appears vulnerable to another fiscal crisis.

⁵⁸ Recently, the Court of Audit published a report demonstrating the permeability of accounts of the government with those of state-owned companies. Togo Telecom reportedly lent more than 20.5 billion FCFA to the Togolese government in 2007. Approximately one-third of this amount (6.4 billion FCFA) was paid directly to finance the activities of certain ministries and other public institutions; however, the Court of Audit was unable to verify whether any of these paid services had effectively been provided. The remaining 14.2 billion FCFA was channeled through the state-owned mobile phone subsidiary, Togo Cellulaire. Instead of depositing the money in the public treasury, however, the Court of Audit report notes that the funds were deposited into an account in a state-owned bank with only a letter from the President of the Board of Directors of Togo Telecom. The article notes that the President of the Board of Directors was also the General Director of the bank into which the funds had been deposited at the time.

Figure 34: Diagnostic Results 1

Levels of Causation

Proximate Causes of Poverty

Outcomes of these Constraints

Specific Key/ Binding and Moderate Constraints

Deeper Causes

What Key Constraints Does Togo Face in Eliminating Extreme Poverty?

Inadequate (Inclusive) Growth
(Slow structural transformation, low labor productivity and wages, under-employment, and low agricultural productivity)

High Risk of Recurrent Fiscal and Political Crisis

Inadequate Equity of Opportunity and Well-Being for Poor People

Low Private Investment and Entrepreneurship (including in smallholder agriculture)

Inconsistently pro-poor distribution of growth and lack of pro-poor distributional policies

Slow progress in improving human development

Are There Large Distortions to Economic Incentives?

Is Access to Finance Inadequate?

How Costly Are Infrastructure Constraints?

What Are the Key Weaknesses in Human Capital and Social Service Delivery?

High corruption and low government effectiveness in formulating and implementing policies toward private economic activity (including agriculture)

(2) Poor Fiscal Governance

Low government effectiveness in setting priorities for and delivering public goods and services

(1) Governance system that fosters weak accountability

Note: **Dark Blue** = Key Constraint. **Medium Blue** = other finding. **Light blue** = questions remaining.

4.4. Key Constraint 3: Policy and Regulatory Barriers to Entry and Distortions to Entry to Private Economic Activity

Main Messages:

- Togo's governance results in poor formulation and implementation of policies and regulations affecting private economic activity—including in agriculture, as discussed in Section 4.6.
- This results in barriers to entry and severe distortions to economic incentives. These pose binding constraints to broad-based growth, as they severely constrain investment, job creation, and increasingly productive employment, as well as agricultural productivity growth.
- Togo has low rankings on indicators of policy quality and economic freedom due to relatively high levels of state ownership of for-profit sectors, skewed formulation and implementation of policies and regulations on private economic activity, high costs of corruption for businesses, and low quality of judicial enforcement.
- Input sectors, as well as manufacturing, agriculture, and telecommunications sectors (discussed in Sections 4.6 and 4.8, respectively) are all affected.
- Other policy and institutional distortions to private economic activity—in particular, the country's weak land regime, labor market regulations, and the value of the currency—were also tested and no evidence was found that these distortions are binding at this time (Appendix B). These constraints could become more limiting if other, binding constraints are alleviated in the future.

58. **Togo's inability to initiate or accelerate a more inclusive and robust growth process can be explained in large part by a system of governance that provides relatively weak incentives for controlling corruption and improving government effectiveness.** One result of this is relatively poor formulation and skewed implementation of policies and regulations affecting private economic activity.

59. **Effective, well-targeted regulation is essential for a variety of markets to function well.** Such regulation is necessary, for instance, to ensure that buyers have full information, that sellers and financiers are better assured payment, that quality, safety, and environmental resources are protected, that dominant firms do not exercise market power adversely, and that fair contracting and labor practices are upheld. In some key sectors, however, Togo's regulatory effort serves to block rather than foster healthy competition. As a result, the country's investment climate rates poorly with regard to businesses' freedom to invest, operate, and employ workers, and to enjoy adequate property rights protections—collectively termed “economic freedom” by a variety of organizations. Togo's composite economic freedom score from the Heritage Foundation is the lowest among 13 comparator countries (Table 14). On subcomponents of *economic freedom*, Togo rates relatively poorly on *business freedom* (above only Cambodia), *investment freedom* (above only Nepal), and *labor freedom* (above only Mozambique and Senegal) (Figure 35). Although Togo ranked better than Nepal, Cambodia, and Côte d'Ivoire on *freedom from corruption*, its score was lower than on the other dimensions of economic freedom.

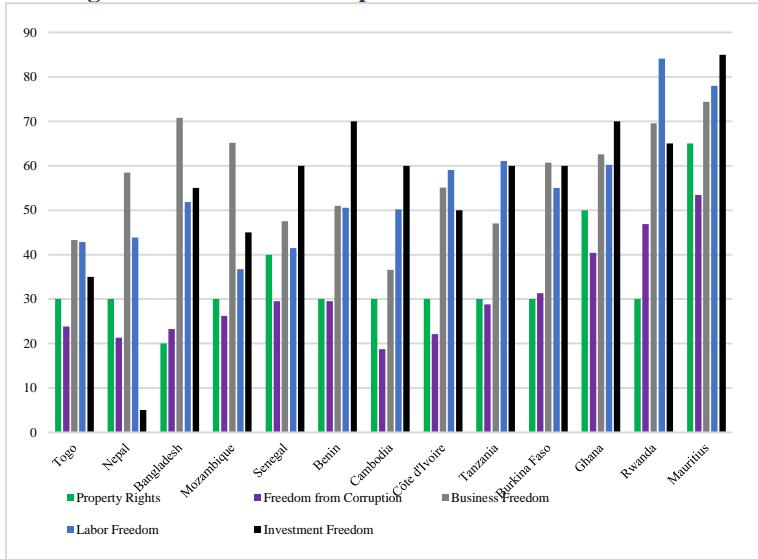
Table 14: Heritage Foundation Rankings in Economic Freedom (2014)

World Rank	
Mauritius	8
Rwanda	65
Ghana	66
Burkina Faso	98
Tanzania	106
Côte d'Ivoire	107
Cambodia	108
Benin	113
Senegal	125
Mozambique	128
Bangladesh	131
Nepal	149
Togo	152

60. Although some businesses manage to operate in this climate, they perceive corruption to be a major obstacle. Over 70 percent of firms rated this as a major or severe constraint to their businesses in 2009, and 40 percent of firms reported paying bribes, compared to 27 percent in SSA (WBES most recent years). In 2015, 42 percent of firms cited corruption in the regulatory regime in particular (rather than all forms of corruption) as a major or severe constraint. Among formal businesses, the practices of dominant competitors—some state-owned, others perhaps favored by the state—are considered a major or severe obstacle for 56 percent of firms (TFFS 2015). Since most potential commercial disputes do not go to court, the judicial system may seem only distantly relevant to skewed treatment. Nonetheless, almost twice the percentage of firms (34 percent) have rated the judicial system as a major or severe constraint in Togo than in SSA generally (19 percent) (WBES, most recent years). The effect of these issues is to dissuade businesses from investing in the first place, or from making more sizeable and visible investments when they do.

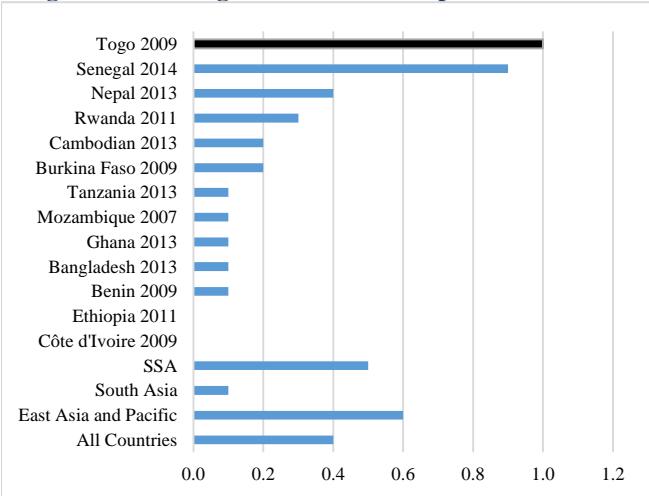
61. *De jure* reforms (established by law) appear to have reduced barriers to entry for small investors, but without reforms that are more fundamental, important barriers to entry remain. Togo has recently reduced the minimum capital requirements for forming a business and streamlined the time required and steps needed to form a small or medium enterprise in line with the Organization for the Harmonization of African Business Law's (OHADA) guidelines. It has adopted a new investment code (Loi No. 2012 001), which sets a limit of seven days for approvals of investments under 600 million FCFA (US\$1 million using current exchange rates). Nonetheless, with respect to either larger investments or investments in sectors that are deemed strategic, the state retains wide scope for denying approvals. Each such investment is screened on a case-by-case basis (World Bank 2012c), and although the law sets a time limit for approval at 30 days, the ministries of finance, commerce, industry, and other relevant industries must all be consulted prior to approval. Moreover, no limitations are provided on the permissible reasons for refusing an application. In addition, in an

Figure 35: Scores on Components of Economic Freedom



Source: Heritage Foundation 2014

Figure 36: Average Public Ownership of Formal Firms



Source: WBES, most recent years.

effort to preserve its sovereignty and protect Togolese land ownership, national regulations forbid foreigners from owning land, they must receive ministerial authorization for a leasehold, and they face restrictions on the hiring of foreign workers.

62. An additional feature of Togo's regulatory environment is the high level of state ownership of commercial entities. In 2009, Togolese enterprises had the highest average share of state ownership when compared to an array of low-income countries (Figure 36). Of manufacturing firms in 2015, an estimated 28 percent still have some state ownership (TFFS 2015). Public ownership is not necessarily a problem, as long as commercial entities are run on a commercial basis, with accountable corporate governance, sound regulation, and effective competition. In the Togolese context, however, public ownership in commercial sectors (that is, those normally operated by the private sector for profit) has an adverse effect. Sectors with state ownership include phosphates, cotton, telecommunications, banking, hotels, transport, bakeries, pharmacies, printing, accounting, distribution of butane gas, livestock slaughter, and cement, as well as the distribution of certain agricultural inputs. The presence of SOEs can distort the competitive landscape for the private sector, given the strong possibility of preferential treatment in the regulatory or judicial systems. Seven percent of all firms report that their main competitor is an SOE, 22 percent of firms in manufacturing, and 15.8 percent of those in other services (TFFS 2015).

63. Togo's regulatory framework presents barriers to accessing inputs, with important negative spillovers on the productivity and competitiveness of other sectors. One key obstacle is the difficulty of accessing imported inputs. Togo's overall ranking in the Doing Business indicator on *trading across borders* (2016) is better than its overall Doing Business score, at 126th out of 189 countries. However, Togo ranks especially poorly on the time costs of complying with border and documentary requirements for importing (but not exporting).⁵⁹ Togo ranks 70th out of 82 low-income countries on the time required for border compliance (256 hours), and documentary compliance takes 203 hours, as compared with neighbor Benin's 72 and 56 hours, respectively (Appendix Table 7). Without a more comprehensive study of nontariff barriers (NTBs) to importing and exporting, one cannot fully assess the effects of these barriers, but these indicators suggest that they present a major obstacle, particularly for a small country such as Togo, located within a regional trading association.

64. Price regulation compounds the difficulties in accessing inputs of suitable quality. Whether designed to curb market power, advantage dominant competitors, or maintain low consumer prices, price regulation can disincentivize quality improvements and price competition. In Togo, sectors with administered prices include transport, insurance, construction materials, notary services, printing, animal slaughter, fuel, pharmaceuticals, and car park management. Approximately 13 percent of formal companies report being subject to some price regulation (TFFS 2015), and among regulated firms 42 percent say they would sell for a different price if they could. Input price regulation and NTBs in importing provide a partial explanation for the fact that 37 percent of formal Togolese firms have trouble accessing inputs in sufficient quantity or quality. Large firms (51 percent) and manufacturing firms (62.3 percent), in particular, consider this problematic. In the construction industry, for example, firms report difficulties in accessing metals products—aluminum (a problem for 56 percent of the relevant firms) and iron bars (for 48 percent), both of which are produced domestically by just one or two suppliers (TFFS 2015 and tax records).

65. The Government of Togo has undertaken important reforms recently to improve the climate for private economic activity, and these have improved Togo's Doing Business ranking. They may also have contributed to Togo's recent growth trajectory. Nonetheless, a variety of policies, regulations, and ad hoc state interventions remain, which—particularly in a context of weak control of corruption and low

⁵⁹ Togo ranks better than Mozambique, Côte d'Ivoire, Rwanda, Sierra Leone, Ghana, Bangladesh, Tanzania, and Nigeria in the time and financial cost of complying with documentary requirements to import and export when these issues are combined.

government effectiveness—distort the landscape for private economic activity and limit prospects for a broader, more robust, more inclusive growth process.

66. **It is difficult to overstate the economic effects of the distortions and barriers described in this section.** A summary of the tests is shown in Table 15. The skewed regulatory and judicial treatment of nonincumbents that may attempt to compete with established interests, together with state ownership of commercial sectors and restrictive investment rules in the context of Togo’s weak governance, impose a high cost on any actual or potential entrepreneur of significant size that is not part of the system, as indicated by Togo’s low scores on a variety of international indicators of corruption, effectiveness of policy, and economic freedoms (Test 1). This confluence of economic distortions blocks investment and job creation directly, as well as the dynamic benefits of learning, innovating, and developing new capabilities and areas of comparative advantage. It likely partially explains why there are few privately owned medium and large enterprises and why rates of formal firm entry are low (Test 2). Moreover, in years when government effectiveness in setting and implementing policies is higher, and/or when corruption is better controlled, subsequent growth rates have been higher (Section 4.2, Table 11) (Test 4). The evidence strongly suggests, therefore, that corruption and low government effectiveness in the formulation and application of these policies and regulations constitutes a binding constraint to inclusive growth and poverty reduction. Although data and analysis of the impacts on the distribution of growth are insufficient, as discussed in Section 4.6, similar problems of inappropriate regulation and policies in agriculture are among the binding constraints to raising agricultural productivity and incomes in rural areas.

Table 15: Tests of Key Constraints - Policies towards and Regulation of Private Enterprise

<i>Tests of binding constraints to growth on key pathways</i>	<i>Pass?</i>
High cost to actual or potential enterprise?	✓
Circumvention of constraint evident?	✓
Few actors present requiring alleviation of constraint?	✓
Correlated with growth or investment?	✓
<i>And/or adversely affects income of poor people?</i>	✓

4.4.1. Other Constraints Due to Policy and Regulatory Distortions to Private Economic Activity (see Appendix B for more details)

67. **Although the issues discussed in the foregoing section appear binding based on the available evidence, there are additional sources of distortions to private economic activity that could be important as well. Togo’s system of land registration ranks among the least efficient in the world, and there are many land conflicts, which can threaten security of tenure among poor and less well-represented individuals.** For example, 10 percent of formal businesses say they would have invested more if they had a title. Nonetheless, existing businesses rank this issue only 15th among the obstacles they face. Both of these indicators likely underestimate the true severity of the constraint, since those firms deterred from investing by this constraint are not available to be surveyed. However, land can be transferred with the approval of local officials, and landholders are able to utilize official documents short of a title to establish their rights. In rural areas, informal arrangements largely suffice. Even though women have less secure tenure due to cultural practices, the estimated effects on productivity are small, at least according to a study from neighboring Benin. The issue is perhaps less compelling as a key opportunity to improve Togo’s progress toward the twin goals. In most of SSA, land titling programs have had disappointing results for income growth. Thus, although this area remains an analytical gap, there is no clear evidence from the mixed signals available that Togo’s inefficient land system is a binding constraint to poverty reduction. It represents a mild inclusion risk for the poor, whose land rights may be compromised.

68. **Similarly, Togo's labor market regulations create important distortions, in particular minimum wage regulation.** Its statutory minimum wage is higher as a ratio of labor productivity than all comparator countries, and given the country's low labor productivity, remains higher than the wage paid to 67 percent of remunerated workers. This regulation reduces the incentives to hire low-skilled workers, and businesses take measures such as hiring temporary or contract workers to circumvent these labor market regulations. However, the percentage of firms and workers affected is relatively low, and there is no clear evidence that labor market regulations present a binding distortion.

69. **Finally, at times when Togo's currency is overvalued, its export competitiveness may be reduced.** The advantages and disadvantages of the country's currency and monetary regime, shared within the WAEMU, are complex, and this study does not attempt to take a position on this regime. However, it is important to test, using the method set forth in Section 4.1, whether the value of the currency is a binding constraint to growth. Today the currency appears overvalued by up to 9 percent, and this may be a drag on exports and growth. Yet there is no evidence from the available tests that such misalignment constitutes a binding constraint in Togo's current context. Following devaluation in 1994, the initial boost to growth subsided even as the real effective exchange rate remained lower; there is no correlation over time between the exchange rate and growth or investment, and countries using the FCFA do not have a structurally lower level of exports than would be predicted by a gravity model of trade. Although the currency regime generally is a complex and controversial issue, and may not be optimal for the countries of the WAEMU, there is no clear empirical evidence that it presents a binding constraint for Togo in particular.

The details of the data and tests used to test these three areas are presented in Appendix B.

Analytical gaps identified:

- The effects of Togo's weak land system on urban development, commercial-scale agricultural investments, land-based resource management, and female-owned agriculturalists.
- The global full effects of the monetary and current regime on Togo's economy.

4.5. Key Constraint 4: High and Distortionary Taxation

Main Messages:

- Togo's new tax authority (*Office Togolaise de Recettes*) has taken steps to improve the transparency and integrity of the tax collection process.
- Because of deficiencies in Togo's tax code and the remaining complexities of implementation, Togolese enterprises face a highly distortionary tax wedge, which disincentivizes private economic activity. The size of the wedge varies a great deal by enterprise, but averages 90 percent as percent of (pretax) enterprise profits when all taxes and contributions (except import duties) are considered.
- This average masks a high level of variation across enterprises, a significant number of which pay corporate taxes even when profits are minimal or negative, and the distortion appears largest for small enterprises.
- Taxes based on revenues and costs, rather than profits, are particularly distortionary and raise the risks of investment by amplifying firm losses in bad years.
- Implementation difficulties associated with obtaining value-added tax reimbursement and a lack of clarity for quasi-formal and small enterprises add to the distortion.
- The high tax distortion creates greater scope for special exonerations, which can reinforce barriers to entry, particularly in a context of weak control of corruption.
- This constraint appears to have a major adverse effect on labor income and job creation, as well as smallholder agriculture (see also Section 4.6).

70. **Although taxation is necessary in any economy for financing public goods and social expenditures, if the wedge between the economic value of economic activity before and after taxes is too large or uncertain, it can act as a severe hindrance to investment, productivity growth, and employment creation.** Overly burdensome procedures can create an additional barrier to formalization and firm growth. Djankov et al. (2010), for example, provide cross-country evidence that higher effective corporate taxation has a large and significant negative effect on investment, including FDI. They also show that higher taxation of corporations increases economic informality, with an especially significant effect on manufacturing sectors. Although the effects of enterprise taxation on poverty may seem indirect, the impacts on the real incomes of workers, the unemployed, and entrepreneurs are nonetheless large. This is illustrated by a recent study on Pakistan, which demonstrates that corporate taxes can be more inimical to poverty reduction than other taxes. Because such taxes reduced investment, they lowered the marginal revenue product of labor, and therefore labor earnings that could otherwise accrue to the poor (Feltenstein and Newhouse 2015). In addition, Desai et al. (2007) show that, internationally, between 45 and 75 percent of the burden of corporate taxation falls on labor, rather than on the owners of capital. If applied in a preferential fashion, a tax code that sets high effective rates can present a barrier to entry and a door to rent-seeking and special exonerations—problems that are particularly prevalent in Togo.

71. **Togo's recent efforts to reform its tax collection procedures appear to have resulted in improved integrity and transparency.** In 2013, the government created a new revenue authority, the *Office Togolais de Recettes*, with the aim of improving the efficiency and transparency of tax collections and unifying customs, value-added tax (VAT), and corporate tax collection in one entity. Operation began in January 2014, and even though the OTR was not fully staffed, an estimated 50 percent of firms filing tax

declarations report an improvement in the clarity of procedures and obligations (with 15 percent saying they are worse). Nearly two-thirds (63 percent) claim that the level of corruption has dropped (and 5.4 percent claim it has increased), while 46 percent say that the compliance time required has improved (and 21.2 percent say it has worsened) (TFFS 2015). A large percentage (82 percent) claim to understand the basis of tax calculations, and 90 percent say that in 2014 the OTR requested a typical business in their sector to pay the correct amount per the tax code.

72. **Nonetheless, complexity, lack of clarity, and discretion in the system leave room for interpretation and negotiation, and compound problems with the tax code itself. The OTR counts at least 30 separate taxes collected at the national and local levels.** Moreover, a comparison of firms' 2014 tax obligations and payments showed that micro and small enterprises, which are less likely to have access to tax advisors, were more likely than others to pay more taxes than required.⁶⁰

73. **Key elements of Togo's enterprise taxation are as follows.** There are two corporate tax regimes. First, relatively informal and micro businesses with sales of less than 30 million FCFA (US\$50,000) can opt into the *tax professionnelle unitaire (TPU)*, which is a synthetic tax of 2.5–8.5 percent of sales, depending on the sector. All other firms fall into the *régime réelle* and must pay corporate taxes as follows: (i) a *taxe professionnelle (TP)*, which varies from 0.25 to 1.0 percent of revenues, plus the maximum of either 6 percent of their facility rental value or one-third of the former *TP* calculation; and (ii) the maximum of the following two taxes: (a) a profits tax (*impôts sociétés* or *IS*) of 29 percent or (b) an *impôt minimum forfaitaire (IMF)* tax, calculated as 1 percent of revenues (from which businesses in the first 12 months of operation are largely exonerated). In addition to corporate taxes on "results," firms with sales over 50 million FCFA (US\$83,000), previously 30 million FCFA, are subject to VAT of 18 percent (Appendix Table 17). Although a 29 percent tax on profits (or the earlier rates of 30–33 percent) is not out of line with that of many countries, the *TP* and *IMF*, which are revenue-based, determine 90 percent of firms' corporate tax bills (TFFS 2015). In addition, in applying the *TPU*, the OTR estimates revenues, raising the risks associated with discretion in its implementation. Thus, for most eligible firms (73 percent in 2014), total taxes are higher under the *TPU* regime (based on simulations using TFFS 2015). Perhaps for this reason, only 3 percent of *TPU*-eligible firms in 2014 opted into the *TPU* regime.

74. **Firms also pay a variety of input taxes.** For example, the tax on land with buildings is 12.5 percent of the rental value of the land (3 percent if no buildings are present), and taxes on salaries paid by employers are 3 percent of the wage bill. In addition, employers are required to contribute 17.5 percent of wages to the *Caisse Nationale de Sécurité Sociale*, and employees contribute another 4 percent. Whereas other WAEMU countries have tax provisions that are generally similar to Togo's, and all are broadly governed by WAEMU directives designed to align policies within the region, there are important differences among them as well. Indeed, although all WAEMU countries have minimum corporate tax provisions, this is not prescribed by any WAEMU directive, and minimum forfeit rates (*IMF*) vary from 0.1 percent of revenues for some sectors in Côte d'Ivoire to 0.25 percent in Niger and 0.75 percent in Benin—all of which are below Togo's current (2014) rate of 1 percent of revenues.⁶¹

⁶⁰ Bank staff calculations using TFFS (2015). Although approximately half of firms paid less than their estimated statutory obligations and half paid more, 51 percent of small enterprises (defined as having less than 100 million FCFA in sales) declared more than they owed, whereas only 37 percent of large enterprises did so.

⁶¹ See Mansour and Graziosi (2013), which states regarding WAEMU tax regimes, that "all countries have a minimum tax that is typically proportional to turnover and subject to a minimum fixed amount. This tax, which is not envisioned in the directives (and hence arguably illegal when applied to corporations), in some cases represents a non-negligible part of corporate income tax revenue, and could be very distortionary."

75. Viewed from the perspective of an enterprise, Togo's tax system results in an average effective tax wedge—and distortion to private economic incentives—that is exceedingly high. Togo's fiscal receipts are not out of line with comparators as a percent of GDP, ranging in recent years from 16 to 19 percent. However, because the burden of enterprise taxation falls on a small part of the economy, it represents a severe distortion from the perspective of an actual or potential formal enterprise.⁶² In 2015, Togo's (formal) firms ranked tax rates as their number one constraint to doing business, by a significant margin (Figure 37), and as a major or severe constraint at a significantly higher rate than comparator countries (Figure 38). The Doing Business indicator on *paying taxes*, which is based on simulated taxes for a hypothetical company, ranks Togo 163rd out of 189 countries (Table 16), based on a score that understates the actual average effective tax rate.⁶³ Other WAEMU countries with similar tax regimes also rank poorly in Doing Businesses' *Paying Taxes*.⁶⁴ However, without examining country-specific provisions and implementation, one cannot conclude that the issue is similarly constraining in those countries.

Table 16: Rankings of Comparator Countries in Doing Business Paying Taxes, 2016

Country	Rank	Simulated Direct Tax Rate as a % of Profits*
Cambodia	95	21.0
Nepal	124	29.5
Bangladesh	86	31.6
Ghana	106	32.7
Mozambique	120	36.1
Tanzania	150	43.9
Senegal	183	47.3
Togo	163	48.5*
Côte d'Ivoire	176	51.9
Benin	179	63.3

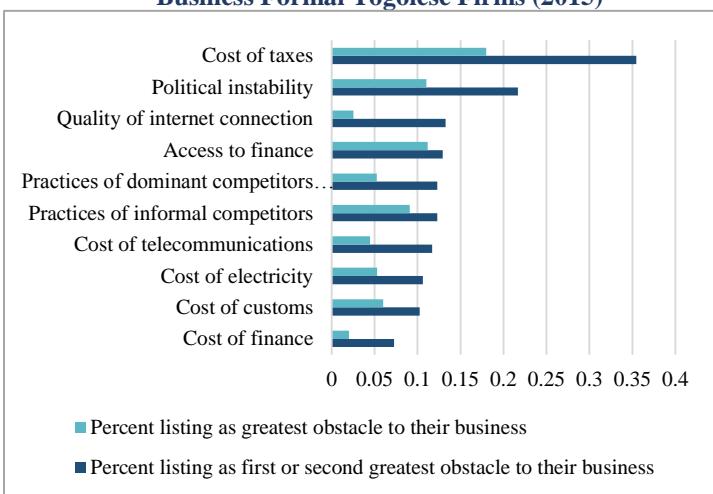
*Estimated tax rates are based upon a simulation of direct taxes only (excluding VAT). They do not include either Professional or Minimum Forfeit taxes.

⁶² Mathematically, if t_i is the tax and p_i is profits or value added for firms, indexed by i , $\sum_i \frac{t_i}{p_i} \neq \frac{\sum_i t_i}{\sum_i p_i}$.

⁶³ The total simulated rate of direct taxation of 48.5 percent of profits does not capture the full effect of Togo's corporate tax formula. The simulation estimates a burden of 10 percent of profits from corporate profits tax alone, for example, when the actual burden in 2014 averaged over 40 percent, with a median of 18 percent (TFFS 2015). Eliminating labor taxes and contributions paid by employers, which may be partly reimbursed in the future to workers, through simple subtraction still places Togo's tax burden 5–7 percentage points higher than that of Asian comparators. Moreover, although labor taxes represent almost half of the Doing Business-simulated total tax for Togo, in actuality labor and input taxes combined account for only an estimated 18 percent of profits on average (TFFS 2015). This is in part because the hypothetical firm used by Doing Business is not sufficiently similar to the average Togolese firm. It might also result in part from the distortionary effect of labor taxes on actual labor input to production. Moreover, the tax wedge estimated using TFFS data also includes VAT, as this is part of the total effective tax wedge, and this and other indirect taxes are not included in Doing Business. Togo's VAT is high relative to standard VAT of 10 percent found in some other comparator countries, such as Cambodia, as well as the VAT in Bangladesh, which ranges from 1.5 to 15 percent (http://www nbr.gov.bd/faq_page.php?lan=eng&id=2). Moreover, firms in Togo overpay VAT due to difficult reimbursement procedures (TFFS 2015), as discussed below.

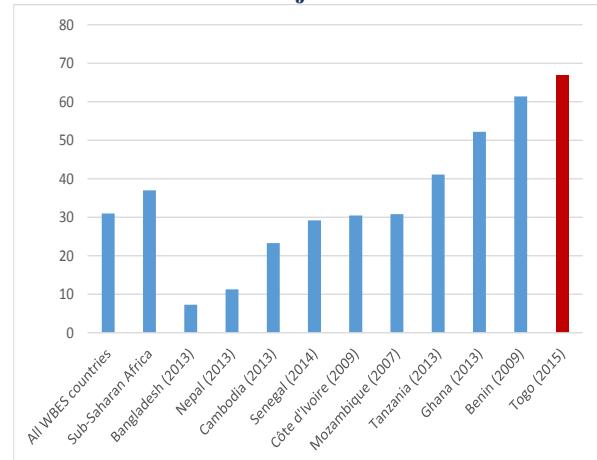
⁶⁴ Of these countries, Burkina Faso rates the highest at 153rd, Benin 179th, and Senegal 183rd out of 189 countries.

Figure 37: Frequency of Reports as Top or Top Two Obstacles Business Formal Togolese Firms (2015)



Source: TFFS 2015

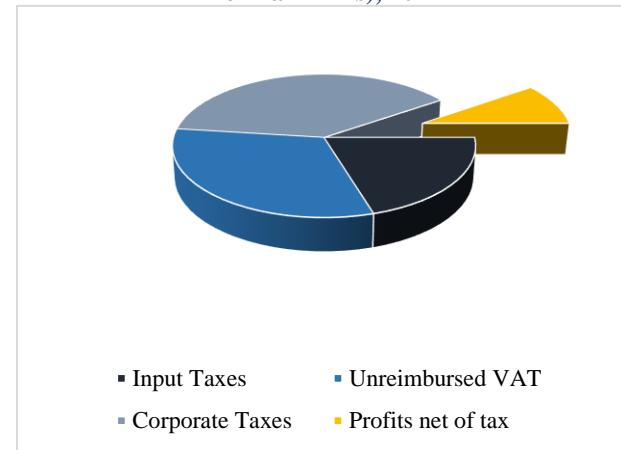
Figure 38: Percentage of Firms Considering Tax Rates a Major Constraint



Sources: WBES, latest years; TFFS 2015

76. A computation of average effective tax rates using data from a representative sample of Togolese formal (micro, small, medium, and large) firms provides a further indication of the magnitude of the distortion. When corporate taxes, local taxes, labor and input taxes (apart from import duties), and unreimbursed VATs are combined, the estimated tax wedge averages over 90 percent of pretax profits based on 2014 figures (Figure 39).⁶⁵ Moreover, this wedge reduces a healthy average return on assets (ROA) of 146 percent (excluding all taxes except import duties) to approximately 14 percent after tax.⁶⁶ Of these components, corporate taxes claimed 38 percent of returns, unreimbursed VAT 32 percent, and input taxes and contributions 20 percent. These estimates may seem unrealistically high, but they are not out of line with the tax code, given that the IS sets a corporate tax floor of 29 percent of profits, and VAT exceeds 18 percent in practice due to difficulties in reimbursements (see discussion below). At the same time, there is a high degree of variability across enterprises in the effective tax wedge, which these means mask. The median total tax wedge in the representative sample was just over 55 percent: half of firms paid less than this (and half paid more).

Figure 39: Average Tax Burden Reported as Percent of Returns (Effects of Various Levels of Taxation, Mean of Formal Firms), 2014



Source: TFFS 2015.

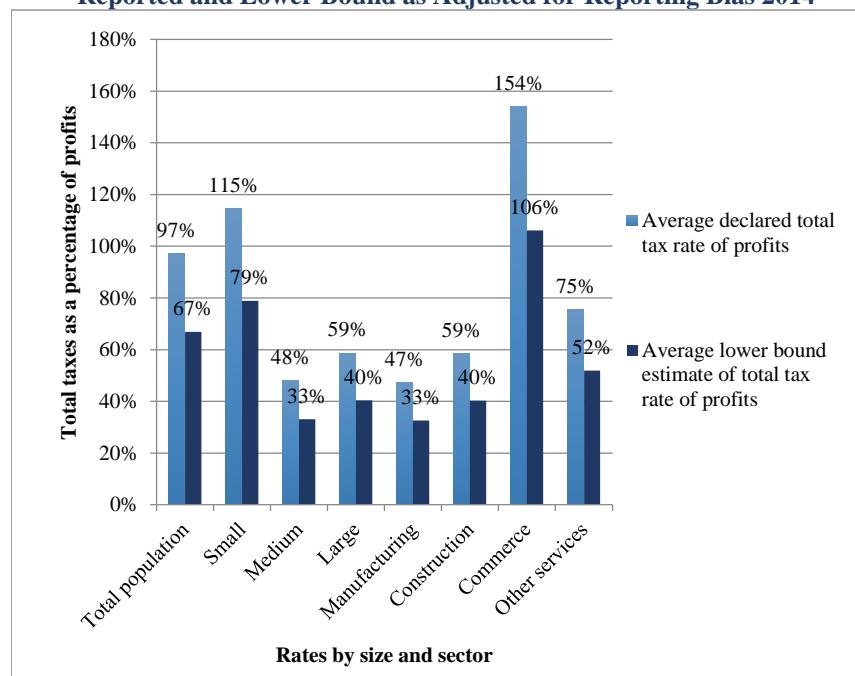
⁶⁵ Firm-level means (taxes paid/profits) and medians are computed, using firm-level population weights.

⁶⁶ See more details in Appendix Table 13. Gross ROA was lower for firms operating in interior cities (as represented by Sokode and Kara combined) than for Lomé-based businesses, and for manufacturing firms due in part to their higher capital labor ratios.

77. **Adjustments for possible reporting bias do not affect the overall conclusions.** As with all firm surveys, respondents may understate their sales and thereby overstate their effective tax rates. However, firms were guaranteed anonymity and were asked to reference their official business accounts for profit and loss figures and tax filings for total tax payments.⁶⁷ Tax simulations show no systematic overpayment relative to the sales and profits figures provided. Nonetheless, to provide a lower-bound adjusted estimate based upon firms' reports on how much their peers underreport sales to the OTR to adjust for possible reporting bias, one still arrives at an estimated tax wedge of 67 percent of pretax profits (again excluding those earning pretax losses) (Figure 40).⁶⁸ At the same time, these calculations may be viewed as understating the distortion, as they exclude the 17 percent of firms with pretax losses which nonetheless paid corporate taxes.⁶⁹ In addition, tax declarations data from 2007–2010 show a similar average rate of taxation from corporate and input taxes alone (excluding VAT), which average 84 percent (Table 17). This is higher than the comparable levels for non-VAT taxes of 58 percent observed in the survey data, as one would expect if reporting bias were lower in the survey than in tax declarations. It is not likely, therefore, that reporting bias is driving the overall conclusion that the size of the effective distortion is high.

78. **Taxes in Togo that are levied on revenues and costs rather than on profits elevate the risks of doing business and impede the entry, formalization, and growth of small businesses. Revenue-based taxes create a significant probability of reducing otherwise profitable activities to unprofitable ones, and of adding to losses in bad years.** They therefore damage the prospects for start-ups with horizons for break-even beyond the one year that tax abatements are available for new companies. Although the tax code contains provisions for offsetting taxes on losses against future taxes, these tax loss carryforwards are limited and are difficult to recoup, and tax payment data used for this analysis would already take account of such offsets.⁷⁰ As a result, of tax-declaring firms, 25 percent paid corporate taxes despite showing either pretax

Figure 40: Total Taxes Paid as a Percentage of Profits by Firm Categories, Reported and Lower Bound as Adjusted for Reporting Bias 2014



Notes: These calculations exclude cases of positive corporate taxes on firms making losses. Differences across these categories were not statistically significant.

Source: TFFS 2015.

⁶⁷ Survey enumerators confirm that this is what firms usually did.

⁶⁸ Only 58 percent of respondents reported that their peers underreported revenues to the tax authorities. The adjustment made assumes that all firms underreported, and uses the mean reporting bias claimed by those who report that their peers underreport.

⁶⁹ It is not possible to compute a sensible tax rate for firms with negative pretax profits. Firms with small positive profits showing losses after tax are included in this calculation, as the amounts they paid are consistent with the tax formula.

⁷⁰ Carryforward of tax losses was allowed for three years until recently. Now only 50 percent of loss carryforward is allowable in a subsequent year, but the period of carryforward is not limited. Because tax rates are averaged across firms, this should account for

or post-tax losses in 2014 (TFFS 2015). Similarly, in 2013, 47 percent of firms declared pretax losses, and 78 percent of these still paid corporate taxes.⁷¹

Table 17: Indicators of Inconsistent Corporate Tax Treatment, 2007–2010*

		2007	2008	2009	2010	Average
Firms Declaring Positive Pretax Profits (%)	Mean total corporate tax plus input taxes/declared gross profits for firms earning positive profits	81.0	172.0	40.0	44.0	84.3
	Percent paying less than 10 percent company tax	14.6	26.8	26.2	35.2	25.7
	Percent paying more than 80 percent corporate tax	84.0	4.3	6.4	24.6	29.8
Firms Declaring Pretax Losses (%)	Percentage of firms declaring pretax losses*	43.0	41.0	45.6	56.6	46.6
	Of which, percentage of firms paying corporate tax	64.0	81.0	81.0	87.0	78.3

Note: Variability over the years in taxes as a percentage of profits is the result of revenue-based taxation in the presence of fluctuating profitability, as well as changes in tax rates.

Source: World Bank staff calculations using actual tax declarations data.

79. Taxation most adversely affects small firms attempting to comply with official tax requirements, but also touches many less formal firms. Small firms filing tax declarations pay more as a percent of profits than medium and large firms do (Figure 40).⁷² This is due apparently to their greater difficulty in offsetting VAT and other charges, as taxes are higher as a percentage of sales (Table 18).⁷³ While most of Togo's firms are relatively informal—that is, typically not registered, not filing tax declarations, or exhibiting other characteristics of informality, many microenterprises also pay taxes. The smallest (ambulatory) micro-entrepreneurs are obligated to pay a small fixed charge, but as many are not familiar with their legal obligations, they often pay more than is officially required.⁷⁴ Moreover, the relatively burdensome *TPU* was designed for less formal firms, which are also subject to tax on the rental value of their business location. Comprehensive data are not available on taxation of all firms not filing tax declarations. Nonetheless, there are indicators that many pay some taxes and consider them burdensome. A survey of informal entrepreneurs indicates that of the 36 percent who paid taxes in the previous month, direct taxes totaled 41 percent of enterprise income, which is comprised of both the ROA and the entrepreneur's time (Table 19). Half of such firms most recently surveyed earn very little—less than the minimum wage. Ten percent of these firms rated the cost of taxes as the greatest obstacle to their businesses, the second-most frequently cited top obstacle. Similarly, a recent investment climate assessment (World Bank 2010) focused

those able to claim loss-carryforwards in prior years, particularly as profits were higher in 2014 than in 2012 and 2013 (TFFS 2015).
⁷¹ 2013 tax declarations. Although some changes were introduced in the fiscal code in 2014, the basic elements were the same in 2013.

⁷² These differences were not statistically significant in a sample of just over 200 firms.

⁷³ This is not due to their lower intrinsic profitability; gross profit margins were just as high for small firms as for others.

⁷⁴ Authors' interview with a Deloitte tax expert, November 2015.

on the informal sector found that taxes were a key issue for such firms, which often led to their disappearance. CASADD (2015) reports similar conclusions.

80. A burdensome tax code increases the scope and need for either preferential treatment or category-based exonerations, both of which can be rescinded easily.

The ease of passing a significant new tax law is demonstrated by the annual changes to the tax code over all years examined for this study, from 2009 to 2014. For example, previously generous *zone franche* exonerations were largely removed in 2012. Special tax preferences for foreign companies investing over US\$150 million, introduced only in 2010, were abrogated in 2012. Tax treatment appears uneven across companies as well. Over 25 percent of companies with positive pretax profits paid an average corporate tax of less than 10 percent of declared profits between 2007 and 2010, and a similar percentage paid over 80 percent (Table 17).

81. Although no data were available to quantify the importance of special exonerations or abatements relative to fiscal receipts, the 2013/2014 data show a statistically significant negative correlation

between a firm's market dominance and its effective total tax in 2014 (controlling for broad sector, total sales, and salary costs).⁷⁵ This result does not appear to be due to higher profitability among dominant firms (and therefore to a lower effective rate of taxation through the *IS* rather than being subject to the minimum forfeit (*IMF*), as provided in the tax code). There is no positive correlation in the data between market dominance and profitability (Appendix Table 15). In addition, although only suggestive, there is a negative association across sectors between average corporate taxation and the level of concentration of the sector in 2010 (Appendix Figure 4).

Table 18: Profit Margins and Tax Wedge as Percent of Sales

	Mean Gross Profit Margin	Mean Tax/Sales	Lower Bound Tax/Sales	Number of Observations
All	17.9	14	9	182
Small	19.5	16	11	131
Medium	13.2	7	5	25
Large	15.1	11	8	26
Manufacturing	14.6	14	11	27
Construction	14.8	13	9	54
Commerce	16.1	12	9	41
Other services	21.9	15	11	60
Agriculture-related	9.9			4

Source: TFFS 2015

Table 19: Income and Taxation of Informal Enterprises

Variable	Mean	Median
Average monthly income (return to entrepreneur and assets)	84,179 FCFA (US\$ 170.26)	34,000 FCFA (US\$ 68.77)
Yearly income	775,294 FCFA (US\$ 1568.15)	315,000 FCFA (US\$ 637.14)
Current value of assets	988,917 FCFA (US\$ 2020.46)	132,000 FCFA (US\$ 266.99)
Entrepreneurs earning at least minimum wage	49.70%	
Average enterprise taxes as a % of enterprise income, conditional on paying taxes in past month.	40.80%*	10%

*A total tax rate cannot be computed for the sample, as not all firms had paid taxes in the past month.

Source: World Bank Baseline Informal Firm Survey (BIFS) 2013.

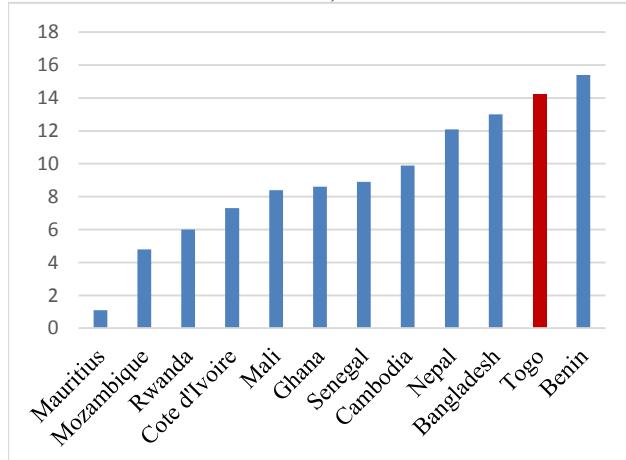
⁷⁵ T-Statistic on coefficient of market dominance = 2.33.

82. **The inconsistent implementation of Togo's VAT system adds to the tax burden.** Theoretically imposed on each increment of value added and in principle a relatively efficient tax, like any tax the burden is borne by both producers/suppliers and consumers/buyers, in some proportion.⁷⁶ In 2014, firms with revenues over 30 million FCFA were subject to VAT.⁷⁷ A business's ability to claim VAT credit on inputs is essential to avoid overpaying, and many VAT-registered firms have difficulty obtaining the reimbursements that are due to them. First, small suppliers who are not VAT-registered typically cannot provide a receipt that is acceptable to the OTR.⁷⁸ In addition, reclaiming VAT invites a tax inspection, and some firms without adequate legal or accounting support fear these visits.⁷⁹ In fact, on average, formal businesses are able to deduct only 42.6 percent of VAT paid on (nonutilities) inputs from the amount of VAT they pay, and only 25 percent of firms who were supposed to be able to deduct 100 percent of VAT collected were able to do so (TFFS 2015). Unequal VAT treatment distorts competition as well. In 2014, 67 percent of formal businesses paid VAT on inputs (other than utilities), and 62.7 percent of these companies had competitors that did not. Similarly, 44.7 percent of formal firms collect VAT from their consumers, and of these, 60.5 percent have competitors that do not.

83. **Duties charged on imported inputs, not captured in the above estimates, are relatively high and constitute a major trade distortion.** The average duty for Togolese imports is higher than for all comparator countries except Benin, at over 14 percent (Figure 41), and when combined with VAT, import taxes total over 9 percent of GDP.⁸⁰ Among formal firms surveyed in 2015, 40 percent judged the high cost of customs duties to be a major or severe constraint to their business—much higher than the SSA average of 26 percent. Among comparator countries, only 22 percent of firms rated this constraint as a major one, ranging from 6 percent in Bangladesh to 56 percent in Benin.⁸¹ Moreover, the dynamic effects of these taxes are likely to be larger than indicated by the simple tax rate as a percent of profits. Various studies have shown that import duties have a negative effect on product diversification, productivity, and profitability in the domestic market (Trefler 2004; Schor 2004; Amiti and Konings 2007; Goldberg et al. 2010; Topalova and Khandelwal 2011; Bas 2012; Bas and Strauss-Kahn 2013; Yu 2014).⁸²

84. **Finally, over time, relaxation of the tax constraint is associated with a positive change in investment and growth.** To test this relationship, one can use the only indicator of Togo's tax burden that is comparable over time—the percent of profits simulation available using the Doing Business indicator on

Figure 41: Customs Duties as Percent of Import Values, 2013



Source: Heritage Foundation.

⁷⁶ The share of the burden depends on the relationship between the price elasticities of supply and demand for the good or service.

⁷⁷ The threshold has since increased to 50,000,000 FCFA.

⁷⁸ Authors' interviews with OTR and private firms.

⁷⁹ Authors' interview with a Deloitte tax expert.

⁸⁰ Whereas some firms in Togo's *zone franche* are able to avoid some taxes, inclusion in the *zone franche* regime also has costs, as firms cannot sell more than 30 percent of their production domestically.

⁸¹ WBES, most recent years.

⁸² Recent findings by Cruz and Bussolo (2015) have shown that reducing import tariffs had a positive effect on exports and product and market diversification in the case of Morocco, which also has a preferential import duty zone.

paying taxes. Although the Doing Business indicator is not a perfect reflection of the tax wedge, changes in it over time are likely to be correlated with changes in the actual burden. In fact, private investment levels have responded positively to reductions in the tax rate as captured by these indicators. A one-percentage-point decrease in the simulated tax burden over the years is associated with a 0.32 percent increase in economic growth in the same year,⁸³ as well as a significant increase in the level of private investment.⁸⁴ Although a third factor could cause these correlations, they are robust to the inclusion of other continuous Doing Business indicators such as *obtaining credit* and the minimum capital requirements for *starting a business*.⁸⁵

85. Togo has generally received low scores on the consistency and effectiveness of its tax system in international indicators for some time. In addition to low Doing Business rankings, the Global Insight score on the quality of tax policy effectiveness rated between 0.38 and 0.45 out of 1.0 (with a median for all countries rated of 0.60) between 1996 and 2013, with a particular decline as of 2006.⁸⁶ A variety of data sources, including firms' rankings of obstacles, effective tax rates estimated from a representative firm survey, estimates from actual tax declarations, and tax simulations for Doing Business, indicate that the distortion resulting from Togo's tax system to incentives for private economic activity are large (Table 20). While not all firms pay high corporate taxes, when corporate, input, labor taxes and contributions, and unreimbursed VAT taxes are combined, many do. Moreover, the risks of incurring after-tax losses are elevated by the reliance on revenue-and cost-based taxation, which appears higher than for other WAEMU countries (Test 1). The fact that profits for existing firms were generally high on a pretax basis indicates that there are likely to be many more potentially high-return investment opportunities in Togo that are not pursued due to these distortions to private economic incentives. Togo's high level of informality, while certainly not uncommon, is consistent with a relatively greater effort to avoid taxation, but may also reduce the firm growth and formalization generally associated with productivity improvements. In addition, tax declaration data for 2013 show a concentration of firms with declared revenues just under the threshold for VAT obligations (Test 2). Relatively few firms survive in sectors where the tax burden would fall most heavily, particularly in sectors with low profit margins, such as in commercial agriculture and agriculture-related business, where there are only a few formal firms according to OTR data (Test 3). Although only suggestive, since there are many possible explanations for Togo's relatively undeveloped manufacturing sector, higher corporate tax rates (Djankov et al. 2010) together with high import duties may be important contributors. Finally, movements in the constraint over time—even over the relatively short time span of nine years—appears to result in an investment and growth response (Test 4). Whereas none of the above tests is conclusive on its own, the totality of the data and indicators available provides substantial evidence that Togo's tax system—its code, combined with how it is implemented—represents a binding constraint to inclusive growth. Because entrepreneurs cannot create jobs and increase labor productivity and wages

Table 20: Tests of Key Constraints: the Tax System

<i>Tests of binding constraints to growth on key pathways</i>	<i>Pass?</i>
High cost to actual or potential enterprise?	✓
Circumvention of constraint evident?	✓
Few actors present requiring alleviation of constraint?	✓
Correlated with growth or investment?	✓
<i>And/or adversely affects income of poor people?</i>	✓

✓ = passes test

⁸³ Bivariate regression results with log of growth regressed on log of the tax rate indicator for the period 2007–2015. P-value of the coefficient is 0.002. It is theoretically possible that an increase in growth rates lead to decreases in tax rates as well; however, it seems unlikely that the Government of Togo, with its low capacity and structural fiscal deficits, is attempting to adjust tax rates based on growth projections for the coming fiscal year.

⁸⁴ P-value = 0.046.

⁸⁵ It is possible, but not likely, that the government anticipates growth rates and raises taxes in years during which lower growth is projected, but Togo's tax laws are adopted before growth rates can be projected with any accuracy.

⁸⁶ This indicator averages in another question on business regulation, but the measures are highly correlated.

without a greater incentive to invest and grow their businesses, this constitutes a key constraint to poverty reduction as well. Moreover, as discussed in the next section (4.6), onerous, revenue-based taxation represents a binding constraint to the development of more productive agriculture as well.

4.6. Diagnosing Constraints in Agriculture: Key Distortions to Private Economic Activity Combined with Moderately Constraining Public Service Delivery

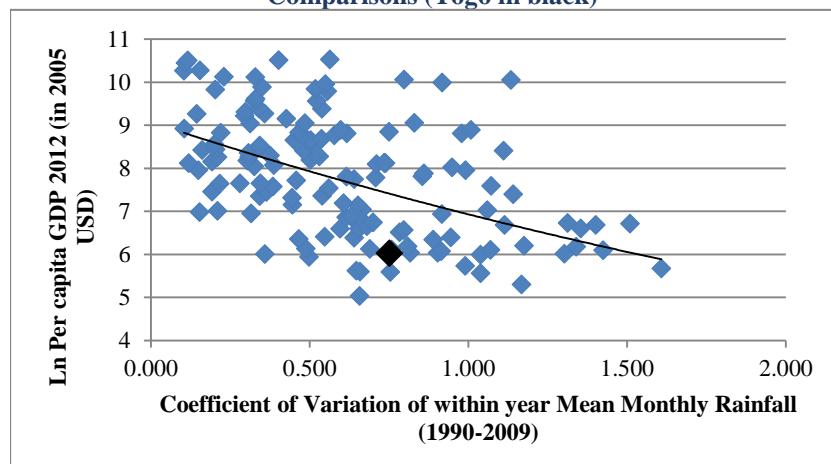
Main Messages:

- The constraints that Togo faces in agriculture are similar to those in other countries in the region, including weather-related risk and land degradation. Despite the adverse effects of climate change, Togo has more advantageous rainfall patterns than many Sub-Saharan African countries.
- However, economic distortions caused by poor formulation and implementation of policies in the agricultural sector reduce the profitability of productivity-enhancing investments by commercial and smallholder agriculturalists to a degree that represents a binding constraint.
- Togo's tax code makes it generally unprofitable for smallholders to sell to formal commercial operators and relegates marketing and value chain activities to the informal sector or the state.
- The reduction in profitability and income for poor agriculturalists due to these distortions represents a large fraction of their income, and therefore increases poverty substantially.
- Poor public service delivery is also constraining, and the allocation and effectiveness of public spending in the sector appear problematic.
- In some areas, a lack of local infrastructure such as irrigation systems (in valley bottoms) and feeder roads (in Plateaux) appear to be key constraints.
- Nonetheless, economic distortions due to skewed policy and regulation are more binding and must be alleviated along with these constraints for the requisite investments to bring high returns for the poor.

86. **Agriculture is the primary activity for over half of the country's working population and employs the vast majority of poor people.** Despite Togo's natural comparative advantage in agriculture, however, it has been unable to raise productivity consistently in the sector, including through diversification into higher-value-added products.

Although Togo's land mass is small for the continent, at just 56,000 square kilometers, arable land is relatively abundant in per capita terms, and only 50 percent of the country's 3.4 million hectares of cultivable land were cultivated in 2012, having doubled since 1996 (RT 2014b). Weather-related risks are an important determinant of household consumption in any given year, and if not mitigated can disincentivize risk taking by farmers.⁸⁷ Yet such risks in Togo are similar to those in Benin and

Figure 42: Intra-annual Rainfall Variation and Income, Cross-Country Comparisons (Togo in black)



Source: WDI and World Bank Climate Change Knowledge Portal

⁸⁷ See, e.g., Rosenzweig and Binswanger 1992 and Osborne 2006.

other countries of the region, and at a national level Togo still rates relatively favorably within the region on the availability of freshwater resources per capita. Moreover, within the year, the constancy of Togo's rainfall patterns gives it an advantage relative to its income peers that are similarly concentrated in agriculture (Figure 42). Togo thus remains relatively well suited to rainfed agriculture (Droogers et al. 2001; RT 2014b), but has failed to exploit this comparative advantage fully.

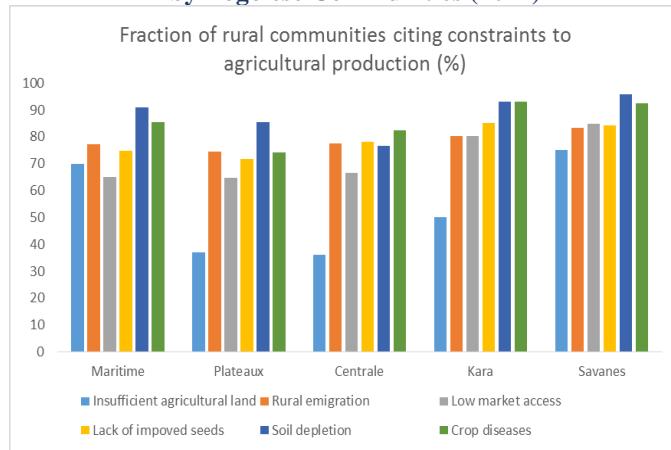
87. Just as with other private sector endeavors, empirical indicators and economic logic can aid in the prioritization of constraints in agriculture. There are often many constraints to productivity-enhancing investment in agriculture, but not all of them are binding to the same extent. Without addressing those that are most constraining, interventions directed at other issues in the sector may fail to have an appreciable impact. This chapter considers the evidence available on all of the applicable constraints in agriculture, applying the logic of the HRV framework.

88. Togolese agriculture suffers severely from variants of the constraints to the wider economy arising from weak policy formulation and implementation, as well as onerous taxation. Such distortions drive a large wedge between producers' potential and actual returns. In particular, problematic regulation of the sector obstructs the efficient, reliable, and timely delivery of inputs to producers, as well as the development of more accessible and efficient output markets, thus reducing investment, productivity, and agricultural incomes. Other constraints arising through the lack of local public goods such as feeder roads also impede market access and, in some areas of the country where potential for it exists, improved water control is a major constraint. Yet on a national level, these localized constraints appear only mildly or moderately constraining, relative to binding constraints (Constraints 3 and 4), which reduce the profitability of agriculture for all producers.

89. Surveys of households and communities in rural Togo underscore the importance of distortions in input and output markets. After the problem of unfavorable rains, the second-most frequent adverse shock that agricultural households reported in 2011 was that of high prices for agricultural inputs—an issue that is clearly correlated in the data with current poverty status (Section 3.4, Figure 18).⁸⁸ Similarly, communities rate the lack of improved seeds, low market access, and crop diseases among the five most severe problems for agriculture in their communities in 2012 (Figure 43).

90. A scenario illustrates the issues detailed further in this section from the producers' perspective. As the planting season begins, the farmer first faces difficulties accessing fertilizer and improved seeds; if available at all, these inputs come late, may be the wrong variety or of poor quality, and are highly priced. Even if traders bring in improved seeds from neighboring countries, these would have no

Figure 43: Frequency of Constraints to Agriculture Listed by Togolese Communities (2012)



Note: Communities were asked yes/no questions regarding whether the problems affected them.

Source: 2012 Agricultural Census.

⁸⁸ Unfavorable rains in 2011 do not imply that rainfall variation, or water control measures to address them, are more binding constraints—with corresponding key opportunities—than other issues. This was a report from just one year. Moreover, water control measures are not viable in most of the country, and background weather risk cannot be eliminated.

local quality certification and tend to cost more. If the rains have arrived before fertilizer is available through the state-owned distributor at a subsidized price, the farmer turns to private distributors who charge more to cover their costs. The farmer is willing to pay, because the timeliness of fertilizer application is key to its benefits, and the soil increasingly requires nutrient replenishment. Next, the farmer faces a variety of risks related to the timing and adequacy of the subsequent rains, as well as the risk of pest infestation. The price of insecticides is also high, and the household has livestock that is not vaccinated, because the cost of accessing veterinary services is prohibitive. At harvest time, the farmer finds that marketing her maize crop—never easy—is more difficult than some years ago. There are fewer buyers, and the price is lower than expected, barely covering her costs. Buyers operating in her local market explain that they would normally try to take marketed surplus to Burkina Faso to sell for a higher price. They no longer do so, however, since their stock was recently confiscated at the border. Other buyers take a risk and pay bribes to smuggle the product across, but even these buyers cannot pay a better price. Although some higher-value crops are grown in the community, the price received locally is not high enough to justify the expense of the investments required to grow these crops, and there is no buyer in the vicinity with an established connection to higher-value markets. At the end of the harvest season, the farmer’s income is too low to set aside funds for next year’s activities while also compensating for a rising cost of living.

91. The main policy or institutional issues depriving this farmer of a better income fall into three areas: input market regulations, output market policies, and taxation. First are a number of counterproductive restrictions on input provision. The government agency responsible for testing and approving new seeds, the *Institut Togolais de Recherche Agricole* (ITRA), requires 2–3 years of testing before new seeds are authorized—including for seeds that have already been approved for use in neighboring countries. In practice, ITRA has typically not approved new seed types within a reasonable time frame, and as a result seed technologies developed elsewhere are not introduced.⁸⁹ Moreover, improved seeds (those selectively bred for their desirable properties) that are officially registered in Togo are considered by some not to have the requisite quality. Although traders bring improved seeds into the country, these lack quality control.⁹⁰ Due to availability constraints, the use of improved seeds is low. Only 14.9 percent of producers and 19 percent of cultivated land (RT 2014b) benefit from them.⁹¹ There are also barriers to the provision of animal health services. Approved applications to join the profession of veterinary doctor must apply to a body of peers. Anyone “with an interest” can contest approvals, and the period for appeal of a refusal to include an applicant in the profession is only two weeks.⁹² Because of these and other barriers to entry, there are relatively few formal veterinary service providers, and all of those listed in firm registries are located in Lomé. Only 17 percent of livestock producers surveyed in 2013 had vaccinated their livestock, and only 6 percent used antiparasitic products (RT 2014b).

92. As recognized by the government’s proposed reform agenda, fertilizer markets are currently distorted and inefficient. A quasi-monopoly in official fertilizer distribution limits the quantity available, as well as the flexibility of the system to provide fertilizer of the optimal type and at the appropriate time (World Bank 2012e). There are three official importation channels: through a state entity, *Centrale d’Approvisionnement et de Gestion des Intrants Agricoles* (CAGIA), through the *Nouvelle Société Cotonnière du Togo* (NSCT), or through the private sector. In addition, the limited range of fertilizer types available through official channels impedes the use of more suitable choices by soil type and crop. Only NPK 15-15-15 and 46 percent urea were available as of 2011 (World Bank 2012e), and the availability of

⁸⁹ Authors’ interviews with producers (2014–2015).

⁹⁰ Ibid.

⁹¹ These are not genetically modified seeds, which are forbidden in Togo.

⁹² *Loi Ordre National de Medicins Veterinaires* (September 2004). There are no restrictions on the permissible reasons for refusal contained in the law.

PK and other types is limited.⁹³ Unofficial private distribution channels expand access to producers, but their development is constrained. Although the government subsidizes fertilizer marketed through public channels, for most farmers it is either expensive or not available in sufficient quantities at the appropriate times. If fertilizer is not applied at the optimal time or if other complementary inputs such as improved seeds or pesticides are not available, the returns to using it are low or nonexistent (Livingston et al. 2011).⁹⁴ The subsidy program lacks appropriate targeting and results-based monitoring and evaluation, and makes it more difficult for private distributors to compete (World Bank 2012e). Still, the disparity between official fertilizer import statistics and estimated use from a recent farm survey suggests that informal distribution channels are the major mode of provision. Average fertilizer use in the country was estimated at 117 kg/hectare (RT 2014b)—a level far exceeding estimates based on official import and fertilizer production volumes.⁹⁵ Moreover, RT (2014b) estimates that approximately half of fertilizer used is imported and distributed by the private sector at market prices. Market prices are high: in 2012, price surveys in multiple domestic markets showed a price of imported fertilizer twice as high as the world price.⁹⁶ Despite these issues, 35 percent of cultivated land still receives chemical fertilizers (RT 2014b). Perhaps surprisingly, availability is worse the closer one is to the official port of entry, Lomé. For those farmers not using chemical fertilizer, the main reason given is the lack of availability: 63 percent of respondents in Maritime gave this as the main reason, 46 percent in Plateaux, 30 percent in Centrale, 35 percent in Kara, and 25 percent in Savanes.⁹⁷ Those specifying just a high price represent 15 percent in Maritime, Plateaux, and Central, and 26 and 29 percent in Kara and Savanes, respectively. Farmers give other possible reasons much less frequently than availability and price. Finally, the duties imposed on agricultural inputs, including agricultural machinery, lack clarity and consistency, and the procedures for importing them (discussed in section 4.4) create additional costs (UNDP 2013).

93. Some modes of state intervention in output markets have reduced agricultural incomes. Market access is among the most frequently cited obstacles to agriculture, and is listed as a key obstacle by 60–70 percent of communities (Figure 43). Interventions to establish traceability and quality certification, improve access to storage, and reduce trade barriers would have major impacts on the efficiency of Togo’s agricultural output markets. Rather than focusing on measures such as these, however, the Government of Togo has sometimes pursued interventions that have had the effect of reducing market access. The percentage of the world price that producers receive for products for which the government regulates or sets the price—in particular, cotton and peanuts—is low and has fallen over recent years (Table 21). In contrast, liberalization of markets for cocoa and coffee in the 1990s has improved farmers’ margins; having received only 55 percent of the market price before liberalization, afterwards farmers began to receive 70 percent (Akiyama et al. 2003) (Table 21).

⁹³ World Bank (2012e), confirmed by stakeholder interviews and consultations in 2015.

⁹⁴ In a recent trial, on-time fertilizer applications registered value/cost ratios of greater than 2 in eight of the 21 cases, compared to a ratio of zero among those who received fertilizer late, and according to common rule of thumb, value/cost ratios of greater than 2 are needed for farmers to adopt fertilizer into their production systems (Livingston et al. 2011).

⁹⁵ World Bank (2010) used estimated fertilizer use from imports through official/public channels only, and this is a substantial underestimate of actual input use. 117 kg/ha is close to the recommended dose. Attempts to correct any coding errors in the underlying data have not changed the main result using these data, that fertilizer use in Togo is not nearly as low as volumes flowing through official distribution channels suggest.

⁹⁶ Based on a comparison of sampled market prices of urea in inputs stores in 2012 (Marketing Inputs Regionally Plus, a project of the International Fertilizer Development Center) and the mean world price of fertilizer in the same month.

⁹⁷ This response frequency combines that for the possible responses “lack of availability” with “lack of availability and a high price.”

94. Although the government has made moves to reform certain agricultural markets, in some instances government intervention has led to reduced producer prices. Togo typically produces a surplus of maize, the country's most widely cultivated crop; 80 percent of rural households grow it and 38 percent sell it (QUIBB 2011). Therefore, access to external markets for maize and other crops is crucial for rural households' livelihoods. In 2008, a new agency, *Agence Nationale de la Sécurité Alimentaire du Togo* (ANSAT), was established and charged in principle with retaining a buffer cereal stock and facilitating the marketing of basic food grains. Although ANSAT may have taken steps to improve food security, some of its actions have disrupted the functioning of maize markets in a manner that has adversely affected farmers, periodically attempting to corner the maize export market while bidding down the producer price.⁹⁸ Although the export of cereals is technically permitted, it requires a license and, according to multiple accounts, this license is typically not issued.⁹⁹ For example, in 2011 ANSAT purchased an estimated 32,000 tons of maize for 160 FCFA, and sold it at 226 FCFA in regional export markets, while also effectively prohibiting exports by other private traders (CPOT 2013). While world maize prices rose by 116 percent between 2006 and 2011, the mean producer price in Togo fell by 26 percent, and the ratio of producer to world prices fell by 40 percent (Table 21). Assuming the same production level and marketing costs as in 2006, the effect would be to reduce gross revenues per hectare in 2011 by 35 percent. Absent ANSAT, farmers' profits per hectare would have been approximately US\$138 higher per hectare. With 50 percent of cultivated land devoted to maize and an average farm size of 3.5 hectares (as calculated by World Bank staff, using QUIBB 2011), this represents a loss in annual income for producing households of US\$395 (2011 PPP). In per-capita terms for a five-person household, this is almost 11 percent of the international poverty line. Moreover, this loss represents only the first-round effect on income and does not take into account the impact on the household's ability or decision to invest in inputs in subsequent years. Given certain vested interests at stake, a report advanced by producers' groups that documented and sought to address this situation was discussed and approved by the Ministry of Agriculture, but has since been shelved. Rather than directly intervening in the purchase of grains to smooth prices and availability, it would be more effective to negotiate open trade policies within the region. Trade and storage by private agents tend to produce efficient smoothing, and if greater price stability were still desired, the optimal policy would be to subsidize market-based storage (Williams and Wright 1991; Deaton and Laroque 1996; Osborne 2004; Gouel and Jean 2012).

95. Institutional and pricing arrangements in Togo's important cotton sector have also "taxed" producers' income. Sustaining a viable cotton sector is undoubtedly more challenging given other (rich) countries' subsidy policies, and the optimal institutional arrangements are far from clear. Yet according to Baffes (2007), in Togo and other West and Central African countries in the FCFA zone, institutional arrangements in the sector have had the unfortunate effect of both taxing cotton producers and generating significant unbudgeted fiscal liabilities. State-owned cotton companies have failed to perform efficiently or respond flexibly to evolving market conditions.¹⁰⁰ Since 2000, Togo's official purchase price of raw cotton

Table 21: Producer Prices Relative to World Price, Main Crops

	Median producer price as a proportion of world price in US\$		
	2006	2011	% Decrease
Maize	1.57	1.16	40.7%
Peanuts	0.41	0.20	21.8%
Coffee	0.71	0.70	0.2%
Cacao	0.72	0.71	1.0%
Rice	0.67	0.47	20.4%
Soya	0.89	0.78	10.6%
Cotton	0.23	0.10	57.8%

Source: QUIBB 2006, 2011

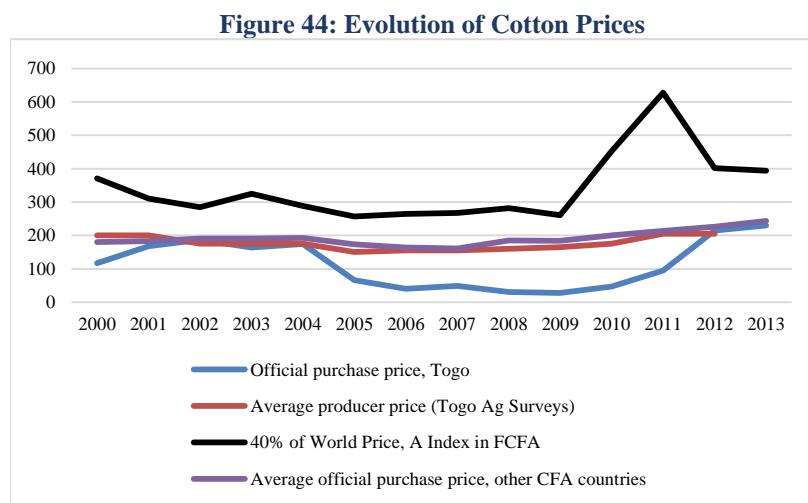
⁹⁸ Authors' interviews with producer groups.

⁹⁹ Authors' interviews with private sector and maize producers.

¹⁰⁰ For example, Baffes points out that, of the countries examined, only Burkina Faso had begun to field test genetically modified cotton seeds, even though one-third of world output was from modified varieties.

has been lower than the average of other FCFA countries (Figure 44), where Baffes finds a large distortion. Yet as a result of financial difficulties, from 2005 to 2009 Togo's vertically integrated state cotton company, SOTOCO, began to experience financial difficulties. The official offer (Figure 44, blue line) price plummeted between 2005 and 2011, and the company was unable to pay many of its input suppliers and cotton farmers. Producer survey data suggest, however, that producers found other means to sell their cotton at a better price, possibly through neighboring countries (Figure 44, red line). Togo's cotton company has since been restructured to include producers as minority shareholders, and the cotton pricing formula is designed to link more closely to world markets. Still, there does not appear to have been an increase in the share of the world price that Togolese producers receive vis-à-vis the prereform period—if anything, the gap has widened (Figure 44), and it is too early to tell whether the new company will prove more financially sustainable.

96. Whereas some skepticism of market-based reforms is justified, improving outcomes in the agricultural sector will require a substantial measure of liberalization. The government has recognized this, but has had difficulties in effectively implementing this agenda. At the same time, the state's role in solving market failures will need to be realigned. In particular, the government has a role in addressing the lack of quality certification; fostering the diffusion of new, sustainable technologies; establishing traceability systems; and promoting plant and animal health. Liberalization, to be successful, must be well designed and implemented to take into account both the limitations of the free market, and the limitations of state capacity and governance quality (Jayne et al. 2002; Akiyama et al. 2003; Kherallah et al. 2000).¹⁰¹ The case of neighboring Benin may be instructive, given its similar agro-climatic conditions and similar level of productivity since 1990 (Section 3.3, Figure 26).¹⁰² Although progress in Benin may have stalled more recently, the steps it took to liberalize input supply between 1991 and 1996 had an appreciable positive effect at the time. In particular, the Government of Benin eliminated subsidies and price controls on crops and agricultural inputs, reduced the role of the government in agricultural marketing, and promoted private sector participation in agricultural production and trading activities—in particular, agricultural processing, seed multiplication, veterinary services, and the importation of veterinary medicine (IFPRI 2001). Farmers



Note: 40 percent of the world price is shown to reflect technical rule of thumb fiber yields from raw cotton.

Source: World Bank Commodity Price Databank, BCEAO and NSCT.

Liberalization, to be successful, must be well designed and implemented to take into account both the limitations of the free market, and the limitations of state capacity and governance quality (Jayne et al. 2002; Akiyama et al. 2003; Kherallah et al. 2000).¹⁰¹ The case of neighboring Benin may be instructive, given its similar agro-climatic conditions and similar level of productivity since 1990 (Section 3.3, Figure 26).¹⁰² Although progress in Benin may have stalled more recently, the steps it took to liberalize input supply between 1991 and 1996 had an appreciable positive effect at the time. In particular, the Government of Benin eliminated subsidies and price controls on crops and agricultural inputs, reduced the role of the government in agricultural marketing, and promoted private sector participation in agricultural production and trading activities—in particular, agricultural processing, seed multiplication, veterinary services, and the importation of veterinary medicine (IFPRI 2001). Farmers

¹⁰¹ As Jayne et al. (2002) have documented, often when agricultural reforms have not had the intended results, it has been because they have not been implemented as intended or other policies have served to cancel out the benefits.

¹⁰² According to a recent World Bank review, Benin's agriculture sector faces a serious institutional constraints, including: (i) lack of a comprehensive and fully operational policy and regulatory framework to guide public interventions in agriculture; (ii) inadequate fiscal regime for agricultural enterprises that does not provide sufficient incentives for agricultural entrepreneurship; (iii) quasi-absence of organized input supply and distribution systems, outside cotton; (iv) inadequate agricultural credit facilities and financing systems; (v) insufficient incentives within the traditional rural land tenure system to make long-term investments in agriculture; and (vi) lack of insurance systems for managing agricultural risks. However, this review also shows more rapid growth in agriculture in Benin than in Togo (World Bank 2011).

surveyed in 2000 reported an improved distribution and use of inputs, including improved seeds and fertilizer; indeed, the use of fertilizer increased at one of the fastest rates in SSA, and agricultural production grew along with commercialization and exports. Moreover, the availability of improved seeds, which were distributed primarily by the private sector, improved, especially for poorer households (IFPRI 2001).¹⁰³ Over this time frame, agricultural productivity well surpassed that of Togo (Figure 26).

97. As with other sectors of the economy, taxation of agriculture and of the agricultural value chain is a major constraint to the development of larger-scale, commercial agriculture and efficient input and output markets for smallholders. Whereas in other countries agriculture typically receives preferential tax treatment, in Togo the sector largely does not. Agricultural producers are exempt from the *TPU*; however, officially all individual agricultural producers earning over US\$625 per year are subject to a profit tax, starting at 4 percent and increasing to 45 percent for those earning over US\$25,000. In addition, agricultural firms with revenues over 30 million FCFA (US\$50,000) are subject to the *IMF*, *TP*, and *IS* (Section 4.5). In contrast, Mozambique, for example, sets a 10–16 percent profit tax rate for agriculture, and Ghana sets zero profit tax for the first 3–10 years, then a rate ranging from 0 percent in rural areas to 20 percent in Accra thereafter (compared to 32.5 percent for most industries). Until 2012, Togolese agriculture was also subject to 18 percent VAT, and for firms that were engaged in agricultural export and paid VAT on inputs, only 60 percent of this was reimbursable under the tax code.^{104 105}

98. Although smallholder producers escape direct taxation, taxes levied on buyers, storers, exporters, or processors of their produce, if paid, would likely be passed through almost entirely in the form of reduced producer prices.¹⁰⁶ First, a buyer or trader with a tax identification number who packages, sells, exports, or processes agricultural output is subject to *VAT*, *IMF*, and *TP*. Those without a tax identification number (of any size) are subject to a tax of 5 percent of revenues.¹⁰⁷ Shifting these taxes to producers, as would normally occur, would result in a high burden as a percentage of their profits. Table 22 shows the simulated tax burden on producers in a variety of scenarios. In the most favorable scenario, if buyer-wholesalers were small and had no tax identification number, and producers' margins were high—at, say, 15 percent of costs (as they were for maize in the United States, on average, between 2010 and 2014, according to the United States Department of Agriculture), taxes would represent a minimum of 33 percent of farm profits. For a larger, formal buyer/wholesaler, with a tax identification number and subject to *VAT*, this share would rise to 82 percent. Assuming more realistic, thinner producer profit margins of 8 percent, similar to the 5–8 percent estimated for Tanzania (Livingston et al. 2001) and 9 percent estimated from the

¹⁰³ Access to credit was not a major constraint: there was no relationship between participation in the cotton chain and purchase of seeds, 98 percent of which were purchased on a cash basis. Yet in fertilizer, distribution remained under partial state control – distribution was restricted through licensing, with fixed pan-territorial pricing, and so for this input only, cotton-farming areas showed greater availability.

¹⁰⁴ Although Senegal and Côte d'Ivoire both impose an agricultural *VAT* of 18 percent, Ghana has charged (until 2014) just 12.5 percent, and Cambodia 10 percent *VAT* on agriculture. Benin exempts agriculture entirely from *VAT* and exempts agricultural cooperatives from the profits tax.

¹⁰⁵ Togo also levies tariffs on certain imported agricultural inputs. Most imported machinery, equipment, and parts are subject to a 5 percent duty, plus 18 percent *VAT* and a community tax (“*taxe communautaire*”) of 6 percent on some items. Insecticide is subject to an average tariff rate of 17 percent (between 5 and 20 percent), and fertilizer to a 5 percent duty. Although imports of fertilizers and other inputs are in principle *VAT*-exempt, in practice they are not consistently exempted, according to input providers. Yet in many countries with which Togo competes, agricultural inputs are neither dutiable nor subject to *VAT*. In Ghana, for example, machinery, apparatus, appliances and parts thereof designed for use in agriculture, veterinary activities, fishing, and horticulture, as well as industry and mining, are *VAT*-exempt. Benin has import duties on its books, but has extended exemptions to this from year to year. Cambodia charges no import duty on agricultural equipment and inputs, and Tanzania exempts agricultural inputs from *VAT*.

¹⁰⁶ Standard microeconomic theory shows that the allocation of the burden of a tax depends upon the relative price elasticity of supply versus demand for the good being taxed.

¹⁰⁷ This applies only to non-*VAT* paying firms (with less than 50 million FCFA in sales). In other cases, exports are subject to a 1 percent export tax (potentially reimbursable against *VAT*, if payers register with the tax authorities).

agriculture-related firms in Togo (TFFS 2015), effective taxation rises to between 63 and 154 percent of farm profits.¹⁰⁸ In years when farmers experience losses due to weather and price fluctuations, the impact would be even more deleterious.

99. These tax policies have the effect of largely relegating agricultural production and related services to the informal sector or to the state. Commercial operators are typically needed

to make value chain investments, provide market-relevant technical support, develop export market linkages, and contribute to improved quality control, packaging, and brand marketing. Yet the need to avoid onerous taxation distorts the structure, reinforces a tendency toward informality, impedes investment in storage and other infrastructure, and discourages the entry of agribusiness—thus limiting the sector’s ability to develop and market higher-value-added products. This partly explains why there are very few formal agricultural firms filing tax declarations in Togo; of five firms doing so in the primary sector in 2013, only one produced agricultural or horticultural products.¹⁰⁹

100. Given such distortions to incentives in commercial agriculture, the paucity of farm machinery in use in Togo is perhaps not surprising. A recent count found Togo to have fewer than 200 tractors in good condition and in use (RT 2014b). Although widespread mechanization is unlikely to be efficient for smallholder agriculture, some mechanization is likely to become increasingly viable as labor transitions out of agriculture. Yet rather than addressing the underlying obstacles to private investment in equipment, the government has resorted to direct gifts of farm equipment to farmers—most recently 173 tractors, five bulldozers, five excavators, hydraulic diggers, and water sprinklers, with a total value of 13 billion FCFA (approximately US\$22 million).¹¹⁰

101. Other constraints to agriculture are important, but currently less binding. First, while access to financial services can be difficult for some producers, the facts indicate that a lack of credit is not a binding constraint for smallholders.¹¹¹ Many agricultural producers have access to credit through microfinance institutions, informal savings and credit associations, nongovernmental organizations (NGOs), and other sources. In 2012–2013, approximately 15.7 billion FCFA (over US\$30 million) of credit was extended to smallholder agriculture: 47 percent of cash credit from microfinance institutions (MFIs), 22 percent from mutual groups, and 10 percent from family members.¹¹² According to CASIMEC data, interest rates on loans were low, ranging from 5–9 percent, below average bank lending rates. The main form of security was a group guarantee, used for 61 percent of loans, followed by third-party guarantees from family or others, and then land at 2 percent and housing at 1 percent (RT 2014b). Of the average 100,005 FCFA in cash expenses incurred per agricultural household in 2012, 31,460 was borrowed and the rest was financed from own savings (RT 2014b), implying a similar level of self-financing to that of formal firms (70 percent; see Section

Table 22: Simulated Tax Burden, Agricultural Producers Interacting with Formal Economy, by Tax Regime

Hypothetical Producer Profit Margin (%)	With No Tax ID	With Tax ID in VAT Regime
15%	33%	82%
10%	50%	123%
8%	63%	154%

Source: World Bank staff calculations using Fiscal Code 2014.

¹⁰⁸ Calculations of VAT assume a similar level of input VAT recovery as in the formal sector generally.

¹⁰⁹ Drawn from TFFS 2015 firm listing and follow-up exercise.

¹¹⁰ How the recipient farmers are chosen is not clear. See <http://www.republicoftogo.com/Toutes-les-rubriques/Politique/13-milliards-d-equipements-remis-aux-paysans>.

¹¹¹ The theoretical basis for credit as a binding constraint in a dynamic context is weak without some other obstacle present. See Osborne (2006).

¹¹² Similarly, approximately 56 percent of in-kind credit was from MFIs or NGOs, 14 percent from groups, 4 percent from government or other projects, and 5 percent from suppliers. *Tontines*, rotating savings and credit associations, numbered approximately 3,885 in Togo in 2012, and mutual groups numbered 1,587.

4.5). Moreover, only a small percentage of agricultural producers not utilizing fertilizer cite a lack of money or “other reasons” for not doing so (RT 2014b).

102. As a result of inadequate funding, skewed allocation of financing, and inadequate design of interventions (World Bank 2012e), effective public support for agriculture is lacking in Togo. Public spending on agriculture is relatively low, and the allocation and effectiveness of these expenditures is unclear. A review of public expenditures showed that, between 2002 and 2011, the government devoted only 5–6 percent of its budget to all expenditures in agriculture (excluding feeder roads)—less than Burkina Faso (9.5 percent in 2011), Ghana (11.2 percent), and Senegal (11 percent in 2009).¹¹³ When feeder roads are taken into account, Togo spent 6.5 percent of agricultural GDP on agricultural programs in 2010, ranking in the middle range among SSA countries (World Bank 2012). Yet the problem of expenditure levels appears to be secondary to that of the allocation and effectiveness of this spending. Agricultural spending reaches a relatively small proportion of the agricultural population. Overall spending appears to have been biased toward the Maritime region, possibly as a result of the centralization of management in and near Lomé, and a lack of both human and material resources has meant that the Ministry of Agriculture has struggled to adopt a results-based approach. Moreover, the functional allocation of spending has been problematic. A large percentage of expenditures has been for internal resources and nonpublic goods: over the period 2005–2011, 42 percent was for personnel and other administrative expenses; 28 percent for the purchase of fertilizer; and just 27 percent for (unspecified) investments, some of which may be nonpublic in nature. Research and development expenditure in agriculture, which generally has a high rate of return, received only 0.07 percent of national GDP, and this was for ITRA personnel (World Bank 2012e). A greater allocation of agricultural spending to public goods, including research and development efforts designed to complement those of Togo’s neighbors as well as robust monitoring and evaluation, are needed to improve the impact of this expenditure (AMR 2013). Since the provision of nonpublic goods, such as through ongoing programs to distribute free input kits, has not been shown in other contexts to have an appreciable and sustained positive impact, these and other programs should be rigorously evaluated so as to enable a more effective allocation of public resources in the sector (World Bank 2012e).

103. Poor prioritization of spending has resulted in a lack of effective support for technology adoption, an activity that has had a positive impact in other contexts in Africa. Togo provides relatively weak extension services; only 5 percent of agricultural producers report having had some form of training recently (RT 2014b), and across all categories, agricultural expenditures were recently estimated to reach not more than 10 percent of producers (RT 2014b). Nonetheless, the lack of knowledge is likely to be a secondary constraint in the current context, simply because the benefit of such training—via the profitability of improved technology adoption—also depends on the existence of efficient, flexible input and output markets. Moreover, farmers’ survey responses provide no indication that Togolese farmers are unaware of the benefits of basic inputs like fertilizer and improved seeds. Of the available explanations for not using them, essentially no farmers surveyed in 2012–2013 replied that they did not see the value or did not wish to use them (RT 2014b). Since it is not possible using available data to assess the importance of a lack of research, development, and extension services in Togo, the severity of this constraint in the current context of low economic profitability incentives and barriers to entry in input sectors remains an analytical gap.

104. Unsustainable use of biomass and soil degradation also adversely affect Togo’s agricultural productivity. Sixty percent of Togo’s population lives in areas with degraded biomass, and Togo has a relatively high percentage of degraded land, which continues to degrade (Figure 45). Degradation occurs primarily through deforestation, which proceeds at a worrying rate of 1.4 percent per year,¹¹⁴ costing the country 0.66 percent of GDP per year (World Bank 2015a). Combined with soil loss and deforestation, land

¹¹³ Higher spending in these countries is not associated with intensification or productivity improvements, however.

¹¹⁴ www.fao.org/nr/lada/gladis/

degradation costs an estimated 0.82 percent of GDP per year in natural wealth. As a result, rural communities name soil loss among their top constraints. Nonetheless, the current status of Togo's land assets does not explain the country's relatively poor agricultural performance. Using available data, in fact, Togo's soil quality remains comparable to that of its neighbors (Figure 46), and its soil and water resources are fairly good overall (Figure 47). Where Togo is an outlier in the region is in the economic value of land-based ecosystem services (Figure 48), presumably because in such a distorted context for economic activity the country utilizes its resources to produce relatively little value added.

Figure 45: Percentage of Land by Degradation Status

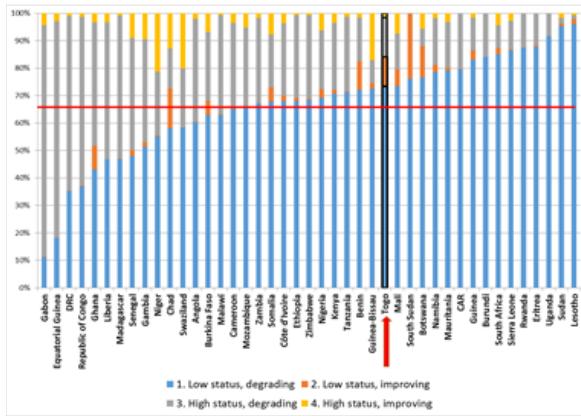


Figure 46: Soil Quality, Togo and Neighbors

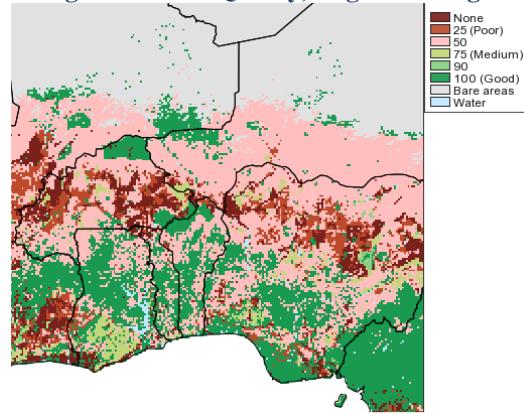
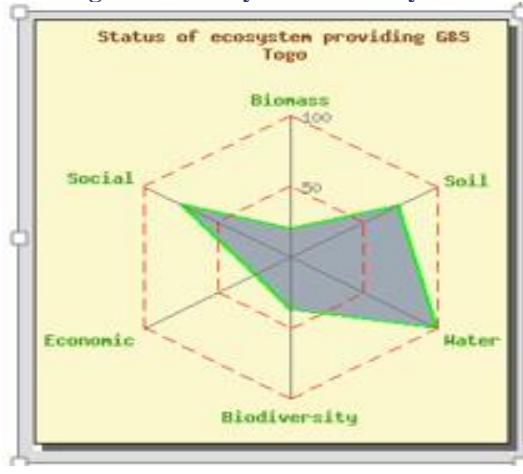
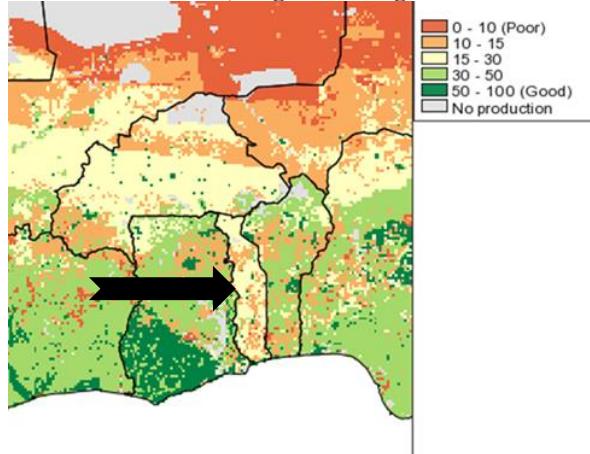


Figure 47: Ecosystem Status by Dimension



Source: FAO GLADIS [2015]

Figure 48: Economic Value of Land Ecosystem Services, Togo and Neighbors



105. **Togo's slow progress in adopting simple, low-cost water control and irrigation techniques constrains income growth and poverty reduction in certain areas of the country.** There are cost-effective systems that improve productivity while also reducing climatic risk, including small-scale collective irrigation schemes that employ water diversion from rivers and small earth reservoirs (which often

have multiple objectives, including the production of rice, vegetables, livestock, and fish). Moreover, simple soil and water conservation technologies can aid in coping with climate variability, particularly in the north of the country. Of particular benefit could be the introduction of partial water control structures in Togo's many small inland valleys. Out of an estimated 185,000 hectares of such valleys, water control technologies are used on just 5,000, mostly for rice production. Their low unit cost per hectare makes it possible to reach more beneficiaries than more expensive systems, and they are relatively simple for local farmers to manage and operate on a sustained basis, thus reducing dependency on external assistance. Conversely, investing in expensive full water control schemes, such as in the existing 2,300 hectares currently equipped but not fully cultivated, does not appear to be as efficient an avenue for food security and poverty reduction in Togo.

106. The successful deployment of irrigation systems requires careful, participatory planning based on knowledge of the landscape and local conditions, integration into product markets, and an enabling policy framework. Preparation requires the establishment and participation of local community institutions to enable the sustainable operation of infrastructure (such as dykes and simple networks of canals and drains), efficient production, environmental protection of the watershed by farmers, and an approach to balancing land rights between stakeholders. Introduction into areas with high population density, adequate water resources, and road access is likely to prove the most viable route.¹¹⁵ An enabling policy framework is also critical to viability and sustainability. The International Water Management Institute (IWMI) has concluded that the overall policy directions captured in Togo's 2010 Water Policy are well suited to these objectives. In particular, the government focuses on overall water resources planning and regulation, whereas management is to be participatory and empower farmers' organizations. Nonetheless, a more fully specified legal and institutional framework that authorizes and supports local initiative may be needed to define the precise roles of various parties in the operation, regulation, management, and financing of irrigation systems. Moreover, measures to improve access to markets, in part by enabling community or private value chain investments and ensuring supportive tax and regulatory policy, must accompany these efforts.

107. The lack of local public goods, such as those that support water control and market access, are important constraints but are heterogeneous and location-specific. Data are not available to fully evaluate the aggregate poverty impact of such constraints. In addition to unexploited water control measures, as discussed in Section 4.6, there are indications that road access in some areas, particularly in the Plateaux region, is also moderately constraining.

108. Although the agricultural sector faces a multitude of challenges, distortions to private economic activity in the sector arising through poor quality regulation and taxation of input and output markets have a high direct cost for producers (Table 23), including in maize and cotton sectors, as well as in commercial agriculture (Test 1). Policy constraints result in a high level of smuggling of seeds, fertilizer, and produce in order to avoid these restrictions (Test 2), as well as a striking scarcity of tax-compliant commercial-scale agriculture and agribusiness (Test 3). In addition, although Test 4 is not possible with the available data, the actions of ANSAT to weaken access to output markets further, particularly noticed by producers in 2011, may explain the decline in rural incomes in that year despite a surplus harvest and rising world maize prices.

Table 23: Tests of Key Constraints: Poor Regulation and Tax Policies in Agriculture

<i>Tests of binding constraints to growth on key pathways</i>	<i>Pass?</i>
High cost to actual or potential enterprise?	✓
Circumvention of constraint evident?	✓
Few actors present requiring alleviation of constraint?	✓
Correlated with growth or investment?	n.a.
<i>And/or adversely affects income of poor people?</i>	✓

n.a. = no test available/inadequate information

¹¹⁵ This process could benefit from a comprehensive mapping of its valley bottoms and the systematic implementation of existing approaches (for example, CIRAD's DIARPA, "Inland Valley bottom consortium," or SMART IV of Africa Rice).

International and Togolese experience both support a positive correlation between some carefully implemented liberalization (with supporting measures) and outcomes in the sector.

Analytical gaps identified:

- The actual or potential returns to research and extension services in Togo, particularly without alleviation of other constraints.
- The full potential for viable irrigation in Togo.

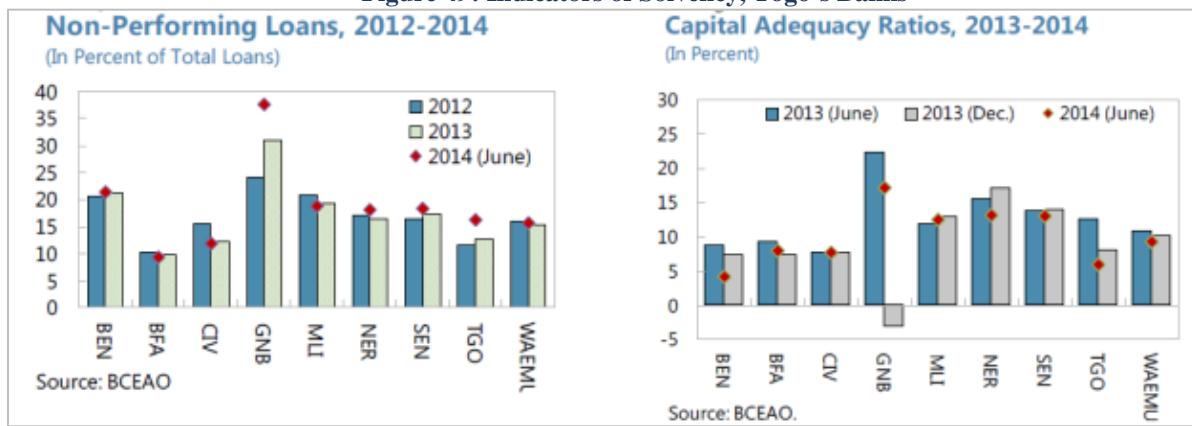
4.7. Is Inadequate Access to Finance a Key Binding Constraint?

Main Messages:

- Host to 15 banks, Togo enjoys a relatively large and competitive financial sector, with the highest lending-to-GDP ratio among low-income SSA countries.
- Microfinance is expansive and serves more clients as a percentage of the population (37 percent) than in any other WAEMU country.
- Risks in the lending environment, unresolved nonperforming assets at one state-owned bank, and inadequate supervision of the microfinance sector raise systemic risks.
- However, there are no indications from available data that inadequate access to financing is a binding constraint to inclusive growth:
 - Neither a low supply of financing, movements in interest rates, nor firms' degree of reliance on financing alternatives indicate that inadequate access to finance is a binding constraint.

109. **A country's financial sector is key to enabling economic activity and ideally allocates resources to the most promising sectors and entrepreneurs.** However, it may fail to perform this role adequately due to a lack of investible funds, poor supervision or regulation, inadequate means to screen borrowers and enforce repayment, or other distortions that affect the availability or allocation of credit. As evidenced in Sections 4.4–4.6, highly distorted private incentives are binding constraints to private investment and entrepreneurship. By reducing the scope of attractive investments, this would in turn reduce the demand for financing. The evidence presented in this section shows that—although imperfect—Togo's financial sector performs reasonably well in meeting this demand, particularly given the risks inherent in Togo's real economy.

Figure 49: Indicators of Solvency, Togo's Banks



Source: IMF 2015b.

110. **Although Togo's financial sector is sound overall, parts of the system exhibit significant fragility.** Two banks remain wholly state-owned (with four others retaining some state ownership), and these appear to still face serious solvency issues; one has been under “*administration provisoire*” for years. The financial condition of some banks has weakened since 2012–2013, with worsening solvency indicators, asset quality, profitability, and liquidity (Table 24). As a result, average capital adequacy ratios are lower and the nonperforming loan ratio higher than the WAEMU average (Figure 49). Enforcement risks are elevated and, as a result, average collateral requirements are high—albeit on par with similar countries—at approximately

235 percent. Disaggregated data are not available to assess the degree to which such issues are driven by poor governance of SOEs or government difficulties in servicing its debts. Outside the banking sector, weak supervision of MFIs represents an additional source of potential instability. The microfinance supervisory body at the Ministry of Finance is understaffed and has not yet implemented a risk-based supervisory approach in line with international best practice. As a result, the ratio of nonperforming loans is relatively high for MFIs (9 percent in March 2015). And according to the *Banque Centrale des Etats de l'Afrique de l'Ouest* (BCEAO), there are approximately 40 MFIs (out of over 80 licensed entities) with financial difficulties as of December 2015—16 with major difficulties.

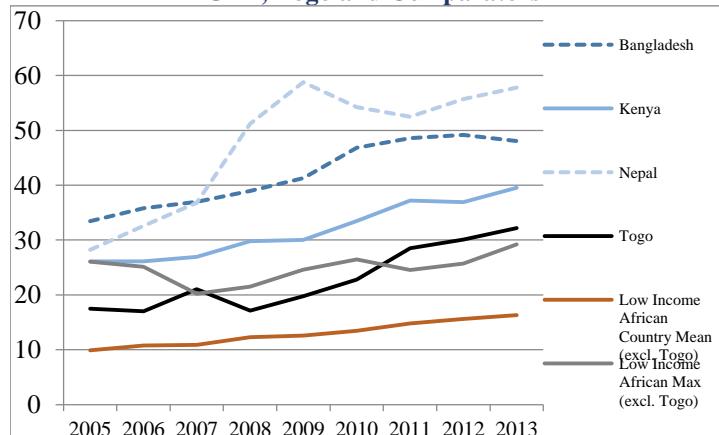
Table 24: Banking System Performance Indicators

	2011	2012	2013	2014	2015
Solvency Ratios					
Regulatory Capital / Risk-weighted Assets	11.7	11.4	11.4	8.5	8.9
Base Capital / Risk-weighted Assets	10.6	9.8	10	7.2	7.5
Asset Quality					
NPLs / Gross Loans	10.9	11.4	12.5	15.4	15.6
Profitability					
Return on Assets	2	1.6	1.6	0.9	n.a.
Return on Equity	13.6	22.9	24	19.4	n.a.
Liquidity					
Liquid Assets / Total Assets	33.4	44.6	43.8	43.5	41.7
Liquid Assets / Total Assets	46.4	65.7	67.3	63.6	58.9

Source: IMF 2015b.

111. When viewed from the perspective of meeting the demand for financing of private economic activities, however, the sector has shown marked development. Bank lending to the private sector has risen to the highest level as a percent of GDP among all low-income SSA countries, though it is lower than in comparator Asian low-income countries (Figure 50).¹¹⁶ Togo now has 15 banks and is home to two major pan-African banking groups, ETI and Oragroup, the country's largest banks in terms of total assets in 2013.¹¹⁷ The sector is

Figure 50: Bank Lending to the Private Sector as Percent of GDP, Togo and Comparators



Source: WD

¹¹⁶ Some of this credit may be for financing of public works under the prefinancing arrangement that has become more common in Togo, whereby private companies undertake these works and borrow from banks, but with a central government guarantee. Nonetheless, the level of bank lending suggests a willingness to finance viable projects.

¹¹⁷ If accurately regulated and supervised, the presence of these two parent banks is not per se a source of additional risk for Togo (cross-border subsidiaries represent the dominant part of these banks' balance sheets) and could support the country's role as financial hub for the region.

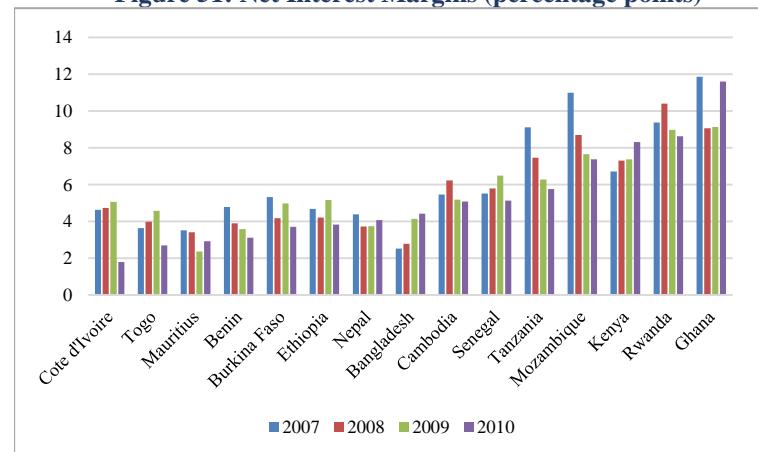
reasonably competitive and efficient, with a low Herfindahl-Hirschman Index of market concentration, at approximately 0.13 on a scale of 0 to 1.¹¹⁸ Net interest margins have been among the lowest of 15 comparator countries, with just Côte d'Ivoire showing lower levels in 2010 (Figure 51). Overhead costs as a percentage of assets are relatively low for an African country, at 3.2 percent, relative to values of 3.9–9.1 for comparator SSA countries except Côte d'Ivoire, and the cost-to-income ratio is lower than for all SSA countries shown except Ghana, Kenya, and Mauritius.

112. Access rates are as high as or higher than for comparator countries.

The number of bank branches per 100,000 adults (3.7) falls in the middle of the range for Africa and close to the level in Cambodia (Table 25). In Togo, microenterprises have similar access to loans and overdrafts as small firms (Table 26). Although use of overdrafts is much higher for medium and large enterprises, differences are attributable in large part to accounting practices: a higher share of micro and small enterprises have overdrafts than have audited accounts, whereas this is not the case for medium and large enterprises (World Bank 2010).

113. Togo's microfinance sector, which serves the informal and agricultural sectors, is relatively well developed. With 85 licensed MFI's, of which 82 are mutual or cooperative societies,¹¹⁹ it also has an estimated 137 MFIs operating without a license, on which no information is available, according to CASIMEC. Licensed MFI's alone lend 5.6 percent of GDP (compared to 2.6 percent in Benin and 1.7 percent in WAEMU), and have 121 billion FCFA (US\$201.6 million) in credit outstanding.

Figure 51: Net Interest Margins (percentage points)



Source: FINSTAT

Table 25: Comparative Indicators of Banks' Reach and Performance, 2012

	Overhead Costs as percent of Assets	Commercial Bank Branches per 100,000 Adults	Cost to Income Ratio
Côte d'Ivoire	2.0		66.7
Nepal	2.0		42.3
Cambodia	2.2	4.0	48.2
Mauritius	2.6	20.8	47.3
Bangladesh	2.8	6.9	42.6
Togo	3.2	3.7	61.7
Senegal	3.9		63.6
Benin	4.5		80.1
Tanzania	4.8	1.8	62.4
Kenya	5.8	4.4	49.9
Mozambique	6.3	3.4	61.2
Ghana	7.2	5.0	54.6
Rwanda	8.1	2.2	69.5

Source: FINSTAT

Table 26: Financial Participation by Size of Firm

	Micro	Small	Med/Large
Percent with deposit account accounts	91	93	100
Percent with overdraft	51	49	74
Percent with LC or loan	15	23	16
Percent with audited account statements	26	36	73
Number of firms	145	81	74

Source: World Bank Enterprise and Microenterprise Surveys 2009.

¹¹⁸ Calculated by World Bank staff using OTR tax declarations data for 2013.

¹¹⁹ Of these, seven are networks with 103 affiliated structures and 75 “caisse unitaires,” plus three associations.

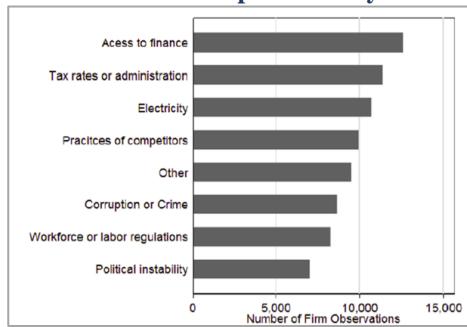
Among comparators, Togo has the highest number of MFI clients as a percentage of the population (Table 27).

114. As a result of Togo's relatively extensive financial sector, firms rate other obstacles as more pressing. In

2009, only 23.7 percent of Togolese firms rated access to finance as the greatest obstacle to doing business, a lower share than in most comparator countries (Figure 52). In 2015, this percentage fell to 11.2 percent (TFFS 2015). Although businesses in other developing countries typically rate inadequate access to finance as the top constraint to doing business (Figure 53), Togolese firms rate taxes and political stability to be equal or greater constraints.

115. Given that credit is relatively accessible, Togolese firms tend to rely less on internally generated resources to finance their businesses than firms in comparator countries do. They self-finance, on average, 70 percent of their investment needs (Figure 54), the lowest among the countries shown, whereas firms from Benin, Cambodia, and Côte d'Ivoire self-finance approximately 90 percent.¹²⁰ Togolese firms also use banks to finance their working capital with a frequency similar to that in the region as a whole, and in the middle of the range among comparator countries (Figure 55).

Figure 53: Frequency of Main Constraints Across Countries According to World Bank Enterprise Surveys



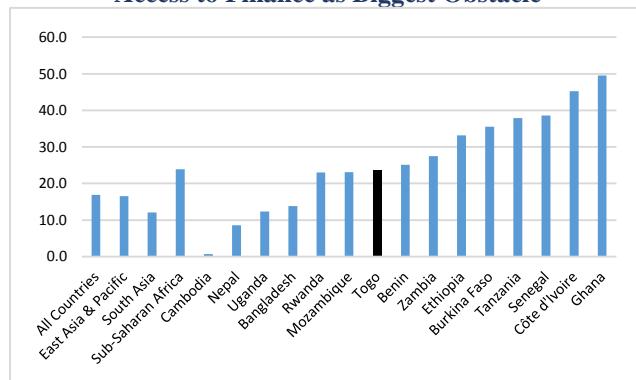
Source: Figueroa and Wagner 2014

Table 27: Microfinance Access and Usage in FCFA Zone

	Number of MFIs per 10,000 population	Branches per 10,000 population	Clients as ratio of population	Deposits per capita (FCFA)	Credit outstanding per capita (FCFA)
Benin	0.05	0.41	0.26	8,635	9,032
Burkina Faso	0.05	0.23	0.13	9,187	6,283
Côte d'Ivoire	0.04	0.13	0.07	7,229	4,962
Guinea-Bissau	0.11	0.10	0.01	142	66
Mali	0.08	0.29	0.12	3,878	5,025
Niger	0.03	0.10	0.02	1,341	1,644
Senegal	0.15	0.38	0.21	15,882	18,366
Togo	0.13	0.72	0.37	22,363	17,743

Source: World Bank staff estimates, using data from BCEAO as of September 2014.

Figure 52: Percentage of Formal Enterprises Rating Access to Finance as Biggest Obstacle



Source: WBES, most recent years available as of 2015.

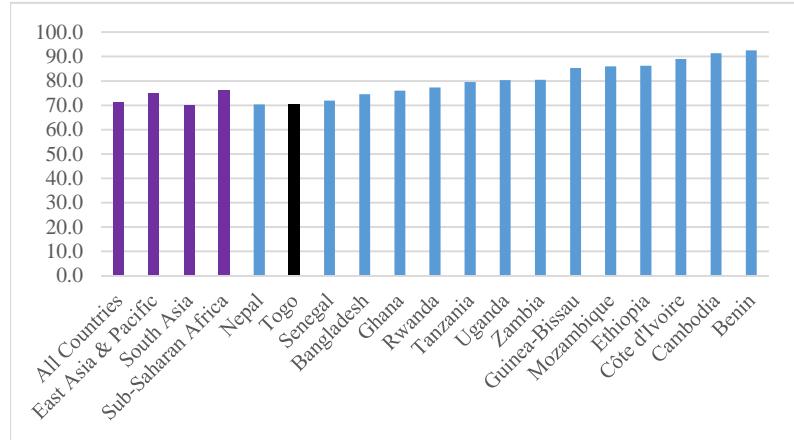
116. **Informal firms have relatively good access to finance.** An estimated 69 percent have accessed credit, with 58 percent of them accessing microfinance, 21 percent loans from family or friends, 8 percent loans from a moneylender, and 2 percent funds from a rotating savings and credit

¹²⁰ This is Test 2 of a binding constraint (Mindbook).

association, or *tontine* (Baseline Informal Firm Survey (BIFS) 2013). Although 29 percent of informal entrepreneurs rate access to finance as their top constraint, only 6 percent had ever had a loan rejected. On average, informal firms are able to borrow over 15 times their monthly sales on short notice, with a median of five times their median monthly sales. Over half reported that they had at least two possible sources of financing, and their average debt-to-asset ratios were high at 356 percent. Moreover, small- and medium-sized informal firms report requesting and receiving loans more frequently than larger firms do. Less than one-third of individuals who had never requested a loan from a bank or an MFI say this is related to procedures and loan conditions. In fact, collateral requirements for informal firms are generally reasonable. Just 39 percent of surveyed entrepreneurs had to provide a physical or monetary guarantee for their most recent loan, and only 10 percent had to provide both. When collateral is required, it represents on average 144 percent of the loan value.¹²¹ Moreover, access to financing and collateral values are likely to improve through the International Finance Corporation's (IFC) efforts to establish private credit reporting in WAEMU member countries through the BCEAO.

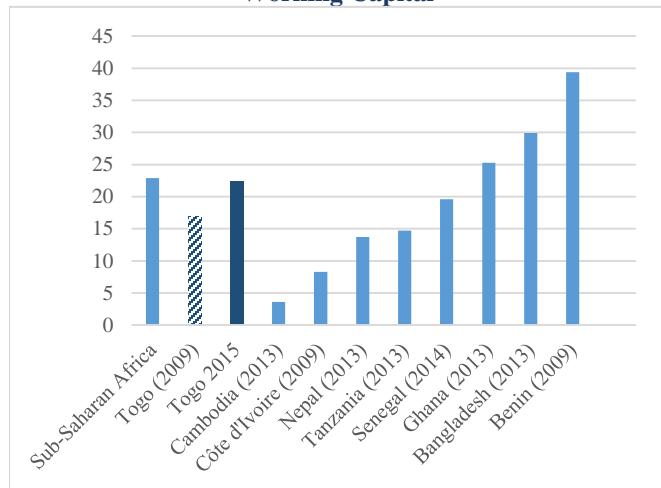
117. Although agricultural producers have access to finance through MFIs and informal credit, commercial banks have provided low and declining amounts of credit to agriculture. As shown in, the level of bank credit provided to agriculture and forestry producers is low as a percent of sector value added, relative to that of Benin and the WAEMU, and has fallen between the decades 1980–1990 and 2001–2012 (Figure 56). While banks must develop the expertise and tools to take agricultural risks, countries with less developed banking sectors and similarly risky weather patterns (such as Benin) have more active bank lending to agriculture, as do other countries in the region with similarly difficult land titling issues. At the same time, it would seem unlikely that Togo's competitive, expansive, and relatively efficient banking sector would be so unusually unwilling to lend to agriculture, if there were bankable projects in the sector. As discussed in Section 4.6, the distortions that affect private incentives to invest in commercial agriculture are

Figure 54: Percentage of Investments Financed through Internal Resources



Source: WBES, latest years.

Figure 55: Percentage of Firms Using Banks to Finance Working Capital



Source: WBES, latest years; TFFS 2015.

¹²¹ MFIs require less collateral than banks, and as a result, micro and small enterprises are generally required to put up less security than larger enterprises.

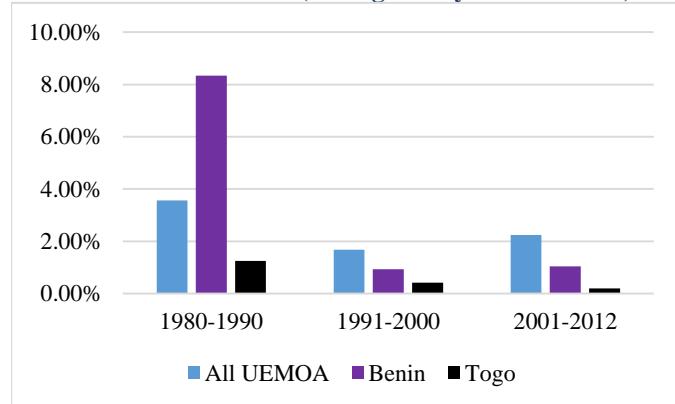
the most likely explanation for these trends. Fortunately, credit is relatively available from nonbank lenders to informal and smallholder agriculture (Section 4.6).

118. In addition to access, the cost of finance is a potential issue. Until very recently, lending interest rates in Togo were in line with or less than those in other WAEMU countries (Figure 57). Only in 2013 did the BCEAO report a rise in Togo's bank lending rate above that in the other countries, to 12.5 percent. This reflects both higher spreads and an increased cost of funds, as would occur with greater risk in the system or increased demand for funds relative to supply.¹²²

119. Over time, however, co-movements of interest rates and lending volumes in Togo are not consistent with constraints to the supply of financing driving investment levels. If the lack of supply were more limiting than demand-side factors, in periods when the supply of credit was higher relative to demand, interest rates would fall and lending (and the associated investment) would rise, inducing a negative correlation between interest rates and lending. In Togo, for the few years where data are available, in periods with lower real interest rates, lending is instead lower (and the correlation positive). This suggests that shifts in the demand for credit are a more dominant determinant of interest rates and lending levels than are shifts in supply of loanable funds (Figure 58).¹²³

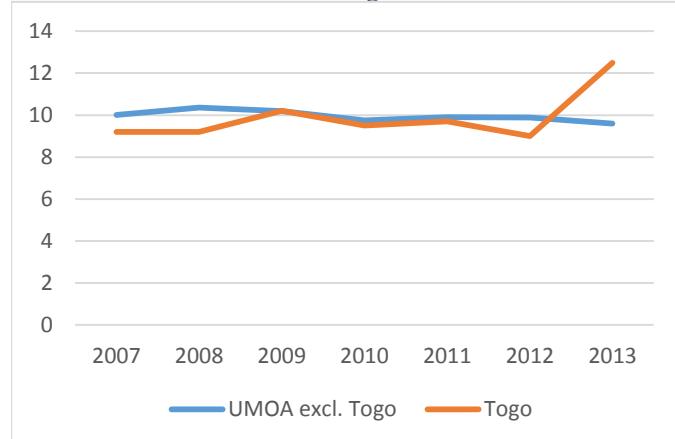
120. Togo's banking and MFI sectors face solvency issues and systemic risks, and the cost of financing has risen recently with perceived risks in the real economy. After reasonably successful reforms, however, Togo's financial sector has expanded rapidly and serves most sectors of the economy well, given the risks inherent in the investment climate. Although there are undoubtedly many entrepreneurs who wish to access more financing at a lower price, this is normally the case even in countries with highly developed financial sectors. To review potential binding constraints in the area of finance (Table 28), the supply of financing is relatively high in Togo, and the costs of financing are broadly similar to those of other regional financial sectors (Test 1). There is no sign that firms resort to unusual or costly measures to

Figure 56: Credit to Agriculture and Forestry as Percent of Sector Value Added (averages for years available)



Source: BCEAO

Figure 57: Nominal Interest Rates, UMOA and Togo Averages



Source: BCEAO 2013

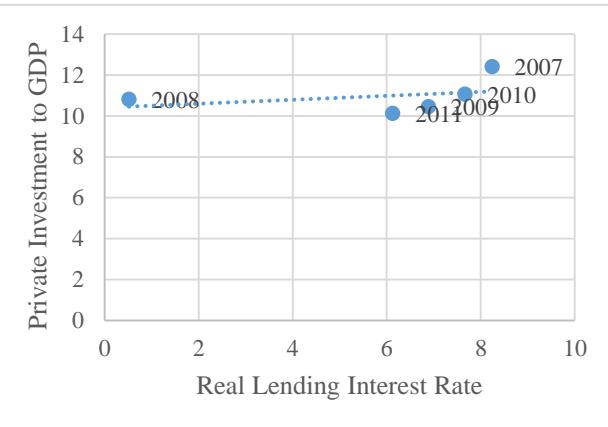
¹²² This could have been the result of heightened political risk in that year, when the main marketplaces of Lomé and Kara were burned down. The banking system was adversely affected by the uninsured business losses and worsening confidence in the business climate.

¹²³ This is a test proposed by HKW.

circumvent the requirements of lenders, such as by using internal resources to an unusual degree (Test 2), and no sign that firms requiring a high amount of financing (such as those in capital-intensive industries) are scarce (Test 3). In addition, correlations between interest rates and lending are consistent with demand for financing being the most limiting factor (Test 4). Thus, no available indicators provide support for the lack of finance as a binding constraint to growth and poverty reduction in Togo.¹²⁴

121. Given the results of Sections 4.4–4.7, the diagnostic framework can be further elaborated (Figure 59). The remaining potential constraints to be evaluated are those in specific areas of public service delivery—in particular, infrastructure services, human capital, and related social services, all of which can in principle affect both growth and inclusion.

Figure 58: Real Lending Interest Rates and Private Investment to GDP



Source: BCEAO and WDI.

Table 28: Tests of Key Constraints in Finance

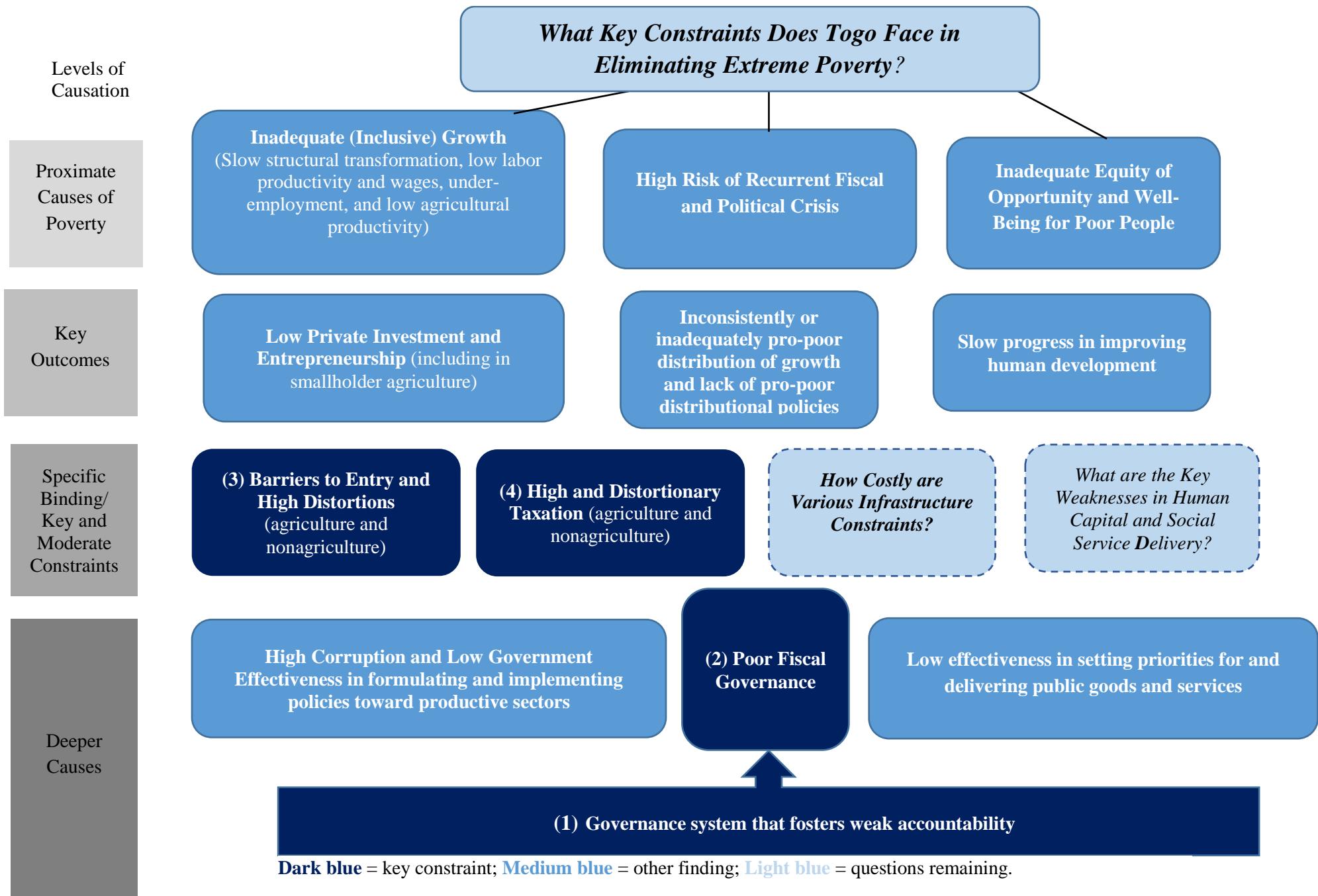
<i>Tests of binding constraint to growth on key pathways</i>	<i>Pass?</i>
High cost to actual or potential enterprise?	-
Circumvention of constraint evident?	-
Few actors present requiring alleviation of constraint?	-
Correlated with growth or investment?	-
<i>And/or: adversely affects income of poor people?</i>	n.a.

- = does not pass test

n.a. = no test available/inadequate information

¹²⁴ These findings are consistent with the results of a World Bank growth diagnostic conducted as part of a Country Economic Memorandum (World Bank 2010) and an Investment Climate Assessment using 2009 data.

Figure 59: Diagnostic Results 2



4.8. Moderate Infrastructure Services Constraints

Main Messages:

- Low effectiveness in the allocation of public investments and in governing infrastructure sectors has adversely affected the quality of Togo's infrastructure services.
- In particular, the poor quality and high price of electricity and ICT services represent moderate constraints to inclusive growth.
- Without continual improvement in logistics efficiency, moreover, Togo cannot be guaranteed a competitive advantage as a transport hub for the region.
- A lack of adequate rural roads may be moderately constraining in some areas of the country, especially Plateaux.
- Serious shortfalls in water service impede well-being, and in some cases contribute to the country's severe health and disease burden (Section 4.10).

122. **Togo's governance challenges are manifest in major inadequacies in the country's infrastructure services.** Following a decline in donor support beginning in the 1990s, the level of public investment (traditionally financed at 80 percent by donors) dropped from 13.8 percent of GDP in 1990 to only 1.1 percent in 2003 (World Bank 2015a). These levels have since rebounded, with especially large recent investments in road and port infrastructure, but also in water and electricity. Yet as demand for these services increases, important deficits remain. These are likely to vary by region, as there appears to have been a skewed allocation of public investments and services within the country. The Savanes and especially the Kara regions have in recent years received a disproportionately large share of public investment relative to their populations (Table 29).

Table 29: Percentage of Investment by Region 2009-2014

	Percentage of Regionally-specific Investment	Percentage of Population	Ratio
Maritime	8.8%	14.9%	.59
Plateaux	3.4%	23.5%	.14
Centrale	1.1%	10.3%	.11
Kara	5.8%	12.8%	.45
Savanes	31.1%	12.5%	2.49
Lomé	49.7%	26.0%	1.91

Source: République Togolaise (togoreforme.com)

123. **Togo's infrastructure constraints span both rural and urban areas, with varying degrees of severity.** At 4 percent per year, urban population growth rates in Togo are among the highest in the world. Currently, about 2.9 million people (or about 40 percent of the national population of 7.2 million) live in urban and peri-urban areas. Most of the urban population is concentrated in metropolitan Lomé, where population density is relatively high at 8,341 people per square kilometer (AfDB 2015). More than 60 percent of Togo's urban population lives in slums (AfDB 2015), which suffer from poor water and sanitation services, as well as higher risks of flooding due to inadequate drainage and other preventative investments. Infrastructure services in secondary cities and rural areas are also generally inadequate, and those that pose the most binding constraints vary by locality. The remainder of this section assesses which deficits are most constraining for growth and for inclusion.

4.8.1. Transport Infrastructure and Services

Main Messages:

- Recent investments in Togo's port facilities represent a significant positive opportunity as long as service quality and price competitiveness are maintained.
- There are no clear indications from a benchmarking of road infrastructure and indicators of demand for road service that inadequacies in Togo's road network pose a binding constraint to growth.
- However, in one region in particular, Plateaux, there are signs (higher traffic and worse road conditions) that inadequate roads are at least moderately constraining.
- Togo could take further advantage of its comparative advantage as a transport hub by improving regulation of trucking services, enhancing port efficiency, and reducing unnecessary roadblocks.

124. The quality of Togo's transport and logistics services will have a major effect on its ability to leverage its geographic position and connect people to markets, public services, and employment opportunities. Togo's unique capacity in the subregion to accommodate third-generation Panamax ships gives it a comparative advantage as a hub for sea-to-sea transport. The Togolese government, with the support of donors, development financial institutions like IFC, and private partners, has invested heavily in transport infrastructure. The existing *Port Autonome de Lomé* (PAL) was expanded recently, with works to add berth and yard space beginning in 2011 and a new 35-year concession becoming operational in 2014.¹²⁵ In addition, a greenfield multiuser terminal, the Lomé Container Terminal (LCT), was concessioned in 2008, built under a build-operate-transfer arrangement, and opened at the end of 2014.¹²⁶ When Mediterranean Shipping Company (MSC), co-owner of LCT, shifted its regional hub to Lomé at the end of 2014, it reorganized its entire Asia–West Africa trade service to concentrate all traffic through Lomé. As a result, statistics for the first half of 2015 for the port of Lomé show that gateway (domestic and transit) traffic increased by 5 percent, whereas transshipment multiplied by 6, compared to the first half of 2014 (World Bank 2015c).

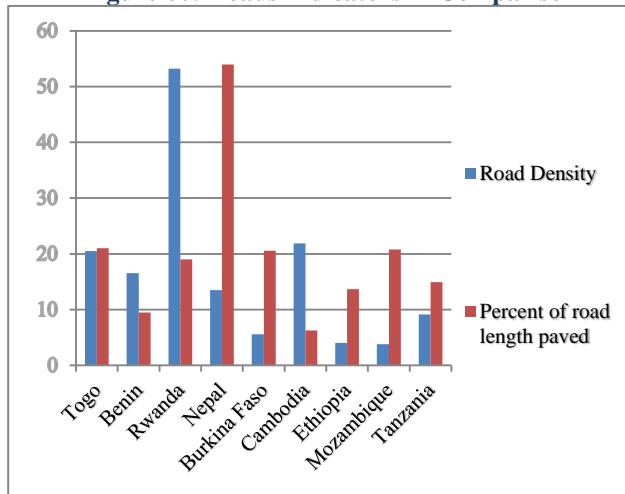
125. In addition to port infrastructure, the Government of Togo has placed a high priority on improving road infrastructure. For sea-to-land transit, Togo must compete with countries in the region to provide adequate overland infrastructure. Thus, coupled with a road sector strategy that includes improvements to road maintenance, the government is making sizeable investments in both urban and international road corridors, notably along key (North-South and East-West) international trade corridors. Today Lomé's main roads are also in excellent condition. Moreover, a benchmarking of aggregate indicators does not suggest that there is currently a binding deficit in national road infrastructure. Road density per square kilometer is similar to or greater than that of all other comparator countries, with the exception of Rwanda, a country with much greater population density (Figure 60). When viewed relative to population, Togo's road density is similar to that of Benin and Tanzania, and better than that of four other comparators,

¹²⁵ The PAL in Togo is the only port along the West African coast with a natural depth of 14 meters. In 2010, Bolloré Africa Logistics (BAL) was awarded the concession to operate the container terminal Togo Terminal. In March 2011, the extension work for Togo Terminal was launched, for an additional quay of 450 meters and 16 hectares of yard space, which became operational in October 2014.

¹²⁶ LCT is owned by Thesar Maritime Limited/MSC, and China Merchant Holding holding 50 percent each. The duration of the concession is 35 years, with an option for 10 more years. The second phase of the development of LCT will enable it to reach a capacity of 1.65 million TEUs by end of 2016.

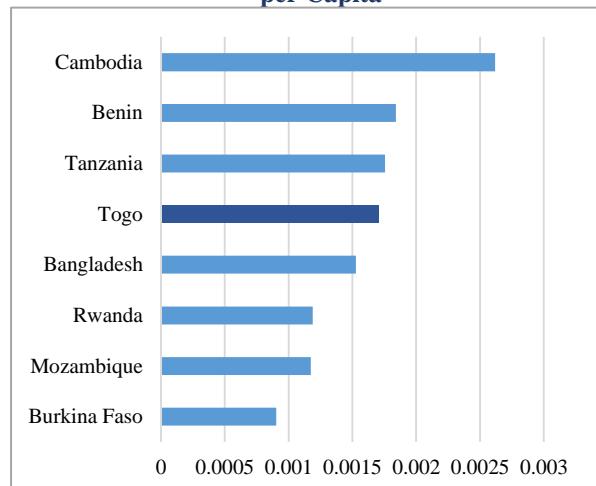
but some distance behind Cambodia (See Figure 61). Moreover, the percentage of the road network which is paved is similar to or higher than comparators (with the exception of Nepal. Figure 60).

Figure 60: Roads Indicators in Comparison



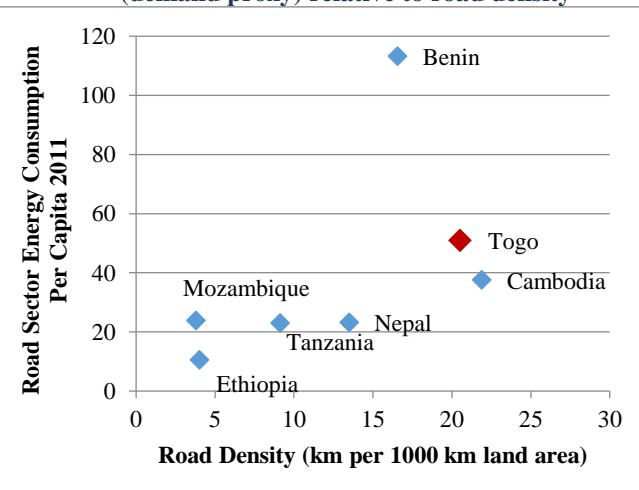
Source: WDI (years are latest available, and range from 2004 to 2011; figures for Togo are for 2007, but match numbers provided through other sources for 2012).

Figure 61: Road Network Density (kilometer of road per Capita)



Source: WDI, latest available years.

Figure 62: Energy Consumption per Capita in Road Transport (demand proxy) relative to road density



Source: WDI (years for road density are as above and for energy consumption are for 2011)

126. **The provision of national and regional road infrastructure appears nearly adequate to meet demand.** Low average daily traffic levels (under 1,000 vehicles per day) suggest low demand for road service on some national routes (Table 30).¹²⁷ Moreover, energy consumption per capita in Togo's road transport sector is similar to all comparators, relative to their road densities, with the exception of Benin (Figure 62). Since the adequacy of road infrastructure is by definition location-specific, however, this benchmarking provides only a general assessment of the extent to which the government may have under-delivered road infrastructure at the national level.¹²⁸

¹²⁷ Economic viability depends on the costs of the road, as well as the time and cost savings associated with these levels of traffic, and must be studied for each road in the context of the whole network.

¹²⁸ Here “under-delivered” means relative to the efficient level, where the investment pays in terms of economic benefits to local communities and the country.

Table 30: Average Annual Daily Traffic on National Routes (Simple average of 17 counting station traffic counts) 2012

Region	AADT
Maritime	5947
Plateaux	1863
Centrale	386
Kara	639
Savanes	1075

Source: AZ Consult and DECO-IC cited in *Elaboration de la Stratégie Nationale de Développement des Transports au Togo*.

indicator (Table 32). Despite being the poorest region, Savanes has the highest percentage of rural roads rated in good condition (46.7 percent), whereas Plateaux has the lowest percentage in good condition (11.3 percent) and the highest in bad condition (62.8 percent). Outside of coastal Maritime, Plateaux has the highest traffic levels on national routes, indicating high demand for road access (Table 30). Although by international standards traffic levels are low in all regions of Togo, the combination of privately provided

Table 31: Road Network Characteristics by Region

Road types	ADMINISTRATIVE REGIONS					
	Maritime	Plateaux	Centrale	Kara	Savanes	Total
National Roads (paved) km	374	528	348	361	183	1,794
National Roads (unpaved) km	268	338	88	315	259	1,267
Classified Rural roads (created by the state)	209	180	172	309	22	892
Nonclassified rural roads (Created by private companies)	645	2,931	722	884	728	5,910
Urban roads	1056.1	271	150	201	105	1,783
Total km	2551.4	4246.8	1479.6	2070.8	1323.5	11,672
Percentage (%)	22%	36%	13%	18%	11%	100
Area (km ²)	5,668	16,920	13,590	11,749	8,673	56,600
Km road/100 km ² area	45.01	25.10	10.89	17.63	15.26	20.62
Without urban roads	26.39	23.50	9.79	15.91	13.74	17.43
Km road/1,000 population	1.01	2.94	2.33	2.63	1.72	1.90

Source: DGTP (Direction Générale des Travaux Publics) January 2008 cited in *Elaboration de la Stratégie Nationale de Développement des Transports*

*Note: Data are adjusted based on recent road construction /repair done between 2008 and 2012.

roads, poor road quality, and higher traffic suggests that a lack of adequate road infrastructure is at least moderately constraining in this region of high agricultural potential.

128. The adequacy of rural feeder roads is unclear from the data available. Approximately 60 percent of rural communities have all-season main access roads (Table 33), a share that is not unusual in the region. It is not possible, however, to estimate the economic costs of poor access in the rainy season without more data and a road-by-road evaluation. Nonetheless, according to a recent estimate, a reinvestment of

approximately US\$50 million is needed to rehabilitate rural roads that are in bad condition—a significant but not tremendous amount in an economy of over US\$4.5 billion.

129. The quality of transport and logistics services does not depend only on infrastructure, but also on the efficiency and cost of service at the nation's seaports, air terminals, and land borders, as well as the ease of passage on roads within the country. Togo's comparative advantage in providing port services is an important one, but not guaranteed. Other factors affect the cost and quality of port services, and therefore the choice of Lomé for maritime transit. Regional ports such as Abidjan, Cotonou, Tema, and Lagos have been upgrading their services and have provided some competition with Lomé, and Togo's market share depends largely on the decisions of large shipping conglomerates, such as MSC. Moreover, the quality and price of service at ports can suffer due to concentration among terminal operators. Bolloré Africa

Table 32: Condition of Rural Road Network by Region

REGION	Good (km)	Fair (%)	Fair (km)	Bad (%)	Bad (km)	TOTAL (km)	TOTAL (%)
SAVANES	350	46.7%	239	31.9%	161	750	11.0%
KARA	560	29.3%	355	29.8%	278	1193	17.5%
CENTRALE	320	39.1%	417	46.6%	157	894	13.1%
PLATEAUX	810	11.3%	346	11.1%	1955	3111	45.7%
MARITIME	510	41.0%	169	19.8%	175	854	12.6%
TOTAL	2550	37.5%	1526	22.4%	2726	6802	100%

Source: DGTP (*Direction Generale des Travaux Publics*) cited in *Elaboration de la Strategie Nationale de Developpement des Transports au Togo*.

NB : Good : Roads rehabilitated between 2009 and 2013

Fair: Roads maintained between 2009 and 2013.

Bad: Roads not maintained.

Logistics (BAL) and APM Terminals (APMT) handle a persistently high share—currently 78 percent—of container throughput in the sub-region, including at PAL (World Bank 2015c). It is likely that this market concentration is an important reason for high container handling charges in West Africa generally, which do not appear to be fully in line with service quality, costs, and investments (World Bank 2015c).¹²⁹ Currently, however, Lomé's port charges appear reasonable relative to others in the region (Figure 63). Moreover, competition is possible there between PAL and LCT given high volumes, making quality and price improvements more likely (World Bank 2015c). The government is planning to introduce more efficient customs and risk-based inspection systems, which will also improve port efficiency.

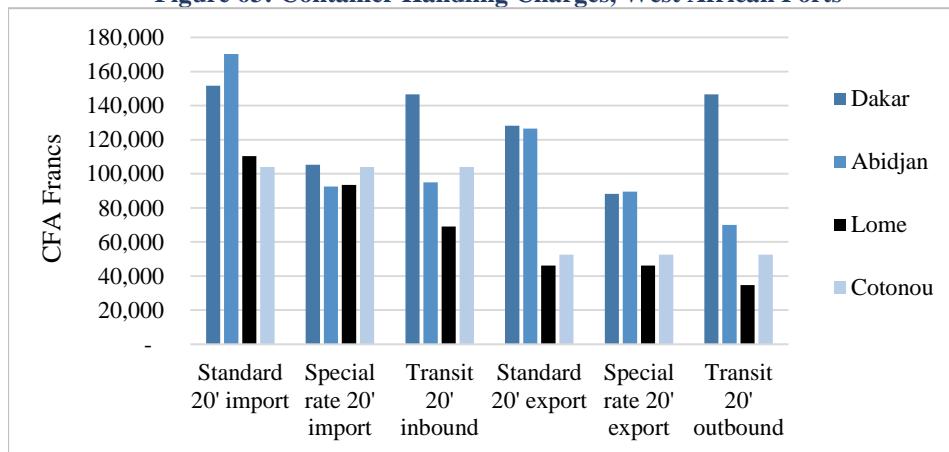
Table 33: Passable Main Access Roads in Rural Communities

	Dry Season Only	All Season
Percentage of Communities		
Maritime	40.8%	59.2%
Plateaux	38.9%	61.1%
Centrale	34.7%	65.3%
Kara	42.3%	57.7%
Savanes	35.6%	64.4%
Total	38.2%	61.8%

Source: République Togolaise 2013

¹²⁹ Within the region generally, port pricing practices were inherited from SOEs that had served as a source of cash for privileged interests, and governments have tended to favor concession deals with larger concession fees for the government rather than lower tariffs for users when privatizing their container terminals. While fees have not fallen with these concessions, the quality of service and efficiency nonetheless appear to have risen.

Figure 63: Container Handling Charges, West African Ports



Source: World Bank 2015c

130. **Similarly, the benefits of road infrastructure depend on efficient and smooth passage on roadways and at border crossings.** A high number of unnecessary checkpoints (TFFS 2015) slows Togo's road service: 95 percent of formal businesses report multiple internal checkpoints within a 100 km distance when transporting goods, and vehicles must spend an average of 43.6 minutes at each post (TFFS 2015). The full economic costs of transport increase with these delays; they tie up trucking assets and increase the price of transport services, while also depreciating goods in transit. Another factor inhibiting efficient service is Togo's queuing system for allocating road freight business among transport companies. Under this system, freight assignment is based on place in the queue rather than competition on price or quality, and prices are centrally negotiated.¹³⁰ As demonstrated by Teravinthorn and Raballand (2009) and Osborne et al. (2014), road freight charges are higher where competition is restrained. In Africa, the lowest-price transport services on major corridors have been those on which there has been international competition—in particular, on the Zambia–Durban corridor. Nonetheless, this issue does not appear to represent a binding constraint at present; Togo's road freight pricing of approximately 40 FCFA per ton-kilometer is competitive with that of other coastal countries that also have the queuing system, although it is not with coastal countries without such a system (according to the Doing Business indicator on *trading across borders*).

131. **Inadequate transport infrastructure and services do not appear to pose a binding constraint to growth, given Togo's recent upgrades to its transport systems.** However, there remains a key gap in our understanding of the degree to which market power by shipping lines and terminal operators, unnecessary roadblocks, and limited road access in specific rural areas act as barriers to reducing poverty, whether by raising the general cost of living or by making Togolese exports less competitive.¹³¹

Analytical gaps identified:

- The effects of pricing behavior by shipping companies on Togo's competitiveness.
- The degree to which a lack of rural roads is a constraint (by locality).

¹³⁰ Without more study, it is unclear to what extent the sector adheres to the queuing system.

¹³¹ Traffic levels are not always an indicator of demand for or economic value of a road in rural areas with very poor access, and detailed data on transport costs, potential time savings, and responsiveness of producer prices and labor market participation to these variables would be required.

4.8.2. Costly and Unreliable Electricity Provision

Main Messages:

- Togo's electrification rates have kept pace internationally, reaching close to 50 percent (QUIBB 2015), and supply and generation appear to be adequate and exceed those of comparators.
- Reliability of electricity service is poor, but similar to other SSA countries and better than that of Ghana and other comparators.
- However, the high price of service is a serious constraint to competitiveness, particularly for Togo's manufacturing companies.
- Poor governance of Togo's electricity distribution company and a lack of independent regulation of the sector have undermined its ability to operate efficiently and in a financially sustainable manner, despite high charges.

132. **The overall performance of Togo's electricity sector has been broadly on par with regional comparators.** In the past, Togo had kept pace in providing access, with national electrification rates similar to those of many SSA countries (Table 34). According to internationally comparable data, coverage reached 27 percent in 2011 and showed higher rural electrification rates than in other low-income countries, at 21 percent (with Benin at 6 percent, Tanzania at 4 percent, and Uganda at 7 percent).¹³² Electrification rates are higher in some neighboring countries—in particular, Ghana at 72 percent and Côte d'Ivoire at 59 percent—especially in urban areas (WEO 2014), but this is to be expected given their higher income levels. Household-

level data from 2015 show a significantly higher rate of electrification, at 37.9 percent in 2011 and 47.9 percent in 2015 (Figure 64). Togo's consumption of electricity per capita is also high relative to income per capita (to the right of the curve in Figure 65) at 0.15 megawatt-hours (MWh) per capita compared to Benin, for example, with 0.09 MWh.

Table 34: Internationally Comparable Recent Electrification Rates (2011)

	Electrification rate	Urban	Rural
Ghana	72	90	52
Cote d'Ivoire	59	85	32
Senegal	57	88	33
Eritrea	32	86	17
Benin	28	55	6
Togo	27	35	21
Ethiopia	23	85	11
Zambia	22	51	3
Mozambique	20	55	5
Tanzania	15	46	4
Uganda	15	55	7
Burkina Faso	13	39	4
Malawi	7	37	1
Other sub-Saharan Africa	13	34	4

Source: IAEA 2013

133. **As a small country, Togo has rightly relied on intraregional trade in power to serve its electricity consumers.** Togo's economy has benefited from its membership in the West African Power Pool, especially given the lower cost of subsidized electricity from Nigeria and Ghana. Electricity is supplied through the *Communauté Electrique du Benin* (CEB), an organization that is co-owned by Togo and Benin and charged with developing electricity infrastructure in both countries. The CEB is exclusively responsible for purchasing and transmitting power according to the

¹³² The Ministry of Mines and Energy estimated the level of rural electrification at less than 5 percent in 2010, much lower than the IAEA estimate in 2013.

Benin-Togo Electricity Act. The *Compagnie Energie Electrique du Togo* (CEET) is charged with the distribution and sale of the electricity in Togo.

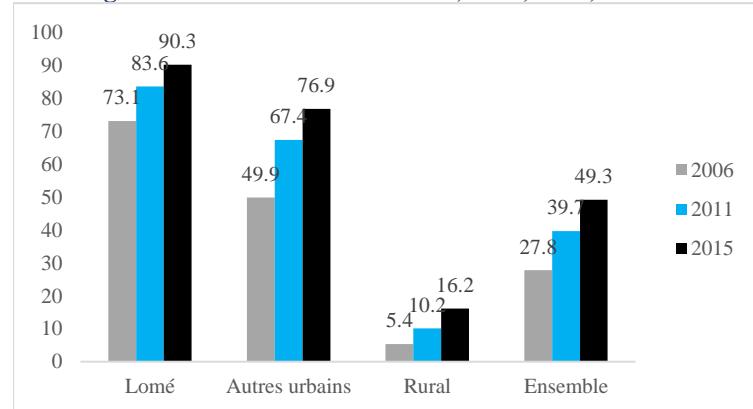
134. The sector has been expanding, and generation capacity is adequate to meet current demand.

A thermal generation plant developed by ContourGlobal Togo, commissioned in 2010, and hydro and gas generation projects underway will help reduce average costs, while also shielding the sector somewhat from supply disruptions.¹³³ Since it has

started operations, ContourGlobal Togo has not been fully utilized, indicating that Togo now has excess generation capacity and may export power within the power pool.

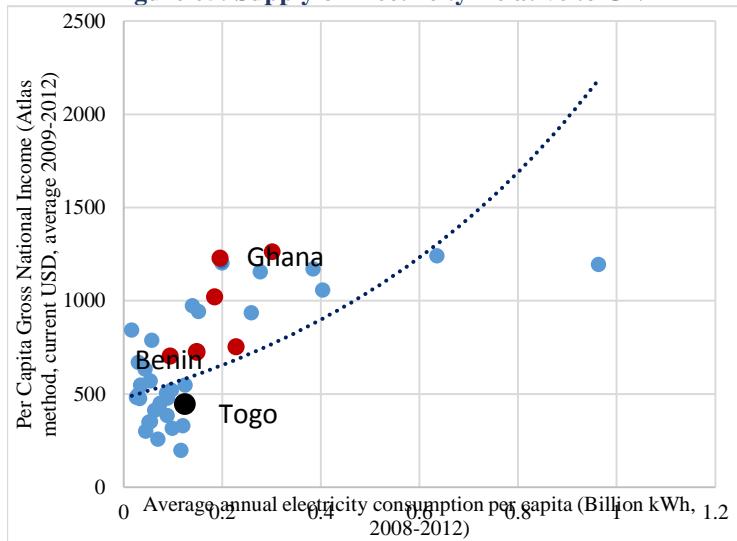
135. As is typical for the region, power cuts remain an important issue. In 2015, approximately 25 percent of businesses reported power cuts for more than 20 percent of business hours, and 56.7 percent of businesses had cuts for less than 20 percent of operating hours. A mere 16.5 percent of formal businesses had not experienced electricity cuts in the past year (TFFS 2015). Given this problem, a high percentage of firms own or share a generator. In 2015, this percentage (for firms comparable to those in the WBES) was slightly lower than in 2009, at 49 percent. This is a level similar to that for SSA generally and higher than that in Benin and Côte d'Ivoire, but notably lower than in Ghana, Cambodia, Nepal, and Senegal (Figure 66). Moreover, half of all firms always use their generators during power outages, and 16 percent use them often (TFFS 2015). Finally, Togolese firms report slightly higher losses due to outages as a percentage of sales than is typical for the region, at 6.2 percent, albeit much lower than for Ghana and Nepal (Figure 67). A relatively high share of Togolese firms consider problems with electricity (both cost and reliability) to be a major constraint (Figure 68). Yet only 1.3

Figure 64: Rate of Electrification, 2006, 2011, and 2015



Source: QUIBB

Figure 65: Supply of Electricity Relative to GNI



Source: IAEA and WDI

Note: Sample includes all countries with per capita income less than or equal to that of Ghana, excluding outliers.

¹³³ Disruptions are caused by hydrological conditions, operational constraints, and unavailability of gas, emanating from Nigeria and Ghana (World Bank 2013). In spite of excess capacity in Togo, the governments of Togo and Benin are planning several new generation projects, including CEB's hydroelectric dam at Nangbéto (Benin), one gas turbine project in the Lomé, and one in Cotonou. However, there is no functioning merit order in the existing binational system with respect to gas supply and power dispatch.

Figure 66: Use of Own Generation, Formal Firms, All Sectors

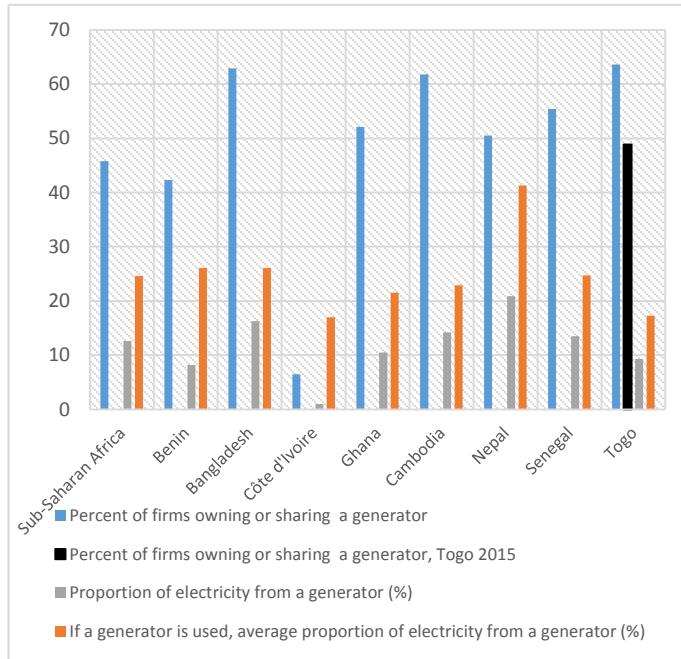
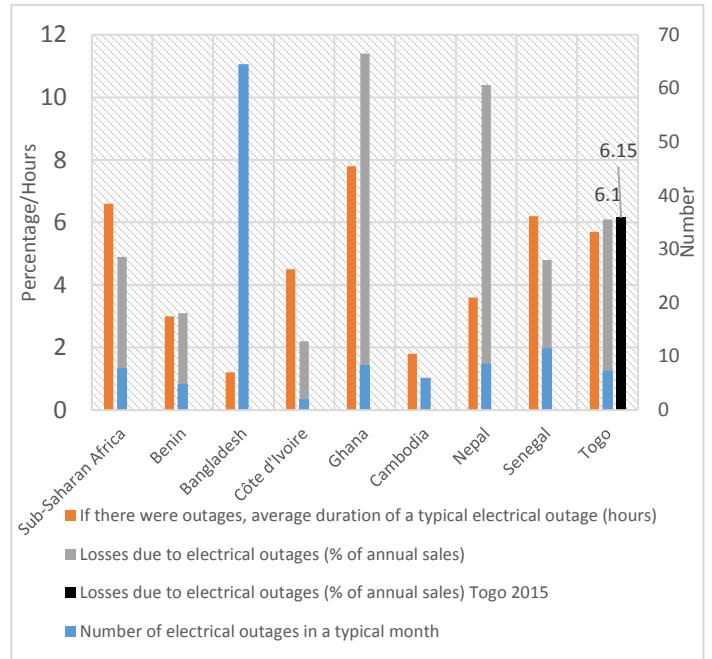


Figure 67: Outage Related Losses, Formal Firms, All Sectors

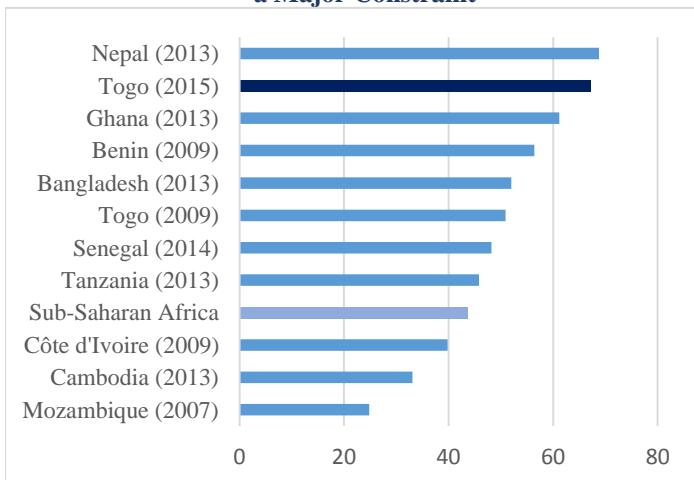


Source: WBES (latest years and WBES-equivalent sub-sample from TFFS 2015)

percent of firms rate electricity outages as their greatest obstacle, and 2.4 percent as their second-greatest obstacle, perhaps because they utilize own-generated electricity when needed.

136. **The price paid for electricity appears to be the deficiency in Togo's electricity system that is most costly for users—particularly for manufacturing companies.** Whereas only 10 percent of all formal firms list the cost of electricity among their top two constraints, 41 percent of manufacturing firms do so (Figure 69). To the extent that Togo charges high prices for electricity to cover minimum long-run average costs, this would allow the sector to expand and improve quality of service. Togo's electricity sector does not operate near to this efficient cost, however, due to weak sector governance and underperformance of the distribution sector.

Figure 68: Percentage of Formal Firms Claiming Electricity as a Major Constraint



Source: WBES (latest years) and TFFS 2015

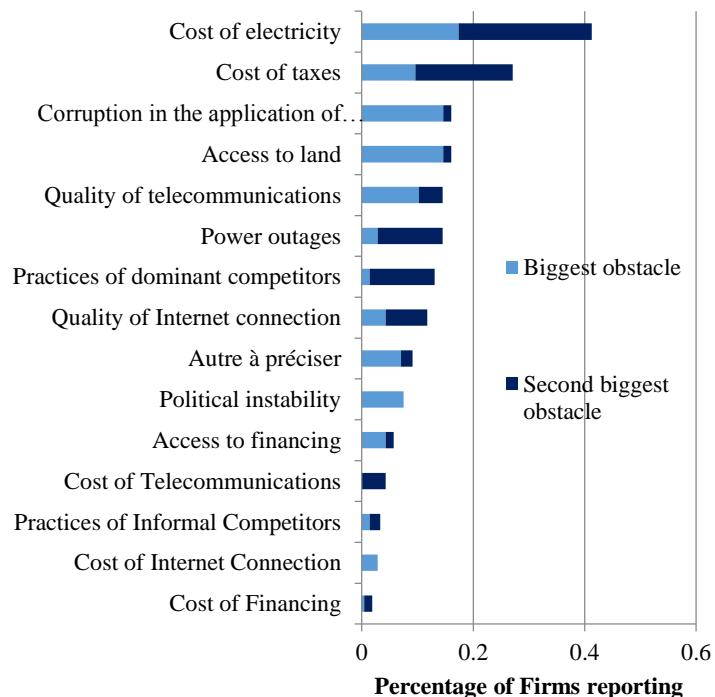
A recent audit report put the utility's losses at over US\$30 million dollars, which the central government will presumably need to cover. Although current data are not available, it appears that costs are inflated in part due to pressures to add unnecessary staff to the company's rolls.

137. Usage costs are generally higher for manufacturing firms. Electricity tariffs are differentiated by type of user, and *zone franche* consumers receive a discount of approximately 40 percent, according to BCEAO. Comparing published usage charges for these users with benchmark countries, Togo rates in the middle at 18 cents (Figure 70). When all fixed fees, tariffs, taxes, and capacity charges are factored in, however, formal firms pay, on average, 146 FCFA per kilowatt-hour (kWh); at 2014 exchange rates, this equals 29.5 US cents. Indeed, manufacturing firms reported paying on average 45 cents per kWh at the applicable 2014 US\$ exchange rate (TFFS 2015; WDI) and a median of 33 cents. This is excessive for grid-based power, especially given that many

countries provide discounts to high-volume consumers. The impact on firms' viability is significant. If manufacturers' average electricity costs were reduced to the average for all firms, their pretax return on assets would increase from 23 to 37 percent and after-tax profits from 3 to 17 percent (as calculated by World Bank staff, using TFFS 2015), based on estimates of the elasticity of ROA with respect to average electricity prices paid.¹³⁴

138. Governance of Togo's electricity sector has harmful implications for its financial sustainability, operational performance, and ability to attract new investment. Although generation investments have been made, Togo's electrical distribution network has deteriorated due to a lack of maintenance and investment, leading to severe voltage drops and high levels of technical losses. The electricity regulator, *L'Autorité de Réglementation du Secteur de l'Électricité* (ARSE), is embedded in the Ministry of Mines and Energy and thus has limited independence, as well as low capacity. Moreover, without sufficient autonomy and a clear commercial orientation, CEET is unable to focus on cost efficiency and financial discipline. Despite charging high prices, CEET still receives a government subsidy.¹³⁵ Corruption in the customer interface is a major issue as well; 20 percent of sales are subject to fraud,¹³⁶ and a high share of firms (38 percent) say that a bribe was expected to obtain an electricity connection (WBES 2009).

Figure 69: Two Greatest Obstacles for Manufacturing Firms (formal firms reporting in 2015)



Source: TFFS 2015

¹³⁴ Based on a regression of ROA on the capital-labor ratio, price paid for electricity, and sector and town indicator variables. The price of electricity was negative and significant at the 10 percent level.

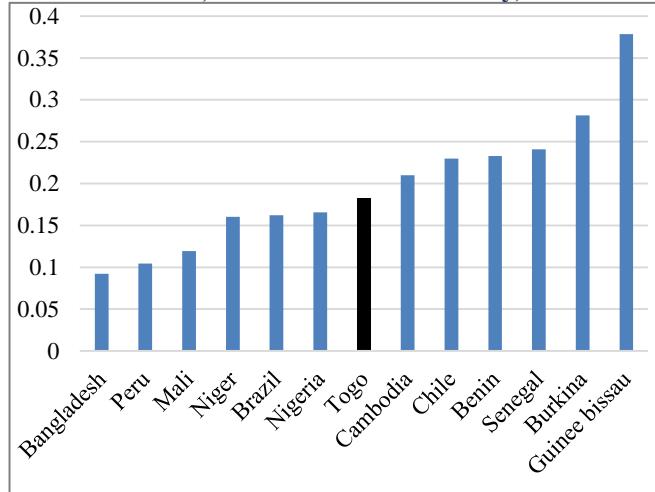
¹³⁵ In particular, it appears that, because of issues related to working capital and given the current level of oil prices, CEET prefers to buy power "at credit" from CEB at a higher price than the marginal cost of power generated by ContourGlobal Togo, thereby accruing increasingly high arrears to CEB. This raises concerns regarding the existence of a functioning merit order in the country and CEET's long-term financial sustainability.

¹³⁶ <http://news.alome.com/h/79182.html>

139. A reversal of this state of affairs through strengthened governance will be critical to turn the sector around. Without establishing financial equilibrium, mobilizing the investment financing needed to expand the sector further will be difficult and costly. To reduce prices, the costs of generation and delivery will have to fall. In addition, in extending electrification to rural areas, costs should be minimized and any cross-subsidies budgeted and accounted for separately so that the costs are not passed on to the country's businesses, which must compete, add value, and create jobs.¹³⁷ Togo can also access cheaper power by improving arrangements for the dispatch of gas and power in the integrated power pool. In

addition, independent power producers could be instrumental in bringing competition and cost efficiencies, but they will view it as risky to invest in a sector that is not financially self-sufficient (and where there is currently excess capacity). To establish financial equilibrium, improve management, achieve cost efficiencies, and expand the system, Togo will most likely have to take the steps shown by international experience to best achieve these outcomes—that is, through independent regulation and professionalization of the governance and management of the utility (Cubbins and Stern 2006; Andres et al. 2013).

Figure 70: Electricity Prices in Comparison (US dollars per kWh, Zone Franche Tariffs only)



Source: BCEAO and Wikipedia

¹³⁷ The Togolese government has been undertaking rural electrification actions since at least 1992, focusing mostly on grid extension to villages located near transmission lines, electrification of some villages with solar power, and feasibility studies.

4.8.3. Lack of Competition in Information and Communication Technology

Main Messages:

- Togo's information and communications sector is a striking example of the government's tendency to adopt policies that are unfavorable to private investment.
- Togo recently ranked second-to-last in the world on the cost of telecommunications, and remains 162nd in the world on the cost of fixed telephone service, 176th on the cost of mobile telephone service, and 168th on the cost of broadband.
- The quality of service for mobile telephony and Internet is low, even compared to other low-income SSA countries.
- Poor performance in the Internet sector is due to the dominance of a state-owned telecommunications company and weak support for private sector competition.
- Given high demand, potential positive spillovers, and the high costs paid by poor people for these services, this constitutes a moderate constraint to poverty reduction.

140. **The performance of Togo's ICT market is a costly example of skewed regulation shaped by conflicts of interest.** Although telecom and Internet services exhibit some natural monopoly characteristics, many countries have seen the benefits of introducing private competition into the sector along with appropriate regulation. In Togo, the introduction of bona fide competition has been limited and slow. The fixed-line telephone market is composed of a state-owned monopoly provider, Togo Telecom. The wireless market is a duopoly of Togo Cellulaire (Togocel), the mobile arm of Togo Telecom with 55 percent of the market (as of December 2015), and Atlantique Telecom (Moov), controlled by Emirates Telecommunications Corporation (Etisalat), with 45 percent (TeleGeography 2014). Discussions have been underway for several years to permit the entry of a third operator, but progress has stalled. Moreover, according to TeleGeography, regulatory red tape has limited the scope for Moov to compete fairly in the sector. For instance, Moov only recently received (in January 2016) authorization to operate a 3G mobile service, a delay that prevented it from competing effectively on the high-end mobile segment.

141. **Because of these barriers, costs are high and quality of service is poor.** As Table 35 shows, Togo ranked second-to-last of 161 countries (above only Niger) on the cost of communications in 2011. In 2015, it ranked 162nd on the cost of fixed telephone service, 176th on the cost of mobile telephone service, and 168th on the cost of broadband service out of over 180 countries (ITU 2015). Mobile telephone costs are especially high, at 37.2 percent of GNI per capita. The cost of calls is much lower in markets where there is robust private competition, such as in Ghana, Kenya, and Tanzania (Figure 71). Furthermore, the quality of mobile voice calls is low, even in Lomé, as shown by the areas of red in Figure 72 and Figure 73.

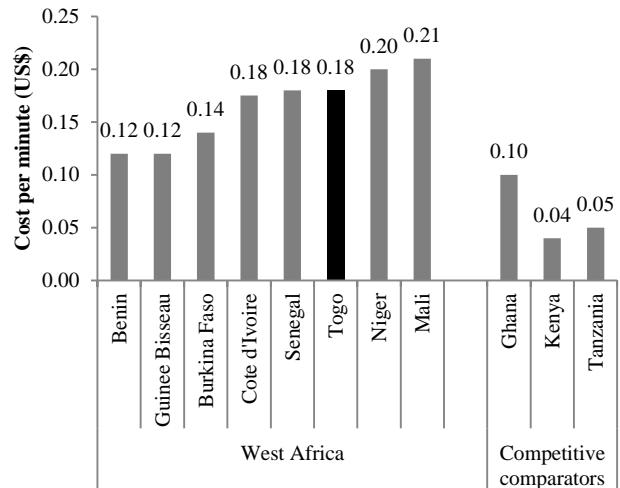
Table 35: Togo's Ranking on Cost of Communication Index

Country	Global Rank (out of 161)	Mobile tel as % of GNI per capita
Cape Verde	105	6
Senegal	126	10.3
Ghana	128	7.6
Cote d'Ivoire	129	14
Nigeria	141	10.7
Guinea	142	9.6
Gambia	147	19.3
Mali	149	20.8
Benin	151	25.7
Burkina Faso	155	36.1
Togo	160	37.2
Niger	161	55.7
Average	West	
Africa		21.1
Average World		5.7

Source: ITU 2011

142. Demand for mobile services has been strong relative to Togo's level of income, particularly when this high pricing is taken into account. Initial expansion occurred relatively quickly, from 56,000 subscribers in 2000 to 2.4 million in 2010. As of December 2015, according to the telecommunications regulatory, the *Autorité de Réglementation des Secteurs de Postes et de Télécommunications* (ARTP), 75 percent of the population had a telephone (fixed and/or wireless subscription). Expansion continued apace into 2015, with almost 70 percent of households having access to mobile services—60 percent in rural areas and over 83 percent in urban areas (QUIBB 2015). Yet people must pay high prices for mediocre service.¹³⁸ Affordability thus remains an issue for the poorer segments of the population, and subscription rates are lower among those in the bottom quintiles (Figure 74).

Figure 71: Cost per Minute in US\$ of Mobile Calls



Source: Government of Togo 2012, and Telecom regulators for Ghana, Kenya and Tanzania

Figure 72: Fluidity of Call Signals, Lomé

█ latence inférieure à 300ms: Bonne fluidité
█ latence comprise entre 300 et 1000 ms: Fluidité raisonnable
█ latence supérieure à 1000ms: pas du tout fluide

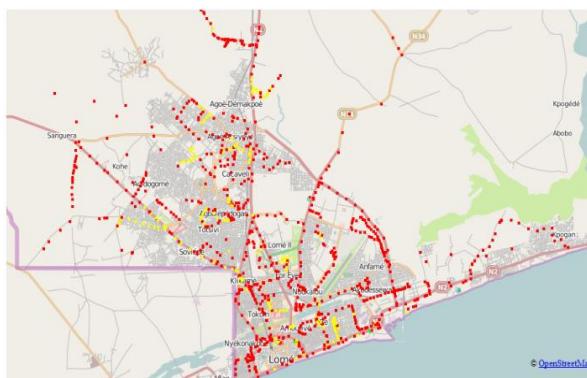


Fig. 6 : TGC cartographie latence services de données Lomé et environs

Source: AzimConsulting 2014

Figure 73: Indicators of Voice Quality Mobile Service (Togocell) Lomé (Red=worst quality)

█ PESQ supérieur à 3
█ PESQ compris entre 2 et 3
█ PESQ inférieur à 2

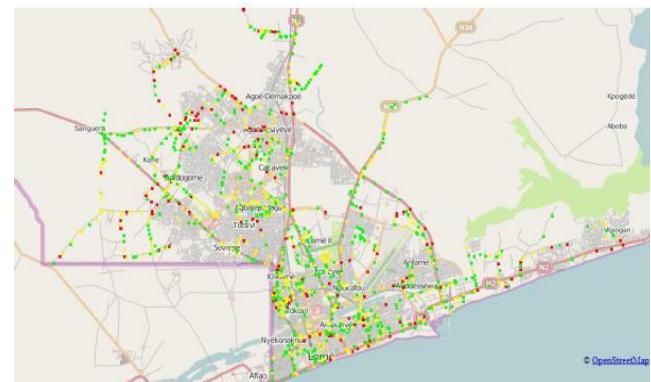


Fig. 3 : TGC couverture service voix Lomé et environ

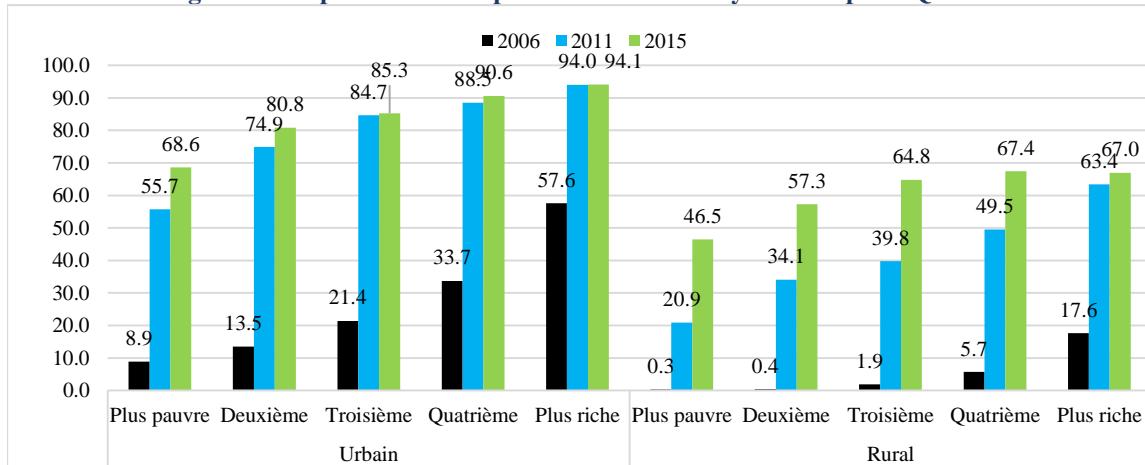
Source: AzimConsulting 2014

¹³⁸ In 2015, telecommunications accounted for an estimated 4.9 percent of household expenditures.

143. **Similar issues affect the broadband Internet sector.** Togo Telecom dominates the limited fixed broadband market. It owns and operates the only international gateway, and the lack of competition at this entry point most likely explains the lack of competition at the national wholesale and retail levels. According to private operators, between 50 and 80 percent of the final cost to Internet consumers can be attributed to the cost of international bandwidth, and the prices for access to international bandwidth in Togo compare unfavorably with those of other African countries. A standard unit of broadband in Togo costs US\$30,000, whereas it costs US\$25,000 in Benin, US\$16,000 in Nigeria, and US\$15,000 in Ghana. The customer base of alternative internet service providers remains extremely limited as well. There were only 63,000 fixed broadband subscribers at the end of 2015, according to the ARTP. With only one of the two mobile operators (Togocel) having been able to offer broadband mobile 3G services (with no license for Moov) before January 2016, Moov served only an estimated 300,000 3G mobile broadband subscribers at the end of 2015 (TeleGeography 2015). The geographic coverage of mobile broadband services remains sparse;¹³⁹ service is of limited speed and remains unaffordable, with a monthly subscription costing US\$8.5 per month for 3G access that is capped at 1 gigabyte (as of February 2016), according to ARTP figures.

144. **The current situation in the ICT sector imposes high costs on the Togolese economy.** To compete internationally, both foreign and domestic investors in Togo will require higher-quality service at more reasonable prices. Although not rated among the two most constraining factors for business, more firms rated the quality of Internet and telecom services as a major or severe problem than any other constraint (Figure 75). Seventy-one percent of firms utilize more than one mobile telecom provider; 42 percent of multiple subscribers do so to reduce costs, while 57 percent do so to circumvent quality and reliability issues (TFFS 2015). Similarly, among businesses with Internet service, 41 percent utilize more than one type of connection to better ensure service; 64.4 percent experience service disruptions that impede normal business use during more than 20 percent of operating hours, and 14 percent have cuts that disrupt more than 80 percent of operating hours.

Figure 74: Expansion of Telephone Connections by Consumption Quintile

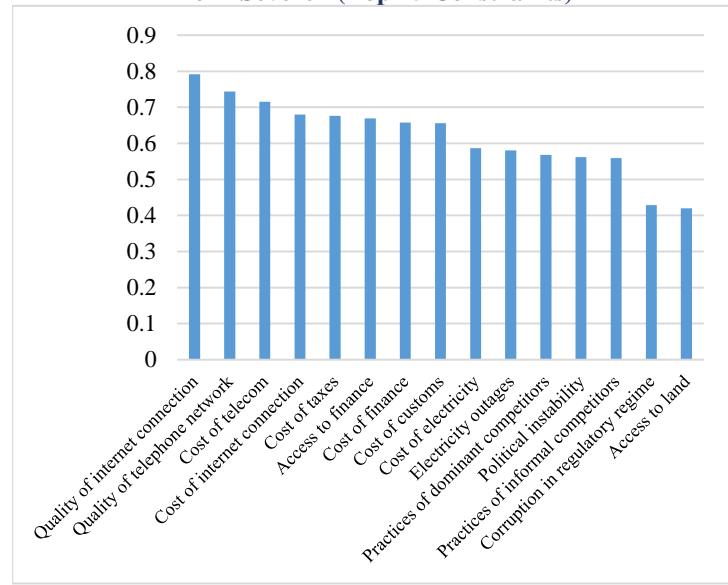


Source: QUIBB

¹³⁹ Authors' interview with operators.

145. Without a more efficient telecommunications sector, Togo is missing important opportunities for positive spillover effects on the rest of the economy, foregoing the potential to increase efficiencies in other sectors and improve the delivery of social services. Without a more dynamic ICT market, Togo will continue to lag behind other countries in the region in realizing opportunities for mobile-based innovation in the financial, agriculture, education, health, and transport and logistics sectors.

Figure 75: Percentage of Formal Firms Rating Issues as "Major" or "Severe" (Top 15 Constraints)



Source: TFFS 2015

4.8.4. Deficits in the Provision of Water and Sanitation

Main Messages:

- Togo's progress in expanding potable water services has been slow, and coverage lags behind that of regional comparators.
- Only 42 percent of the population was estimated to have access to safe drinking water in 2013, with up to another 20 percent having access to boreholes (QUIBB 2015), a source that may provide potable water if sufficiently protected.
- The main water utility is not financially sustainable and lacks the means to properly maintain and expand the system.
- However, given the more binding economic distortions in Togo's current investment climate and the affordability of alternatives such as wells, boreholes, and storage tanks, difficulties in accessing water services do not appear to be a key constraint to growth at present.
- Nevertheless, the lack of clean water provision contributes to poor health—a key constraint to equity and well-being, as discussed in Section 4.10, insofar as it increases rates of infection from waterborne diseases and diarrhea.
- More accessible, improved water supply is important for time savings, especially for women and girls.

146. **The quality and reach of improved water and sanitation services lag behind Togo's needs substantially.** Only 42 percent of the population was estimated in 2013 to have access to safe drinking water, defined as treated water from a pipe. Although the percentage of the population served has increased over the past 12 years, especially in rural areas, it had reached only 40 percent of the population in urban areas and 32.5 percent in Lomé by 2013 (Table 36). Relative to other countries in the region, Togo's main water utility, *Togolaise des Eaux* (TdE), serves only a small percentage of the urban population (Figure 76). Using the most recent household survey (2015 QUIBB), when one includes boreholes—a source considered “improved” by the World Health Organization if protected from contamination by fecal matter—the situation appears slightly more positive. Up to 62 percent of the population may have access to water that meets this definition—up to 87 percent in Lomé, 69 percent in other cities, and 45 percent in rural areas (Figure 77). Without more details on the technologies used, however, it is unclear whether all of these water points provide safe drinking water, and local purification may still be needed. An additional 23 percent of the population has access to well water, which is typically not protected, leaving 15 percent of the population without any water facilities. Access to improved water is also correlated with consumption and poverty

Table 36: Access to Safe Drinking Water (Piped water and Standpipes. Percentage of Population)

	2000 ^a	2010	2011	2012	2013
National	31	34	42	44	42
Urban	38	34	43	42.5	40
Semi-urban ^b	24	29	35	37	42
Rural ^b	28	43	46	47	47

Source: Ministry of Rural Equipment (Togo) in World Bank 2015a.

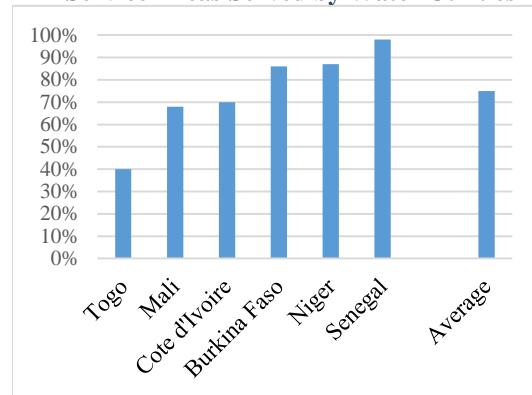
Note: ^a Baseline access rate used to calculate 2015 MDG targets.

^b Semi-urban areas are those towns with more than 1,500 inhabitants, not including the prefecture administrative centers, which are considered urban areas. Rural areas are those with less than 1,500 inhabitants.

status. Poor people are much less likely to have piped water and more likely to have neither piped, borehole, nor well water sources (Figure 78).

147. Togo's water utilities have struggled to expand piped water connections while maintaining continuity and quality of service and financial sustainability. Investment in the sector has not kept pace with demand, and maintenance has been inadequate. Technical losses have reached an estimated 28 percent of water produced in 2013. The quality of service, as measured by consumption, continuity of service, and pipe breaks, has also deteriorated over time. Limited production capacity, compounded by expanding connections and technical losses, has meant a drop in daily consumption per capita from 54 to 36 liters per day between 2009 and 2013. TdE shows a 50 percent decline in the continuity of service over four years (Table 37). Its operational efficiency is poor, with 10.7 employees in the sector per 1,000 connections, relative to a subregional average of 4.7 (World Bank 2015a). Moreover, the utility is not financially sustainable, with a revenue recovery rate of just 65 percent of costs. Regulation of the sector is being shifted to the electricity regulator, ARSE, which lacks both the requisite independence and capacity (World Bank 2015a).

Figure 76: Percentage of (Urban) Population in Service Areas Served by Water Utilities



Sources: Respective Water Utilities.

Note: All data is for 2013.

Table 37: Indicators of Operational Performance of Togolese des Eaux

	2009	2010	2011	2012	2013
Distribution losses (% of production)	19	22	18	29	28
Water consumption per capita (L/day/person)	42	36	45	39	37
Continuity in Lome (hours/day)	18	16	14	14	12
Revenue collection (% of billing)	81	78	86	88	90
Labor efficiency (employees per 1,000 connections)	10.7	10.5	10.3	10.3	10.7
Operating cost recovery ratio	0.74	0.64	0.73	0.66	0.65
Average water tariff per m ³ (FCFA)	341	351	352	343	349

Source: TdE 2015.

Table 38: Access to Sanitation

Type of Sanitation Facility	Total		Urban		Rural	
	1990	2012	1990	2012	1990	2012
Improved facilities	13	11	26	25	8	2
Shared facilities	24	20	44	43	15	5
Other unimproved	3	16	5	12	3	19
Open defecation	60	53	25	20	74	74

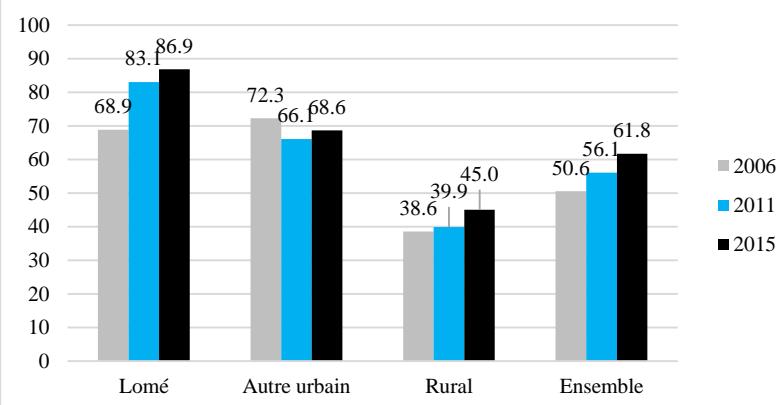
Source: World Health Organization, UNICEF, and Joint Monitoring Program 2014.

148. Access to improved sanitation is more limited than for water services, especially in rural areas (Table 38). Access to improved facilities has fallen from 13 to 11 percent of the population between 1990 and 2012, and for shared facilities from 24 to 20 percent. Although access to unimproved facilities has increased, rates of open defecation as the primary sanitation method remain high, at 43 percent of the population (Figure 79).

149. Clean water and urban sanitation services are key inputs to health, with implications for child nutrition and impacts on morbidity and mortality from waterborne diseases. As such, it is likely that the lack of progress in providing clean water services is an important contributor to Togo's underperformance in improving health outcomes related to diarrhea, which causes 9 percent of deaths in children under five. At the same time, upgrades to water and sanitation services are needed to improve the urban population's quality of life.

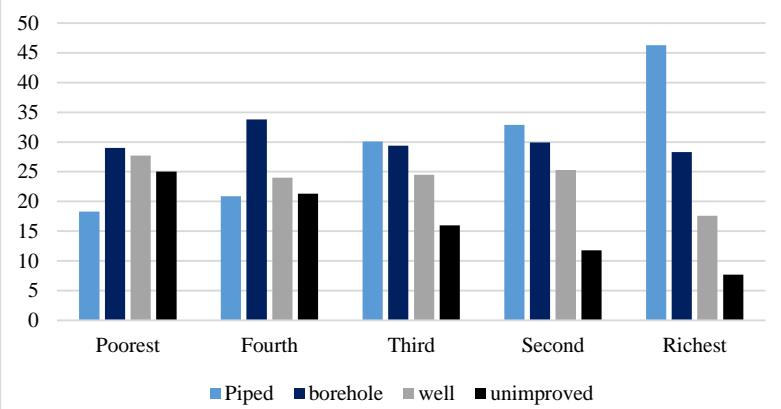
150. Nonetheless, Togo's poor provision of water services appears to be only mildly constraining to investment and growth. Most businesses (52.3 percent) use water from TdE, and 36.1 percent use wells. Whereas many businesses experienced cuts in water service, 44 experienced no service cuts during 2014, and 43 percent had cuts less than 20 percent of the time. Businesses manage service cuts by storing water or using alternative sources, and the costs of taking these measures are not considered high. Only 15 percent of formal businesses

Figure 77: Percentage of Population with Potable Water (Piped or Via Bore Hole) by Residence in Lomé, Other Urban, and Rural Areas



Source: INSEED using QUIBB

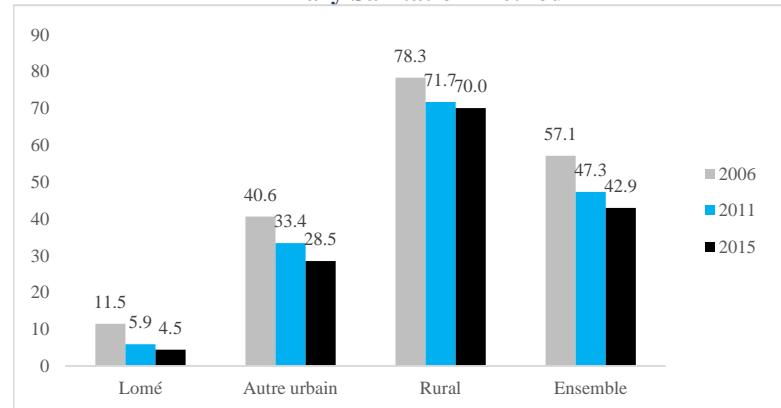
Figure 78: Main Source of Water by Consumption Quintile, 2015



Source: INSEED using QUIBB 2015.

Note: Estimates differ across data sources due to differences in dates, data capture methods, and definitions.

Figure 79: Percentage of Population Utilizing Open Defecation as Primary Sanitation Method



Source: INSEED using QUIBB

consider inadequate water service to be a major obstacle, and less than one percent consider it among their top two problems. Similarly, among the informal enterprises surveyed, essentially no firms listed inadequate water service as their main obstacle (TRIFS 2015). In the current investment climate, therefore, even dramatic improvements in water services are unlikely to produce the inclusive growth that the country needs to accelerate poverty reduction. Nonetheless, water and sanitation services are important for the health and well-being of the population, and represent an important equity issue.

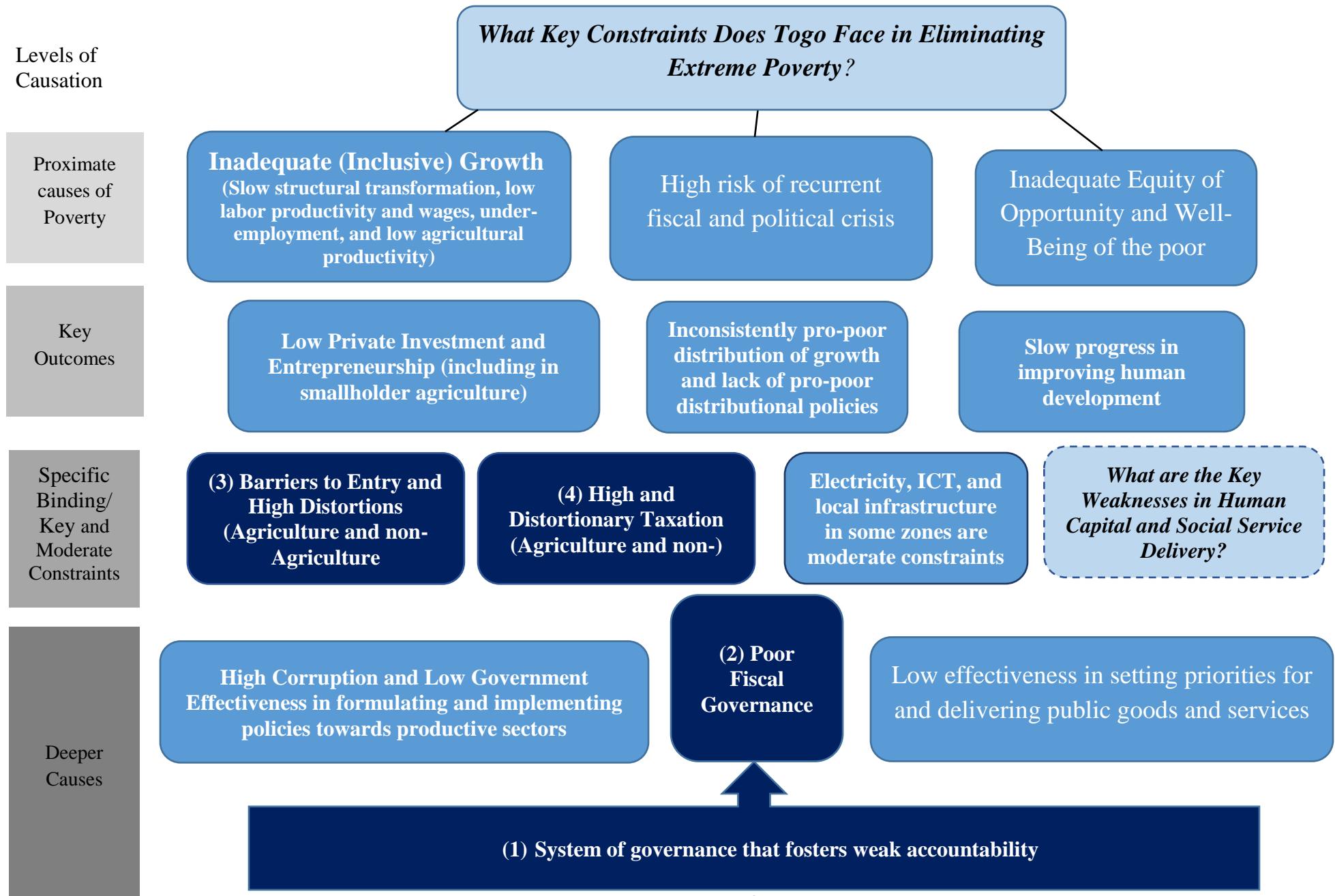
151. Based on available indicators, infrastructure services — particularly the high price and low quality of electricity and ICT services— appear to be moderate constraints to inclusive growth, as do local infrastructure deficits such as water control systems in certain zones and feeder roads in others (Table 39). Deficits in water and sanitation services affect well-being, health, and consumer convenience, but appear less constraining for growth at present given the importance of other, more pressing issues. A summary of findings at this stage is shown in Figure 80. The remaining questions to be assessed are in the area of human capital and related social service delivery.

Table 39: Tests of Key Constraints in Infrastructure

<i>Tests of binding constraint to growth on key pathways</i>	Electricity	Transport	ICT	Water & Sanitation
High cost to actual or potential enterprise?	✓	-	✓	-
Circumvention of constraint evident?	✓	-	✓	-
Few agents present requiring alleviation of constraint?	-	-	-	-
Correlated with growth or investment?	n.a.	n.a.	n.a.	n.a.
<i>And/Or:</i> <i>Unusually high disparities?</i>	-	-	-	✓
<i>Severe effects on (non-income) well-being of poor?</i>	-	-	-	C
<i>Service deficits affects large % of population?</i>	✓	✓	✓	✓

✓ = passes test. - = does not. C=contributes to severe issue (Health).
n.a. = no test available or inadequate information.

Figure 80: Diagnostic Results 3



2

Dark blue = Key Constraint; Medium blue = other finding; Light blue = questions remaining.

4.9. The Role of Skills and Education

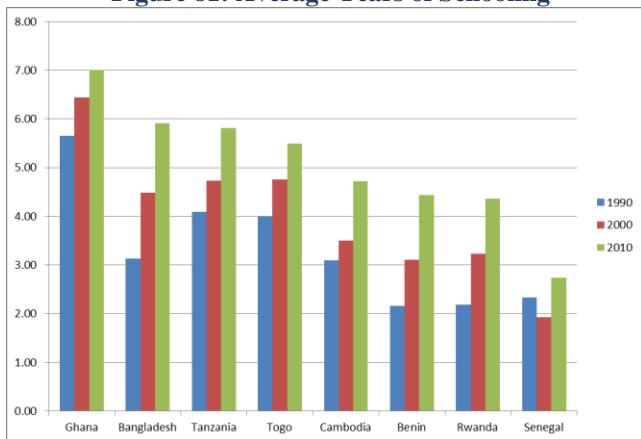
Main Messages:

- Until recently, Togo's population had enjoyed relatively high educational attainment. Enrollment and completion rates remain comparable to other low-income countries, and continue to increase.
- However, the average quality of education has fallen in the past several years, and schools in poor areas are of lower quality, presenting an important equity issue.
- In addition, there are some specific skills shortages, and skills training does not always match up well with market needs.
- Yet while the supply of skills may be considered low in Togo, the demand for skills is even lower.
 - The returns to education are low relative to international benchmarks; unemployment rates are high and increase with the level of education, ranging from 9.4 percent for secondary graduates aged 25–34 to as high as 55 percent for the youngest tertiary graduates.
 - Existing enterprises perceive the available supply of skills to be adequate.
 - Few firms employ foreign workers, and many skilled workers leave Togo for other opportunities.
- Improving the quality of education is an important objective for equalizing opportunities and raising the efficiency of public resource expenditures, as well as preparing the country for future growth opportunities.
- However, there is no compelling empirical evidence that, for Togo, increases in education and improvements in training would rapidly and significantly increase private investment, job creation, and incomes without a significantly better enabling environment for private economic activity—investment and entrepreneurship across a broad range of sectors that can employ Togo's workers and poor people.
- Therefore, other constraints must be alleviated in order to increase the incomes of workers at all levels of educational attainment.

152. **In Togo, just as elsewhere, education serves multiple social and economic purposes.** Access to basic education is an important precondition for equity of opportunity. Education can be intrinsically fulfilling to the individual, and can contribute in important ways to a country's social and political development. At the same time, people invest in education to raise their future earnings or the earnings potential of their children. This section examines whether a lack of skills and education in Togo poses a binding constraint to economic growth through the channels of private investment and productivity growth, without calling into question its importance for other social objectives. It also evaluates the degree to which inequitable access to education constitutes a constraint to inclusion.

153. **Until at least the year 2000, Togo had a modest advantage in the level of education of its workforce.** Figure 81 shows average years of schooling in Togo and comparator countries in 1990, 2000,

Figure 81: Average Years of Schooling

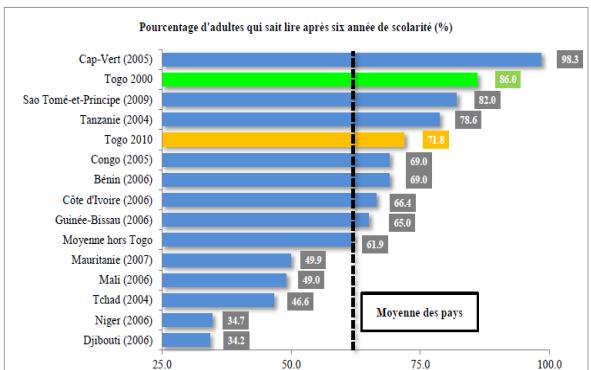


Source: Barro and Lee

2006/07, and are now well above the average for low-income SSA countries (Table 40). The number of tertiary graduates has also expanded (Figure 83).

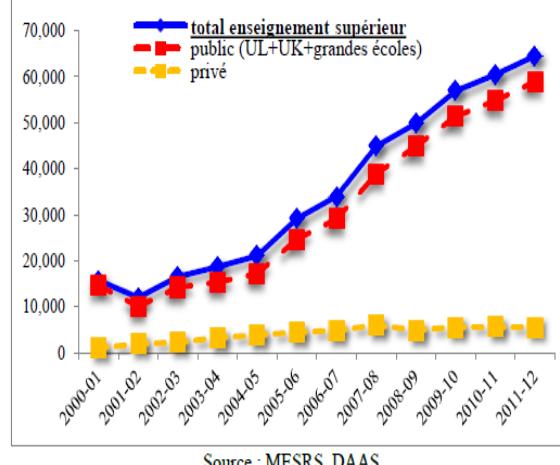
Figure 82: Reading Achievement, Adults 22-44 Years of Age Selected African Countries

Graphique n°4.2 : % de savoir lire des adultes (22-44 ans) après six années de scolarités au cours de la jeunesse dans quelques pays africains (mesurée à partir d'une carte de lecture).



Source: estimation des auteurs à partir des données d'enquêtes MICS 2010 pour Togo 2010. Extrait RESEN 2002 pour Togo 2000. Base d'indicateurs du Pôle de Dakar pour les autres pays comparateurs.

Figure 83: Number of Tertiary Graduates



Source: MESRS, DAAS.

Source: Pole de Dakar 2013

154. Notwithstanding these achievements, there are legitimate concerns regarding the quality, efficiency, and equity of Togo's education and training system. The expansion of the system to more remote areas has accompanied a decline in the average quality of schools.¹⁴⁰ Although the average pupil-teacher ratio of 44 is close to the African mean of 43, there are failures in the provision of suitable infrastructure and didactic materials (Table 41). Mean test scores fell in math for second and fifth graders between 2000 and 2010, although not to a statistically significant extent (Figure 84). Moreover, the performance of Togolese fifth graders on French tests is generally lower than that of students in other French-speaking African countries (Figure 85). It is likely that these performance trends disadvantage Togo's poor population the most and compromise its future human capital.

¹⁴⁰ This does not necessarily imply a decline in quality of already existing schools.

Table 40: Enrollment and Completion Rates, Primary and Secondary Schooling, Low Income African Countries

	Primary		Secondary 1st Cycle		Secondary 2nd Cycle	
	Enrollment	Completion	Enrollment	Completion	Enrollment	Completion
Togo (2011-12)	138.3%	79.0%	66.0%	41.9%	26.3%	19.3%
Togo (2006-07)	107.4%	69.4%	52.6%	36.5%	21.8%	10.5%
Benin (2010-11)	130.4%	64.3%	53.4%	40.8%	29.9%	19.5%
Burkina Faso (2009-10)	89.0%	65.0%	31.0%	16.6%	7.1%	5.4%
Ghana (2008-09)	109.1%	74.8%	82.6%	71.9%	32.9%	30.0%
Rwanda (2008-09)	203.0%	44.8%	29.0%	22.0%	17.0%	13.0%
Tanzania (2008-09)	108.4%	77.9%	54.6%	23.7%	5.0%	2.6%
Average of Comparators	125.6%	58.2%	42.7%	29.8%	16.5%	12.8%

Source: Pole de Dakar and Ministry of Education (Togo)

Comparators are 20 SSA countries with GDP/capita between 350-750 US\$ in 2010

155. **There are indications from a subset of recent graduates that there exists at least a mild mismatch between skills and labor market needs.** Any skill areas in excess demand would tend to show unemployment rates close to zero, even for new graduates.¹⁴¹ An examination of outcomes for recent (2008) graduates of higher education and professional training programs shows low rates of unemployment (between 0 and 2 percent) for graduates with a Masters in Law or Masters in Science, Civil Engineering (tertiary level), and for those graduating with either a certificate of apprenticeship or a professional diploma (Table 42). In other fields, unemployment rates range from 4–19 percent, depending on the type of degree. While some disparity in excess demand is to be expected in any labor market, policies in the sector can improve the relevance of higher education and training programs for the labor market. Government efforts have recently included accreditation of 55 private institutions of higher education, which could improve market relevance. Additional alternative paths will be needed in addition to the current linear pathway of general education through to university, particularly for workers moving from agriculture into urban-based sectors.¹⁴²

Table 41: Provision of School Inputs

Intrant	Togo	Public		Public	
		Rural	Urbain	Rural	Urbain
Ratio élèves-maitres	42,6	44,8	37,5	43,1	53,3
Matériel didactique (%)	14,6	12,8	18,4	14,8	3,0
Manuel (% élèves)	68,5	76,0	52,6	75,9	76,8
Bic ou crayon (% élèves)	88,7	88,2	90,0	89,2	82,9
Cahier d'exercices (% élèves)	74,3	71,7	79,5	71,9	71,2
Infrastructures scolaires (%)	22,8	14,9	39,2	13,8	20,3
Toilettes fonctionnelles et disponibles (%)	24,4	18,5	37,6	17,7	22,4
Tableau lisible en fond de salle (%)	87,0	91,0	78,7	91,8	87,1

Source: Pole de Dakar 2013.

¹⁴¹ Excess demand means that the supply of workers with the skill in question is not sufficient to meet demand. In such cases, wages would tend to increase for the workers with the requisite skills, but as the supply adjusts, unemployment would be close to zero.

¹⁴² <http://www.republicoftogo.com/Toutes-les-rubriques/Education/Enseignement-superieur-55-etablissements-prives-reconnus>.

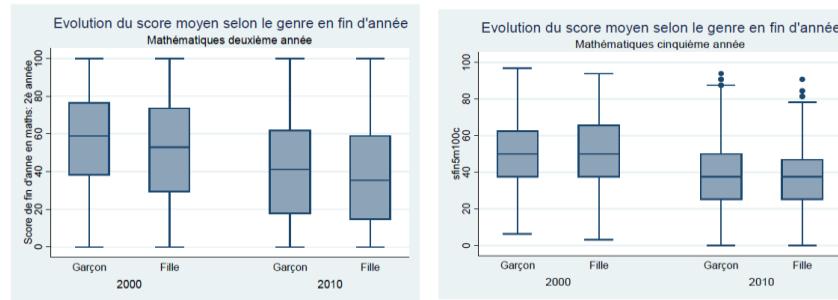
156. Overall, however, while the supply of skills is low in Togo, the demand for skills is even lower. The economy is unable to absorb and fully employ available skilled workers. Youth unemployment is high across general categories of education and training, and is higher for those with more education, ranging from 9.4 percent for secondary graduates aged 25–34 to as high as 55 percent for 15–24 year old tertiary graduates (Figure 86).¹⁴³ In fact, in all fields, recent graduates worked less than 90 percent of the four years since graduation, and only 66 percent on average; 63 percent wished to work more (Table 42). In addition, a relatively high percentage of graduates in all fields—14 percent, on average—have gone abroad, with higher percentages doing so in low-unemployment fields like civil engineering and science.

157. Furthermore, the return to education for those who are employed is generally low. The average wage premium is estimated at approximately 5.5 percent per year of schooling, which is low compared with the SSA mean of 12.4 percent and the global mean of 9.7 percent.¹⁴⁴ When the costs of education are taken into account, social and private rates of return range between -1.9 and 2.9 percent (Pole de Dakar 2013), compared to higher levels for SSA more generally (Montenegro and Patrinos 2014). Although the quality of education can reduce the return, quality issues are unlikely to account for such low returns; rather, this is an indication of the low demand for skilled labor in the Togolese economy.

158. Informal entrepreneurs also earn a relatively low return on education. Among the entrepreneurs surveyed, controlling for personal initiative and cognitive ability, each additional year of education is estimated to have a return of 5 percent (with earnings comprising returns to both entrepreneurial effort and invested capital). An examination of the returns to specific types of education shows little to no significant effect on earnings from completing

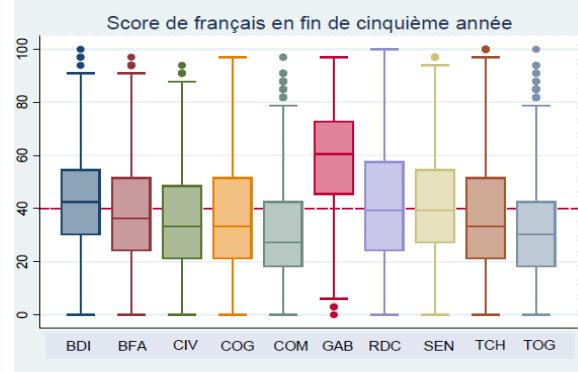
Figure 84: Evolution of Mean Math Scores, Second and Fifth Graders, by Gender

Graphique 15 : Évolution du score de mathématiques de fin d'année selon le genre en 2^e et 5^e années



Source: Pole de Dakar 2013

Figure 85: French Scores 5th Grade (2010)



Source: PASEC 2012

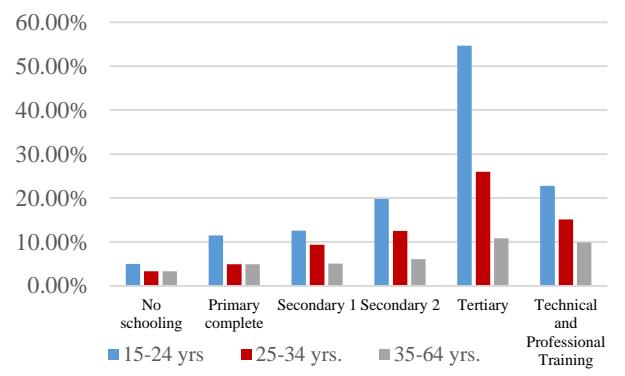
¹⁴³ In Togo, as in other countries with educational quality issues, it is often argued that more-educated workers prefer to remain unemployed than to work below their perceived competencies. However, this too is an indication that the available jobs do not adequately reward the skills that they provide.

¹⁴⁴ See Appendix Table 16 for details on this estimation, which includes a Heckmann correction for selection into wage/remunerated employment.

primary school or completing technical degrees (vis-à-vis having no education). However, middle school completion increases earnings by 29 percent, and high school or tertiary education by 52 percent relative to no education. Yet even these numbers translate into returns to each year of schooling of 3–4 percent per year, similar to returns in the broader group of remunerated workers. These labor market outcomes contrast starkly with those of countries showing binding skills deficits, such as Namibia, which has educational quality issues similar to or worse than Togo's. In Namibia, because skills are a key constraint, unemployment rates are declining with the level of education to near zero at the highest levels, and the returns to education recently ranged between 11 percent per year for basic education to 34 percent for tertiary education (World Bank 2005).¹⁴⁵

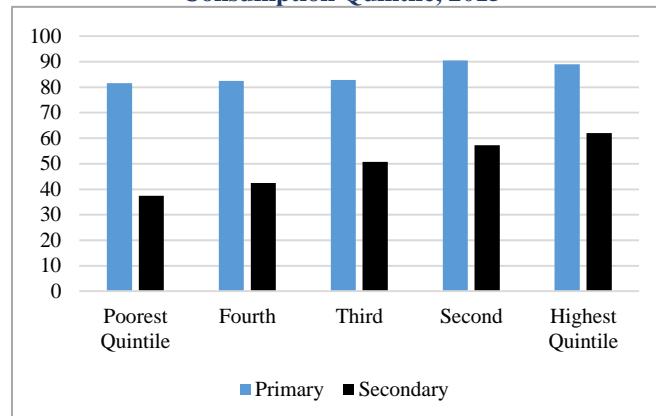
159. Despite anecdotes to the contrary, formal businesses in Togo generally do not rate the qualifications of workers as a significant issue. The majority of firms (55 percent) report that worker skills are no obstacle at all, and only 15 percent consider them a major or severe obstacle (TFFS 2015). Less than 1 percent say that workers' skills are among their top two obstacles, and only 6.5 percent of firms say that workers' skills do not match their needs at all. Almost 80 percent of firms consider worker skills to be at least an adequate match or better. Moreover, firms do not expend unusual efforts to circumvent a skills constraint. Approximately 31 percent offered their employees formal training, the same as the average for SSA and less than the average for comparators such as Cambodia, at 68 percent (WBES, latest years), and training for these lasts an average of 54 days per new employee. Finally, only 5 percent of all formal businesses employ foreign workers because they cannot find the skills they need locally (TFFS 2015).

Figure 86: Unemployment by Age and Level of Education



Source: QUIBB 2011

Figure 87: Net Rates of School Enrollment, by Consumption Quintile, 2015



Source: QUIBB 2015

¹⁴⁵ Montenegro and Patrinos (2014) estimate the returns to education in Namibia to be 18.5 percent.

Table 42: Outcomes of 2008 Graduates (2009-2013)

		Unemployment Rate	Percentage of time employed from 2009-2013	Further study	Abroad
Tertiary Education (TE)	Masters in Economic Science	4.0%	76.0%	21.2%	18.2%
	Masters in Letters	9.2%	77.2%	76.5%	12.1%
	Master in law	0.0%	78.9%	50.0%	11.3%
	Master of science	1.1%	86.9%	18.7%	24.6%
	<i>Grandes écoles</i>	3.8%	82.4%	5.1%	19.2%
	BTS engineering (besides civil)	10.0%	67.6%	11.0%	18.7%
	BTS civil engineering	0.0%	76.6%	3.4%	19.0%
	ALL TE	7.5%	75.6%	13.8%	17.0%
Professional and Technical Education (PTE)	Bac 2 non civil engineering	19.4%	45.2%	76.8%	10.3%
	Bac 2 civil engineering	8.0%			
	Diploma Technician	5.6%	85.2%	11.0%	16.0%
	Certificate of professional training	9.5%	75.8%	8.9%	26.6%
	Certificate of apprentice	2.0%	89.0%	5.7%	12.3%
	Diploma Professional studies	0.0%	68.4%	6.7%	16.7%
	ALL PTE	15.1%	55.7%	40.2%	11.5%
	All Graduates	16.1%	65.5%	40.2%	13.9%

Source: PERI 2013

160. **Because there are other, more pressing constraints limiting economic opportunity, Togo's high rates of unemployment and low return to skills will only worsen if the demand by employers for educated and skilled workers is not increased in the presence of an expanding supply of skills.**¹⁴⁶ Despite issues in the education and training sector, therefore, there is no compelling empirical evidence that increases in education and improvements in training would rapidly and significantly increase private investment, job creation, and incomes without a significantly better enabling environment for private economic activity—investment and entrepreneurship across a broad range of sectors that can employ Togo's workers and poor people.

161. **Nonetheless, unequal access to higher-quality education constitutes a moderate constraint to equity of opportunity.** As in any economy, people with fewer skills and education tend to earn less than those who are more highly trained. Rates of enrollment in secondary education, in particular, are inversely correlated with poverty status in Togo (Figure 87), with 62 percent of children in the richest quintile attending secondary school and only 37.5 percent of those in the bottom quintile. As in many SSA countries, there are likely to be significant quality differentials between schools in poor, rural areas vis-à-vis schools

¹⁴⁶ Poverty rates are also highest for households with less educated household heads (See Figure 17 above). Because people sort into types of employment according to their skills and education, this dimension of inequality is considered a normal outcome of any economy; and without raising returns to education, providing more education will increase equity of opportunity, but all else equal may not increase average returns to education.

in towns, and although having a secondary or tertiary education does not appear to raise consumption significantly in rural areas, it does matter for accessing urban-based employment opportunities.¹⁴⁷

162. The lack of skills or education among Togo's population does not pass any of the available tests of a binding constraint to inclusive growth (Table 43). First, the returns to education are low (Test 1). Economic actors are not attempting to import substantial numbers of skilled workers or make an unusually high effort to train their employees. (Test 2). Although a full benchmarking is not feasible, Togo is not unusually scarce in sectors that require education and skill (Test 3). Finally, although it is not possible to conduct Test 4 given the lack of high-frequency changes in the level of educational attainment of a population, Togo's periods of negative per-capita GDP growth occurred despite the population's relatively high level of educational attainment. Investments in improved quality of education and training would therefore contribute to Togo's future human capital, raise the returns to public expenditures in the sector, and strengthen equity of opportunity. However, this rates as a moderate rather than a key constraint to equity because the returns to education are low for the reasons diagnosed earlier in this chapter.

Table 43: Tests of Key Constraints in Education and Skills

Education and Skill: Tests of binding constraint to growth on key pathways	Pass?
High cost to actual or potential enterprise?	-
Circumvention of constraint evident?	-
Few actors present requiring alleviation of constraint?	-
Correlated with growth or investment?	n.a.
And/Or: Unusual disparities in service?	-
Severe effects on well-being	-
Affects large number of people	✓

✓ = passes test. - = does not.

n.a. = no test available.

¹⁴⁷ The conditional correlation coefficient on secondary and tertiary education, conditioning on region and demographic variables, is negative in rural areas.

4.10. Key Constraint 5: Poor Performance in Disease Prevention and Health Care Delivery

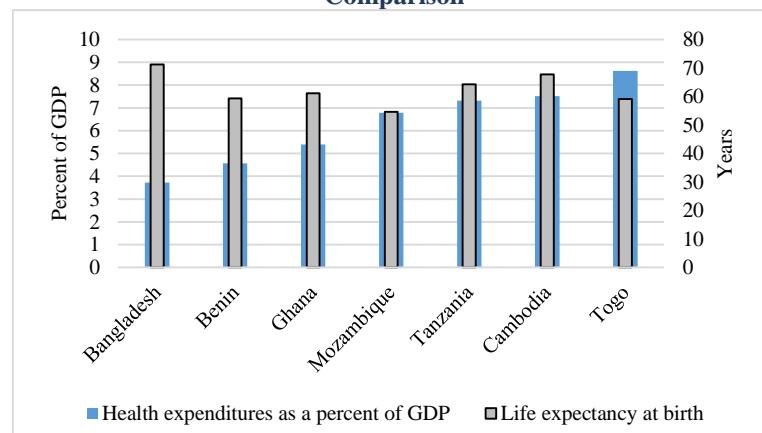
Main Messages:

- Togo's health outcomes—as measured by life expectancy and mortality rates due to preventable diseases such as HIV/AIDS, malaria, tuberculosis, and lower respiratory infection—are poor, particularly given the country's high total health expenditures as a percent of GDP.
- Progress in reducing maternal mortality in particular has been slow, and inadequate access to female and maternal health care is a primary impediment to inclusion.
- The health status of Togo's population does not appear to constrain investment by off-farm enterprises to a significant extent. Based on evidence from Nigeria, however, inadequate access to diagnostic and curative care can have a substantial effect on earnings in agriculture.
- Health is a precondition for other aspects of inclusion and well-being, and rates of access to care are correlated with income. These considerations, combined with Togo's poor performance in disease prevention and health service provision, clearly signal a key constraint to inclusion.

163. **Good health is the foundation of well-being and a prerequisite for accessing life's opportunities.** Health status affects child learning, the ability of adults to work and take care of family members, and the productivity of agriculture and businesses. Although higher incomes provide a means to access health-related goods and services, favorable outcomes also depend on access to clean water and air, nutrients, and affordable and effective health services.

164. **Togo's health care delivery system has made at best uneven strides in recent years to provide effective, accessible health care to the population.** Governance of the health sector is overly centralized, and results are poor relative to spending. Although 15 percent of the public budget is devoted to health care, consumers pay 50 percent of total health care expenses (Figure 88). Moreover, relative to Togo's expenditures—the highest among comparators as a percent of GDP, at 8.6 percent—life expectancy at birth is low, at just 59 years.

Figure 88: Health Expenditures and Life Expectancy in Comparison

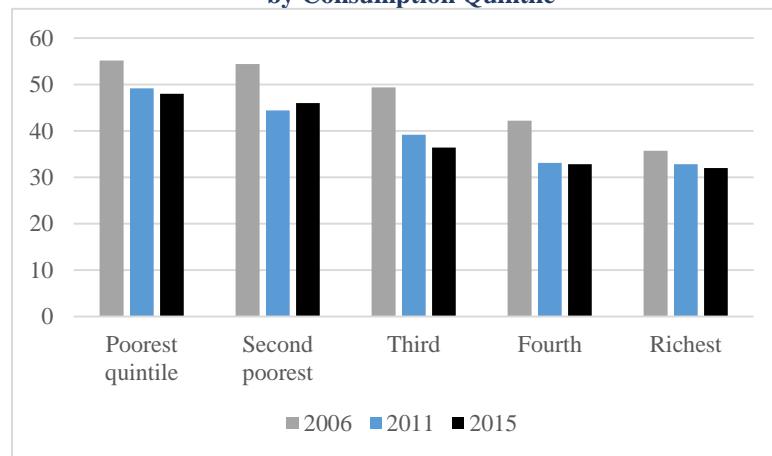


Source: WDI. Most recent years available.

165. Access to medical consultations is highly correlated with socioeconomic status and residence in urban areas, and access has fallen over recent years. Between 2006 and 2015, the percentage of Togolese who experienced an illness and accessed a hospital or clinic (in the prior year) fell from 30 percent to 20 percent. However, a concomitant rise in consultations at dispensaries, from 19 to 38 percent, meant that those not consulting any medical services fell between 2006 and 2011 and remained flat at approximately 38.8 percent in 2015. Those in the highest consumption quintile are much less likely to forego any medical consultation when ill than those in lower quintiles (Figure 89). In addition to financial costs, the average distance to health facilities is an important barrier to access in rural areas, and staffing of facilities is insufficient, with a disproportionate share of personnel concentrated in Lomé. In 2015, whereas only 7.9 percent of rural people experiencing illness consulted a medical practitioner, 40.6 percent did in urban areas. Moreover, rural access rates were higher in 2011 than in 2015, at 18 percent. Whereas 31.6 percent of the urban poor accessed health services in the past year, only 7.6 percent of the rural poor did so (Figure 90). Access to doctors is even lower, with 22.9 percent of Lomé

residents having consulted a doctor, versus 16.7 percent in other urban areas and 4.5 percent in rural areas. Moreover, the quality of care is poor. Absenteeism among health facility staff is high, at an estimated 37

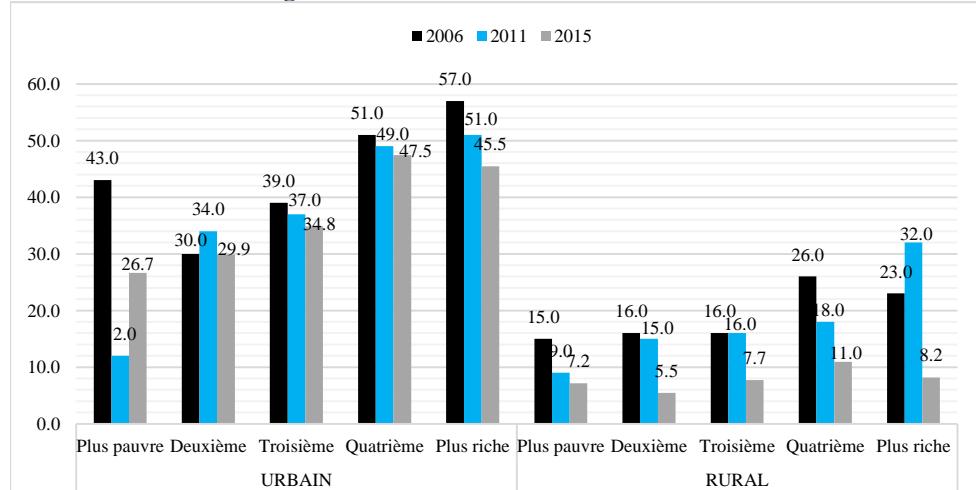
Figure 89: Percentage of Population not Consulting Medical Services by Consumption Quintile



Source: INSEED 2015 using QUIBB

medical practitioner, 40.6 percent did in urban areas. Moreover, rural access rates were higher in 2011 than in 2015, at 18 percent. Whereas 31.6 percent of the urban poor accessed health services in the past year, only 7.6 percent of the rural poor did so (Figure 90).

Figure 90: Rates of Access to Health Services

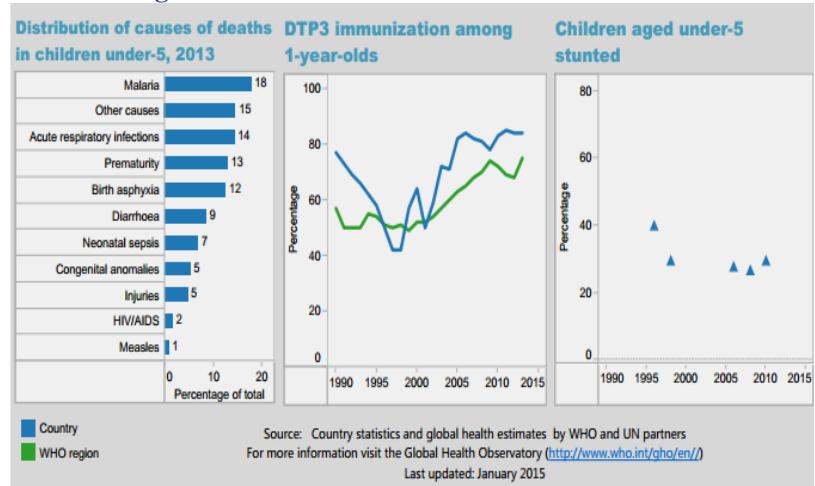


Source: INSEED 2016 using QUIBB

percent, and facilities only stock 44 percent of the medications deemed necessary by health experts. Furthermore, 19 percent of health facilities lack running water, 29 percent lack improved sanitation, and 49 percent have no electricity.¹⁴⁸

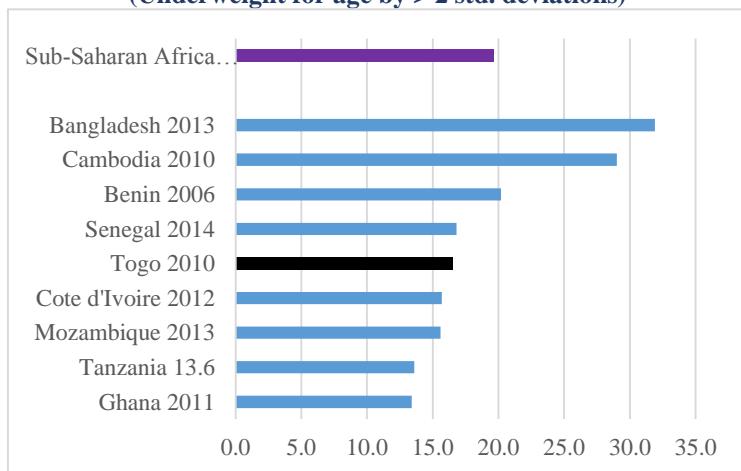
166. Despite recent improvements in child health outcomes, the high incidence of preventable childhood diseases remains a severe problem. For children under five, the main cause of death is malaria, followed by acute respiratory infection and prematurity. Some progress has been made in child immunization rates, and DTP-3 coverage

Figure 91: Child Health and Nutrition Indicators



Source: WHO

Figure 92: Percentage of Children under 5 Malnourished (Underweight for age by > 2 std. deviations)



Source: WDI

2013 (WDI). The net result of this mixed performance has been no improvement in child and infant mortality rates between 2006 and 2010, followed by a marked improvement between 2010 and 2012 (Table 44).

167. In the general population, mortality rates due to common causes remain significantly higher in Togo than in neighboring Benin and Ghana. The greatest causes of death are lower respiratory infections, HIV/AIDS, and malaria, followed by diarrheal diseases and stroke (Figure 93). Rates of

has risen from its low in the late 1990s to above the average for World Health Organization (WHO) countries (Figure 91). Nutrition indicators are on par with or better than comparators. The proportion of children who are underweight (for age) is low relative to Asian countries, as well as to Benin, Senegal, and the SSA average (Figure 92). The proportion of children who are stunted has declined since 1995, but has not budged since 2010 (Figure 91). However, the most recent available data show high rates of anemia (71 percent in 2011), and only 57 percent of children under five use insecticide-treated bed nets. Vitamin A supplementation rates dropped from 100 percent in 2010 to 61 percent in

Table 44: Infant and Child Mortality Rates (per 1,000 live births)

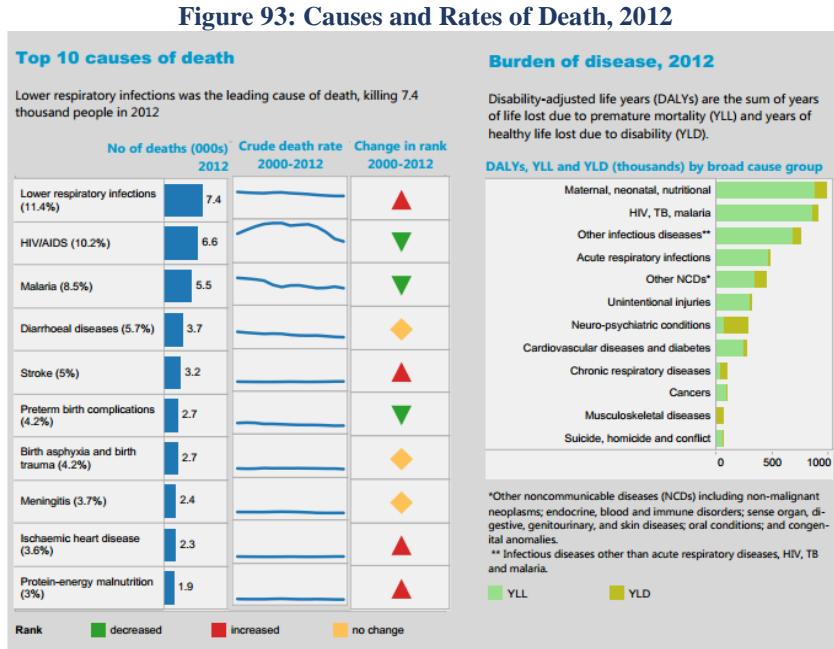
	2006	2010	2012
Infant Mortality Rate	77	78	42
Child Mortality Rate	123	124	88

Source: MICS

¹⁴⁸ Service Delivery Indicator study 2014 (World Bank, African Development Bank, and African Economic Research Consortium).

death from HIV, malaria, and maternity exceed those of key comparators, except Nigeria (Table 45). Although HIV infection rates have fallen from 6.0 percent in 1999 to 2.9 percent in 2012 (CIA Factbook 2015), HIV remains a major issue.

168. The economic burden due to premature death, disability, lower learning outcomes, and the lower worker productivity associated with poor health care are high, and disproportionately affect poor children and women. According to the WHO, the economic burden of disease due to lost disability-adjusted life years (DALYs) is highest for maternal, neonatal, and nutritional deficits. These issues are followed by HIV, TB, and malaria (Figure 93). Just 71 percent of pregnant women accessed prenatal health care in 2010, and only 54 percent did so four times or more (WDI 2010). Women have higher rates of HIV infection than men do, due in part to gender gaps in knowledge of the disease. Only 20 percent of Togolese females between the ages of 15 and 49 have comprehensive and correct information on HIV transmission (WDI 2014), a lower percentage than in



Source: WHO

2010, whereas 33 percent of men in the same age range do (Table 46). Moreover, fertility rates are high, and the use of contraceptives is low. An estimated 63 percent of the need expressed by married women in 2010 is met (WDI).¹⁴⁹ In addition, between 1998 and 2014, the maternal mortality rate was reduced only from 478 to 401 per 10,000 (national estimates). The private cost of care appears to be a key constraint to maternal health. The government charges for childbirth services (with the exception of cesarean sections), and as a result, there are large gaps between access to birth assistance and prenatal care by wealth quintile; 60 percent of women and 70 percent of women in the poorest quintile cite a lack of money for treatment as a barrier to accessing care. Physical proximity to care is also an obstacle, and preventative care is not sufficiently comprehensive. Anemia, which affects over 58 percent of pregnant women, is thought to be related to high malaria prevalence. Yet intermittent preventive treatment for malaria in pregnancy (IPTp) is not routinely provided, nor are long-lasting insecticide nets (LLINs) made available during antenatal consultations.

169. In addition to weak health care services, the poor quality of air and water contributes significantly to Togo's poor health outcomes. Ambient air pollution—which has been linked to Togo's leading cause of death, lower respiratory infection (Mehta et al. 2011)—is a growing problem that compromises the sustainability of any improvements made in health and well-being (World Bank 2015b). Over 90 percent of households use solid fuels (wood and charcoal) as their primary cooking fuel, and only

¹⁴⁹ More evidence is needed on the reasons for low contraceptive use, as this area is not covered in the recent Demographic and Health Survey.

Table 45: Mortality Rates by Selected Causes 2012-2013

	(Per 100,000 population unless otherwise specified)				
	Senegal	Benin	Ghana	Togo	Nigeria
Under 5 mortality rate (per 1000 live births)	55	85	78	85	117
Maternal mortality ratio	320	340	380	450*	560
Deaths due to HIV/AIDS	14	31	41	100	129
Deaths due to Malaria	57	79	69	83	107
Deaths due to Tuberculosis among HIV negative	21	12	4	12	94

Source: WHO

*National estimates = 401

Table 46: Percentage of Females and Males with Comprehensive, Correct Information about HIV

	2010	2014
% of females ages 15-49	29.5	20.3
% of males ages 15-49	41.9	32.9

Source: WDI

Nigeria gives some indication of the productivity losses associated with poor health care for agricultural workers. Among Nigerian sugarcane workers, those provided with proper diagnosis and treatment of malarial symptoms received a 10 percent wage premium—presumably reflecting an expected 10 percent increase in their productivity (Dillon et al. 2014). Scaling this effect by the relative malaria death rates in the two countries results in estimated lost productivity of 7.7 percent (relative to that obtained with proper diagnosis) for similar workers in Togo—a sizeable percentage of income, particularly for poor people. Yet there is little indication that the general health status of the population is a major impediment to off-farm private investment and job creation. Among informal firms surveyed in Lomé, businesses lost only 6.5 days per year of business due to illness, which represents a small percentage of total working days (TRIFS 2015). Formal firms in the country’s three main cities reported losing 11 worker-days due to illness on average per year, or two worker-days per employee (TFFS 2015). Similarly, only 12 percent of firms consider the health status of workers to be a major or severe obstacle to their business, and essentially none consider it to be among their top two obstacles.

171. While health issues do not appear to obstruct firm entry and aggregate productivity growth, poor health constrains the opportunities and productivity of the poor through other channels, as well as their overall lifetime well-being (Table 47). Given the fundamentally important nature of health and nutritional status, and the high estimated costs of preventable disability, illness, and morbidity to poor people, women, and children, Togo’s weak

8.5 percent cook with clean natural gas or electricity (INSEED 2015). This factor should be studied, along with vehicular and other emissions, and addressed as potentially leading causes of Togo’s high rates of death from respiratory infection.

170. The poor health status of Togo’s population could adversely affect investment, job creation, and productivity, especially in rural areas. A recent study in

Table 47: Tests of Key Constraints in Health

<i>Tests of binding constraint to growth on key pathways</i>	<i>Pass?</i>
High cost to actual or potential enterprise?	✓
Circumvention of constraint evident?	-
Few actors present requiring alleviation of constraint?	-
Correlated with growth or investment?	n.a.
<i>And/Or:</i> Unusual disparities in service?	✓
Severe effects on well-being?	✓
Affects large number of people?	✓

✓ = passes test. - = does not.

n.a. = no test available.

performance in this area represents a key constraint to economic inclusion and the well-being of the population.

4.11. Gender Inequalities

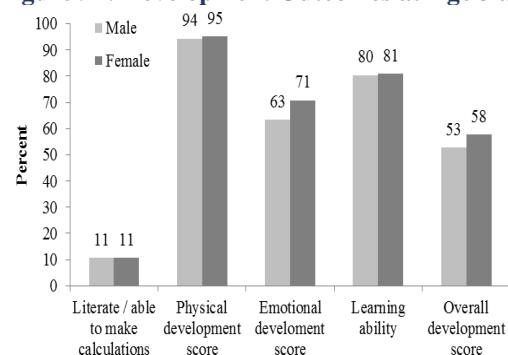
Main Messages:

- Cultural and legal obstacles affect women and girls' access to opportunities, particularly to attend secondary school, earn equal income to men in the labor market, access inputs when working as small entrepreneurs, and enjoy more secure land tenure in rural areas.
- Through these issues, as well as through harassment, limited autonomy, and pressures for early marriage, gender bias impedes the full utilization of the talents and abilities of half of Togo's workforce and represents an important constraint to equity of opportunity.

172. **Cultural and legal obstacles affect the ability of Togolese girls and women to improve their incomes and well-being.** Togolese parents tend to value girls' education highly, and at very young ages development outcomes are similar for girls and boys (Figure 94). School enrollment rates are reasonably high through age 11 for both sexes. However, there is a significant gap between boys' and girls' enrollment in secondary school (Figure 96). This may be in part because girls are more engaged than boys are in helping in the household or family businesses (Figure 95). Yet perhaps more important to explaining this gap is the gender disparity in returns to employment.

173. **Women face gender barriers in accessing employment and, if employed, earn less than men do.** Although women work informally and at home, men are 24 percent more likely to be in a paid job than women are.¹⁵⁰ The share of Togolese firms with female participation in ownership (32 percent), the proportion of female full-time workers (25 percent), and the proportion of firms with a female top manager (15 percent) are low, albeit similar to SSA averages.¹⁵¹ Once employed, men earn significantly more than their female counterparts do. Controlling for experience, years of education, ability, and location, women earn 71 cents on the dollar that men earn, due to the combined effects of differences in occupation, sector of employment, and gender-wage premiums (Appendix Table 15).¹⁵²

Figure 94: Development Outcomes at Age 3 and 4



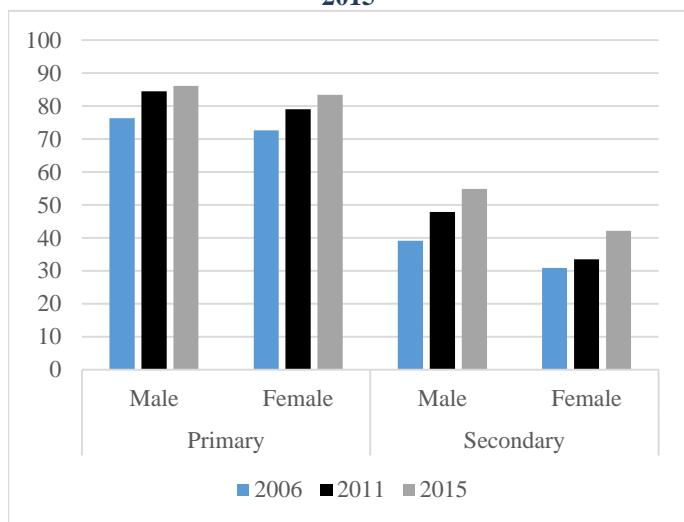
Source: MICS 2010

¹⁵⁰ Until recently, by law, persons (which in practice meant women) could only be employed to the extent that their spouses did not object and make this objection known to the prospective employer. Togo, along with Mali and Côte d'Ivoire, has recently reformed this law.

¹⁵¹ These are slightly lower than the global averages of 35 percent, 31 percent and 18 percent respectively. The inclusion of micro enterprises in the sample for Togo actually reduces the percentage of female ownership, so using the sample more similar to WBES would make Togo's percentage of female-owned businesses more similar to other countries.

¹⁵² World Bank staff estimates, using QUIBB 2011. Econometric analysis of the determinants of hourly rates of compensation also controlled for unobservable ability or advantage, which may affect selection into employment. The variables used to identify the model (excluded from the second stage) were whether or not the individual's mother and father were still alive.

Figure 96: School Enrollment by Gender, 2006, 2011, and 2015



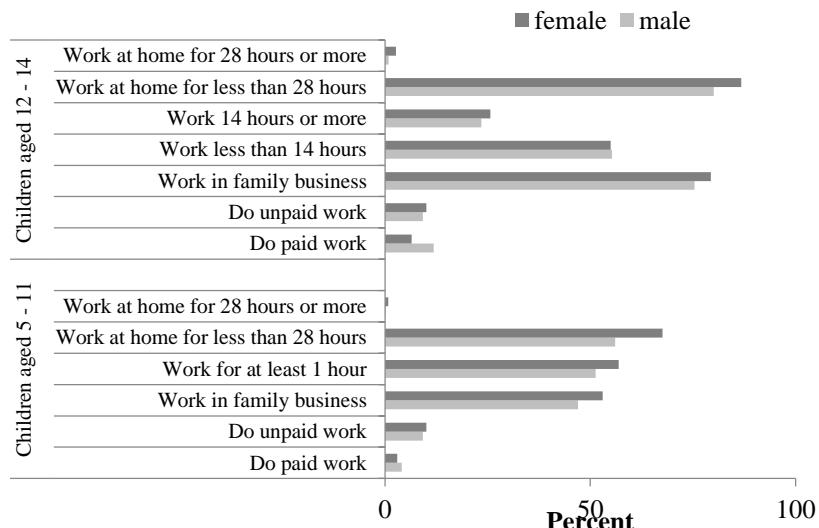
Source: QUIBB

access to household labor and informal credit. Female entrepreneurs also have greater unpaid caretaking responsibilities than men, spending on average 19.3 hours per week caring for children and the elderly, relative to 8.8 hours for male entrepreneurs. In addition, although educational disparities do not explain differences in profits, female entrepreneurs may more frequently cut short their education to run businesses than men do.¹⁵³ Once access to inputs is taken into account, however, returns do not vary between male- and female-owned businesses.

175. Among formal firms, female ownership appears to have little effect on opportunities and profitability. Access to inputs is equal, and there is no statistically significant relationship between the gender of the owners and profits or sales. However, formal businesses owned at least partially by women appear to receive more requests for bribe payments

174. Customary law and cultural attitudes appear to pose significant barriers to women's entrepreneurship. While statutory law is relatively progressive (especially with the 2012 reforms to the Family Code), Togo's Ordinance Number 78-35 of 1978 allows for the application of customary law across several areas that are critical for doing business: the capacity to contract and inherit, in addition to the right to marry and divorce (Hallward-Driemeier and Hasan, 2012). Profits of informal female-operated firms are 62 percent lower than are those of their male counterparts, due largely to differential management practices and access to inputs (BIFS 2013). Female-owned informal businesses are more likely to be operated either without a fixed location or in the home, and have less

Figure 95: Activity Rates of Children by Gender



Source: MICS 2010

¹⁵³ Among female-owned informal businesses, an estimation of total earnings on cognitive ability, assets, sector, and education found no statistically significant relationship between educational attainment and enterprise income, whereas the estimated return is approximately 7 percent per year for men. The most likely explanation is selection bias: women with entrepreneurial opportunities or ability may undertake less schooling in order to pursue these, whereas men are less likely to do so. For women, but not for men, cognitive ability and experience in the field raise earnings significantly, controlling for educational attainment.

(TFFS 2015),¹⁵⁴ and are more likely to report that interactions with tax authorities have worsened since the establishment of OTR.

176. A lack of female autonomy compromises women's ability to participate in the economy. Among female entrepreneurs in Lomé, 44 percent cannot go to the market or to the health clinic for health needs without their husbands' permission (BIFS 2013). Among young married urban women with at least a high school-equivalent education, 41 percent cannot go to the market without permission, 65 percent cannot go to visit friends or family in their city, and only 41 percent have money that they can spend without their husband's permission (World Bank 2013c). Furthermore, over 20 percent of the population believes that it is acceptable for a man to beat his wife for certain reasons (RT 2013c).¹⁵⁵

177. Sexual harassment in the workplace is also an important constraint to women's opportunities. In a recent survey, young graduates expected that 55 percent of women face harassment when seeking a job or a promotion, and 58 percent of young people know someone personally who has been a victim of sexual harassment in the workplace (65 percent of female respondents and 55 percent of male respondents) (World Bank 2013c). Furthermore, 40 percent of young women have been victims of sexual harassment during their own job search (World Bank 2013c). Similarly, informal entrepreneurs in Lomé expect that 58 percent of female entrepreneurs face sexual harassment in the context of operating their business, and 13 percent of female entrepreneurs were victims of business-related sexual harassment in the previous twelve months, 69 percent of which were victims multiple times in the same year (World Bank 2013c).

178. Gender differentiation also pervades work roles and labor markets in rural areas.

There are clear gender differences in the types of labor that men and women provide in agriculture, if the number of discrete tasks performed in agriculture is any indication. Men perform more than twice as many person-interventions as women (Table 48).¹⁵⁶ Off-farm work tends to differ by gender as well. Among rural households engaged in secondary activities, rural women are more likely to work in trading activities than men. Men are also more likely to be artisans or livestock producers (Table 49).

Table 48: Person-Interventions in Food Production by Gender and Region, 2012-2013

Region	Men	Women	Total
Maritime	219,233	84,704	303,937
Plateaux	913,302	233,414	1,146,716
Centrale	502,181	64,401	566,582
Kara	1,164,820	239,467	566,582
Savanes	776,412	570,954	1,347,366
Total	3,575,948	1,192,940	4,768,888

Source: RT 2014b.

¹⁵⁴ Women-owned firms report in higher numbers bribe requests during the following transactions: request for an import permit (48 percent of female-owned firms vs. 9 percent of male-owned firms), during transport stops (21 percent female-owned vs. 16 percent male-owned), and when importing or exporting. Whereas they cite access to finance as one of their top two constraints in higher percentages than their male counterparts, there is no evidence that women-owned firms receive fewer loans or more loan denials than male-owned firms.

¹⁵⁵ According to the same survey, only 10 percent of women have experienced some form of domestic violence. Women may have underreported instances of domestic violence for fear that their husbands, who also interacted with the same surveyor, would learn of it. While the numbers may also be biased for similar reasons regarding opinions on when it is acceptable for a man to beat his wife, the following scenarios were the most accepted: 22 percent for drinking alcohol, 21.1 percent for talking back to their husbands, 19.7 percent for having an unknown visitor, 17.7 percent for being negligent toward the children, and 15.5 percent for going out without permission.

¹⁵⁶ A person-intervention is defined as the execution of a task (such as planting or harvesting) by a person. It is not a time-input measure.

Table 49: Secondary Activities of Agricultural Population by Gender

	Men	Women
Agriculture	20.6	22.5
Livestock Farming	45.6	24.4
Fishing	1.4	0.4
Artisanry	10.6	4.2
Trading	5.9	34.8
Transport	4.0	0.6
Service	2.8	1.5
Manufacturing	3.0	7.6
Building/ Public Works	0.4	0.2
Public Administration	1.2	0.4
Forestry	0.2	0.1
Forest Harvesting	0.4	0.4
Other	3.9	3.0
Total Engaged	433,481	476,153

Source: RT 2014b

related obstacles on productivity in agriculture—are not available for Togo.

180. Although Togo's legal framework provides the basis for improving gender equality, the remaining problems of harassment, limited autonomy, pressures for early marriage, disparate wages, difficulties in accessing adequate health services, and differential access to land remain. As a result, the issue of gender discrimination, although at a level similar to many other countries, remains a major inclusion issue in Togo, impeding the full utilization of the talents and abilities of half of Togo's workforce. Gender inequality therefore represents an important moderate constraint to equity of opportunity and inclusion (Table 50).

179. Rural women have more limited access to land and other inputs than men do. On average, the farms of female-headed households are half the size of those of male-headed households—2.19 versus 4.35 hectares (RT 2011). Yet there is no detectable gender disparity in the frequency of responsibility for plots under cash crop cultivation (RT 2014b), and female land “ownership” rates have increased from 2006 to 2011 (RT 2011). In addition, Togo's laws grant women the right to own land. In many communities, however, cultural tradition dictates that only males may inherit or own property. To the extent that women have less secure tenure, this may reduce the incentives for women to invest in productive inputs (Ali et al. 2014, Goldstein et al. 2015). Unfortunately, the data that would be needed to link access to land, tenure arrangements, and use of other non-land productive inputs to gender—and thus to disentangle the effects of gender-

Table 50: Tests of Gender Inequality as a Key Constraint

<i>Tests of binding constraint to growth on key pathways</i>	<i>Pass?</i>
High cost to actual or potential enterprise?	-
Circumvention of constraint evident?	-
Few actors present requiring alleviation of constraint?	-
Correlated with growth or investment?	n.a.
<i>And/Or:</i> Unusual disparities?	-
Severe effects on well-being?	-
Affects large number of people?	✓

✓ = passes test. - = does not.

n.a. = no test available.

5. Summary of Findings and Pathways out of Poverty

5.1. Summary of Findings

181. **The Diagnostic Results Diagram (Figure 97) summarizes the findings from this systematic diagnosis of Togo's key constraints and opportunities for poverty reduction.** Togo faces key deficits in all three SCD pillars: inadequate growth, weak inclusion, and a lack of sustainability. As highlighted at the bottom of the figure, Togo's system of governance has not evolved in a manner that is conducive to strong accountability to all sectors of the Togolese population. The system of governance results in the interrelated problems of weak control of corruption and low government effectiveness in formulating and implementing policies on private economic activity (including in agriculture), poor fiscal governance, and low government effectiveness in setting priorities for and delivering public goods and services. These broad channels affect many specific issues and constraints in the country, but through the evidence presented in Section 4, one can identify those that are most binding for growth, or otherwise key to inclusion or sustainability, as shown in dark blue.

182. **Table 51 shows a more detailed prioritization of issues according to the three SCD pillars along the dimensions of severity of a constraint and, for sustainability risks, the timeframe for such risks.** The current binding or key constraints are in the left hand column in bold. These are (1) poor governance (in particular, weak control of corruption and low government effectiveness), a reality that perpetuates and constrains progress in alleviating the other constraints identified. It leads in particular to (3) barriers to entry and large distortions to incentives for private economic activity, through poor formulation and implementation of policies and regulations vis-à-vis productive sectors, including agriculture, mining, services, and manufacturing. These barriers include state ownership of commercial sectors and skewed implementation of policies and regulations on private activity. Another binding constraint, closely related to the others, is (4) the country's changeable, onerous, complex, and distortionary tax system (comprised of both the tax laws and their implementation). As a result of this constraint, smaller enterprises that are less directly affected by other barriers (Constraint 3) struggle to gain a footing and grow under the terms of the tax system. Other potential investors in manufacturing, services, agriculture, and mining must seek special exonerations or other tax shields. Moreover, by taxing revenues at the juncture of the informal and formal agricultural economy, the country's tax system impedes the commercialization of agriculture and the development of agricultural service sectors. These constraints greatly limit the scope for inclusive growth: the level of private investment and entrepreneurship is low, as are productivity growth, wage growth, and improvements to agricultural productivity and incomes. These constraints go a significant way toward explaining the country's low returns to labor and land, the main assets that poor people possess.

183. **These issues are intertwined with the most crucial sustainability risk that Togo faces, that of macro fiscal risk (Constraint 2).** Because the tax base is narrow, fiscal management is poor, and state-owned enterprises are not financially sustainable, the country has oscillated between fiscal crisis and rebound growth since it shifted to a state-led growth model in the 1970s. Just a few years after HIPC debt relief in 2010, public debt has grown rapidly, raising serious risks of another fiscal crisis.

184. **Adding to these is the key equity and inclusion issue of poor disease prevention and health (Constraint 5).** Good health is a prerequisite for well-being and a productive life, and it disproportionately affects poor people, women, and children; yet Togo has not made adequate public efforts in disease prevention or curative care, despite relatively high (public and private) spending on health.

185. **Addressing these five key constraints can be considered a necessary condition without which progress toward the World Bank's twin goals will be at best slow and halting.** Whereas solving other

issues can have incremental positive effects and reduce future risks, if these constraints are not also alleviated, the results of other poverty reduction reforms and investment efforts will likely fall short.

186. **Infrastructure constraints, while not among the key (binding) constraints to inclusive growth, are moderately constraining (Table 51, middle column (top)).** Particularly problematic are: (i) the high cost of electricity provision for productive purposes, a factor that is particularly constraining to manufacturing and services sectors; (ii) the high cost and poor quality of ICT services, which impede Togo's ability to leverage its comparative advantage in logistics, finance, and other services; and (iii) local public infrastructure such as feeder roads and water control systems, which are not binding on a national scale, but which appear at least moderately constraining in some localities. Although inadequate water service is not a binding constraint to growth, the lack of clean water in some areas of the country is an important contributor to poor health outcomes and presents an equity issue.

187. **Some additional analytical and data gaps remain.** In particular, the following factors are not well understood:

- How severely constraints in the land regime may obstruct large investments and commercial agriculture, the productivity of women agriculturalists, and improved land management;
- The degree to which inadequate provision of agricultural extension services limits agricultural productivity growth in Togo's current investment climate;
- The severity of constraints in the provision of adequate feeder and other location-specific road investments (given that road-specific traffic counts, costs, and international roughness indices are lacking);
- The impact of pricing behavior in the maritime sector on trade and competitiveness; and
- The effects of tariff and nontariff barriers on growth and distributional outcomes, particularly as WAEMU implements a common external tariff.

There are also gaps in capturing data on environmental conditions, and gaps in existing household-level data, which make it impossible to link circumstances, assets, inputs, infrastructure, and prices to income and consumption. The new West African household survey harmonization initiative will help to fill this latter gap.

188. **Given the nexus of constraints associated with fiscal expenditures, taxation, and public service provision, a priority analytical agenda for the Bank going forward would be:**

- A full public expenditure review, which would include an assessment of the allocation and impact (value for money) of public expenditure.
- A more detailed study of options for reform of Togo's tax regime, given the economy's current level of formality and implementation constraints.
- Additional (cross-disciplinary) analytical work to understand the main causes of poor health service delivery and access, as well as the drivers of high rates of preventable disease and options for reform of the sector.
- A study of the potential benefits and risks of, and options for, pursuing decentralization of public functions and authority. This agenda, under discussion in Togo for some time, is a potential avenue for reducing the concentration of authority in the central government, and if pursued effectively, for improving service delivery and responsiveness to citizen voice.

5.2. Pathways out of Poverty

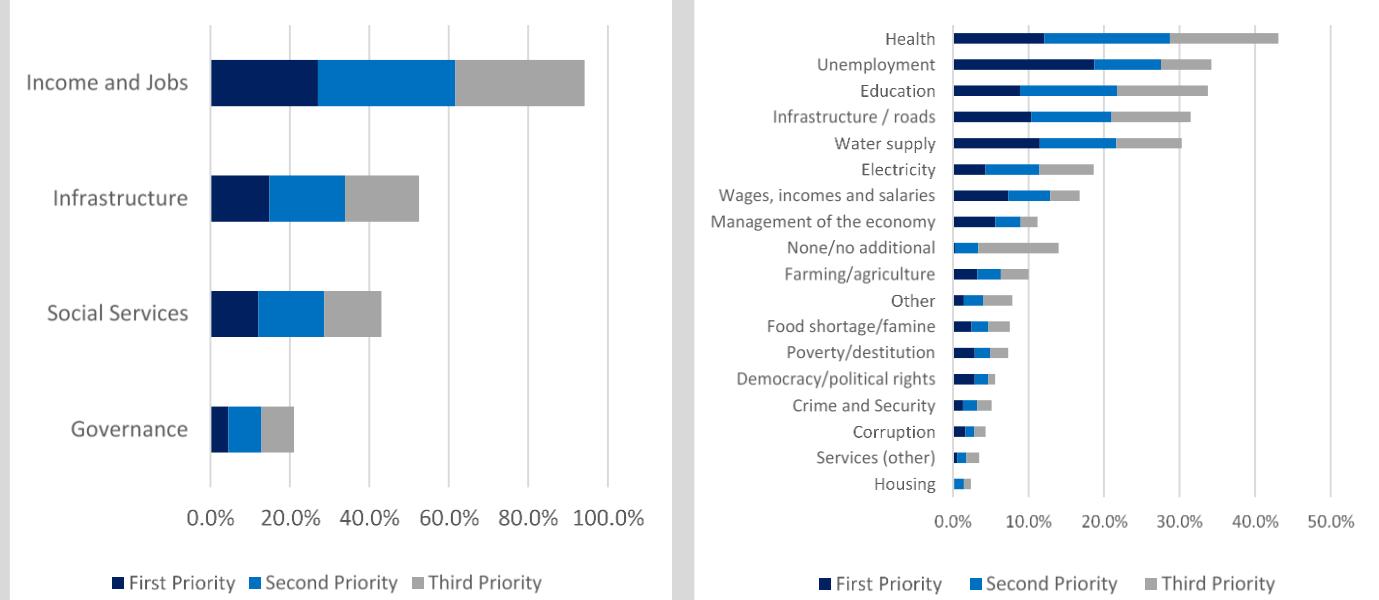
189. **Given Togo's general decline in real living standards between 1980 and 2005 and its only partial success over the past decade in expanding and broadening the economy, there is no route out of poverty that does not involve significant reforms to accelerate inclusive growth.** While it will also be necessary to address the most pressing issues regarding equity and the well-being of poor and vulnerable people, this diagnostic makes it clear that such efforts alone will not be sufficient. The main priorities of the Togolese population are consonant with an emphasis on income-generating opportunities, but reflect weaknesses in health and other service delivery (Afrobarometer 2015 Box 2). Greater scope for a more inclusive, dynamic growth process led by private economic activity would help build an economy that is more resilient to shocks and enable a virtuous circle of rising incomes, expanding fiscal resources, and an increasing ability to pay for public and other services to improve well-being. In particular, a more expansive and diversified private sector, increasingly formal and productive, is needed to spur a virtuous circle of increased opportunities and living standards. If current trends persist, two-thirds of Togo's population could be living in urban areas by 2025, and if more formal and productive nonfarm employment opportunities continue to lag behind, Togo's increasingly educated workers will either go abroad (where they can only contribute to Togo's economy through remittances) or remain employed in low-productivity informal enterprises. Togo has many opportunities to harness this workforce, given the natural assets that it has yet to fully exploit—in particular, relatively beneficial conditions for agriculture, a location in the heart of the Economic Community of West Africa, and a comparative advantage in maritime and related transport services. Mineral wealth presents both opportunities and risks.

190. **Togo's course toward the twin goals can be charted along four essential, interrelated pathways:** (1) *Growth in increasingly formal and productive off-farm businesses for more remunerative employment.* To lift half of the Togolese population out of poverty will require consolidating and accelerating the tentative structural transformation that is currently underway. This pathway is important not only for areas near Lomé and other cities, but also for residents of remote areas such as rural Savanes, where temporary or seasonal workers currently cannot earn enough to exit poverty, and where climatic conditions are unlikely to support sufficient growth in agricultural livelihoods to raise the population out of poverty. (2) *Transformation of agriculture toward more productive, higher-value, and sustainable smallholder and commercial production, a more vibrant agricultural service sector, and agricultural jobs.* The agriculture sector can be a major source of poverty reduction and is important as a generator of agricultural wage jobs, food security, and supplies to the urban sectors. (3) *Reduced fiscal and political risk and improved value for money in public expenditures.* (4) *Improved health status of the population, especially the poor and vulnerable.* For pathways (1) and (2) to be successful, private actors—including smallholders in agriculture, micro and small businesses, and larger private entrepreneurs—will need to identify and make productive investments, create value, and stimulate expanding and increasingly remunerative employment opportunities. Rising income in the agricultural and nonfarm sectors would increase demand for goods and services provided by the other sector, strengthen supply linkages, and increase the productivity of land and labor—the assets that poor people possess. It is not possible to predict Togo's precise areas of comparative advantage in a less distorted environment for private economic activity, and it is best for the government to adopt a broad, supportive posture rather than to pick winning sectors. One can, however, envision a Togo with expanded and diversified services sectors—for example, those that provide inputs and add value to an increasingly productive and commercial agricultural sector. The country could expect growth in hospitality, logistics and trade services, retail sectors servicing an increasingly prosperous population, and ICT services. To achieve greater productivity, new industries would be more formal and larger than the country's currently highly informal sectors, but small informal entrepreneurs would benefit from these developments by providing goods and services to a growing market. If Togo can alleviate constraints in the electricity sector, in input regulation and taxation, and in the total

Box 2: Priorities of the Togolese Population for Government Action

When asked what their greatest priorities are for government action, in the most recent (2015) Afrobarometer Survey, 80 percent of Togolese adults place income and employment issues among their top three priorities (see Left Panel below). These issues are followed by infrastructure issues, and then social services. Among specific priorities, after *unemployment*, *health* ranked second most frequently as peoples' top concern, and was the most frequently cited among their top three worries (right hand panel). Water supply and road infrastructure also rated highly among the most important issues, and education was among the most frequently cited second or third priority. Although rectifying historical under-investment in key public services is essential for improving the well-being of the Togolese people, the population gives a clear precedence to expanding economic opportunities and incomes.

Responses to Question "Which Problems are the Highest Priority for the Government to Confront?"



Source: Afrobarometer Survey 2015, a nationally representative random sample of 1200 Togolese adults.

tax burden, it could also see growth in light manufacturing sectors, which can create both high- and low-skilled jobs. Within a conducive public governance framework, such a process would in turn provide the resources to invest in the public goods and services needed to enhance well-being and enhance equity of opportunity, while also shoring up fiscal and environmental sustainability risks, the central challenges addressed by Pathways 3 and 4. More detailed steps are outlined below:

Pathway 1: Growth in increasingly formal and productive off-farm businesses for more remunerative employment: To unblock this pathway, Togo can build on recent progress by:

Addressing the key constraints:

- Putting in place arrangements and practices to reduce conflicts of interest and enhance the accountability, transparency, capacity, and independence of public entities carrying out the design and implementation of policies and regulations affecting private economic activity.

- Clarifying the investment code with more specific and limited rationales for denying approvals and a balanced and independent process for contesting them.
- Reducing the paperwork and the clearance burden for imports.
- Reducing the role of the state in directly owning and/or operating for-profit activities in sectors where more competitive markets can emerge.
- Establishing mechanisms to monitor the quality and consistency of regulatory actions and for impartial dispute resolution.
- Reforming Togo's tax framework to reduce the level of total taxation, simplify the tax code, and rebalance the risks that it poses to private entrepreneurs.

And taking complementary steps:

- Addressing the high cost and low quality of electricity and ICT services by:
 - Adapting institutional arrangements and practices to reducing conflicts of interest in the governance of these sectors.
 - Strengthening the independence and capacity of the electricity regulator.
 - Clarifying and reinforcing of the commercial orientation and managerial autonomy of the electricity company, CEET.¹⁵⁷
 - Fully embracing the logic of private competition to alleviate the high prices and poor quality of ICT services.
 - Strengthening the dialogue between the government and the private sector, in order to better respond with effective policies to changing needs.

Pathway 2: Transformation of agriculture toward more productive, higher-value, and sustainable smallholder and commercial production. Togo has begun to address some of the constraints identified, most recently adopting a plan to reform the fertilizer subsidy program. To ensure lasting progress, Togo should consider:

Addressing the key constraints:

- Enhancing the professional capacity, independence from conflicts of interest, and accountability for results of the functions performed within the Ministry of Agriculture and other public entities in the sector, including ITRA and ANSAT.
- Reforming the licensing process for providing veterinary services and providing public support as needed to strengthen animal health and traceability systems.
- Improving the flexibility, speed, and accountability of the country's seed registry, with expedited procedures for seeds registered elsewhere in the ECOWAS zone.
- Improving market access for basic food grain and other producers by:
 - Ensuring that export permits are provided consistently and efficiently;
 - Working within ECOWAS to lower NTBs.
- Ensuring that ANSAT's actions are more consistently favorable to producers (while also enhancing food security).

¹⁵⁷ Detailed reforms are needed to the parameters by which the boards of these two institutions are chosen and operate, with the aim of ensuring that they remain independent and professional.

- For example by adopting more efficient mechanisms for smoothing prices and availability. In addition to removing barriers to international trade in food products, it can facilitate grain storage by the private sector (Deaton and Laroque 1996; Gouel and Jean 2012).
- Alleviating revenue-based taxes on enterprises providing inputs, marketing/market access, storage services, value addition, or commercial-scale production in the sector and ensuring that requirements within the value chain for reimbursement of VAT are consistent with the informality of producers in the sector.

And taking complementary steps:

- Pursuing an integrated strategy to disrupt the vicious circle of deforestation and soil depletion, adverse microclimate impacts, reduced surface water, and declining productivity in rural areas.
- Facilitating the use of small-scale irrigation (especially in drier areas and valley bottoms) in a manner that draws on international experience and is suited to local conditions, including through user-managed and -financed systems.
- Assessing the viability of additional feeder road investments in specific zones where their absence is at least a moderate constraint to agriculture (in particular in Plateaux).
- Ensuring that sanitary and phytosanitary, labor market, and value chain regulations are supportive of commercial-scale agricultural operations, improved traceability, and sanitary systems
- Ensuring consistent application of (lower) import duties and other import requirements for agricultural inputs.
- Ensuring that road maintenance and road asset protection systems perform well and that roadblocks are minimized.

Pathway 3: Reduced fiscal and political risks, and improved value for money in public expenditures.

Addressing the key constraints:

- Strengthening the transparency and accountability of public financial management, with a clear separation between the budgets of various public entities and state-owned enterprises and controls on unbudgeted flows.
- Improving public investment management, including comprehensive systems to integrate information, monitor public investments and expenditures, and enhance value for money in procurement.
- Reducing the fiscal costs of public enterprises, either through privatization (where competitive markets would result) or increased commercial discipline, competition, and a clean, transparent, and disciplined separation of SOE and other public financial accounts.

And taking complementary steps:

- Improving value for money in service delivery and evaluate results, beginning in sectors with important fiscal implications and impacts on poverty (for example, health, education, and agriculture).
- Relying, whenever feasible, on private provision of infrastructure services (with appropriate PPP frameworks) and strengthening the autonomy and capacity of infrastructure sector regulators, while improving maintenance funding to achieve greater financial sustainability.

- Broadening the tax base by simplifying the tax code and reducing discretion in implementation, compliance requirements, and the total rate/burden of the system.
- Ensuring that any subsidies, including for fuel and fertilizer, are minimized, pro-poor, and cost-effective.
- Accelerating efforts to improve governance of the extractives sector, with an emphasis on monitoring production and sales, tracking fiscal receipts, and implementing suitable regulation.
- Utilizing limited, well-targeted cash transfers to reduce poverty to the extent that these are shown to be more cost-effective than other public service expenditures and to the extent that fiscal stability is achieved.
- Intensifying efforts to broaden and deepen dialogue with civil society and opposition groups, improve responsiveness to citizen voice, and show tangible progress in fulfilling outstanding agreements (including from the Global Political Accord).
- Considering ways to increase the government's responsiveness to the public investment priorities of regions, towns, and communities.

Pathway 4: Improved health status of the population, including the poor and vulnerable. To pursue this pathway in a cost-effective manner, Togo should consider:

Addressing the key constraints:

- Studying the primary drivers of poor health outcomes, which may operate across traditional sector boundaries (including health service delivery, air and water pollution, cooking fuels, and water service); and
 - Based on this diagnostic, implementing evidence-based interventions to improve disease prevention and health services, especially to address maternal health, respiratory infection, diarrhea, malaria, and other diseases that impose a high cost on the poor.
 - To enhance accountability and learning, monitoring and evaluating the results of measures introduced and adjusting as needed to improve cost-effectiveness.

And take complementary steps:

- Integrating environmental sustainability into Togo's public institutions and ministries, with clear roles and responsibilities to avoid the negative effects on air quality of the inefficient use of urban spaces, congestion, and other sources of poor ambient air quality, as well as increased pressures on clean drinking water sources.

191. It will be important to sequence reforms and interventions carefully, in light of Togo's difficult fiscal situation. Because education plays many roles in society, as noted under Pathway 3, Togo can and should improve the value for money in educating Togo's children and youth, to prepare them to benefit from expanding economic opportunities in Togo and to provide greater equity of opportunity to poor people and to girls and women. Moreover, after key priorities are addressed, Togo could expand direct cash transfer programs to poor people. There is recent evidence that in some contexts, transfers of cash or productive assets have lasting effects on the incomes and assets of the poor (for evidence from Western Kenya, for example, see Haushofer and Shapiro 2013). Even if pathways to higher growth develop rapidly, some transfers will be needed to address the country's most entrenched poverty. Distribution-neutral growth in Togo would have to be as high as 9.7 percent per year for the next 15 years to achieve a 3 percent extreme poverty rate (World Bank 2015e). Nonetheless, given the nature of the constraints identified, alleviation of binding constraints could result in a growth process that skews in favor of the poor. Moreover, given Togo's

current governance and fiscal challenges, a large transfer program in the context of modest growth may not be cost-effective. Thus, a prerequisite to a major expansion in government-financed transfers would be to ensure that the incidence on the poor of any resulting increase in taxation—through reduced job creation or remuneration, through a higher cost of living, or through the effects of macro-fiscal crisis—would not offset the benefits to poor people of such transfers. Improved fiscal governance would be required, in combination with alleviation of the high tax burden, which currently appears to fall, directly or indirectly, on poor people.

Figure 97: Summary of Results in Diagnostic Framework

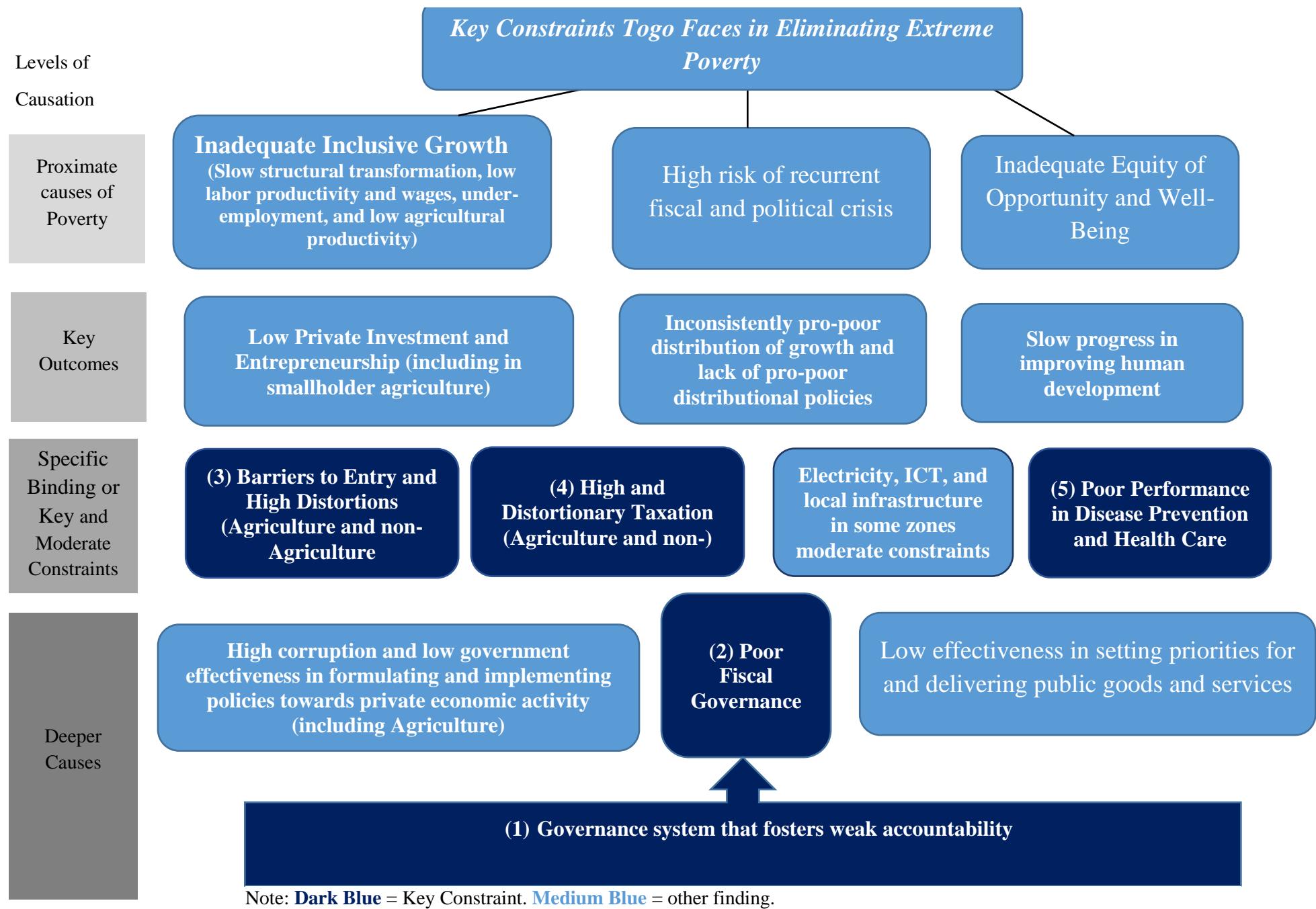


Table 51: Detailed Prioritization Matrix of Constraints and Risks by Severity and Timeframe for Sustainability Risks

Severity of Constraint :	Key or Binding Constraints to Poverty Reduction (Numbered as in Figure 97)	Moderate constraints	Mild constraints
Current constraints to poverty reduction through inclusive growth	<p>(1) Poor governance (low government effectiveness and poor control of corruption.)</p> <p>(3) Barriers to entry and binding distortions to private activities due to high-level corruption and poor policy and regulatory performance (Agricultural and non-).</p> <p>(4) High and distortionary taxes (in agriculture and non-agriculture)</p>	<ul style="list-style-type: none"> High cost of electricity for productive uses (especially manufacturing). Unreliable internet and costly telecommunications (services and manufacturing) Lack of local infrastructure goods such as feeder roads*, water control assets,* (agriculture) depending on locality 	<ul style="list-style-type: none"> Minimum wage regulation Skills deficits or mismatch High transport and logistics costs** Inadequate land titling system** Poor urban water service
Sustainability risks: <i>Short or medium term (1-10 years) constraint or risk to poverty reduction through inclusive growth</i> <i>Long term Constraint or Sustainability Risk to poverty reduction (over 10 years) through inclusive growth</i>	<p>(2) Current: Macro/fiscal crisis due to weak fiscal governance</p> <ul style="list-style-type: none"> (2-5 years) Political conflict or crisis Natural water availability and weather risk due to climate change 	<ul style="list-style-type: none"> Soil degradation Deforestation Coastal erosion** 	<ul style="list-style-type: none"> Inadequate security of tenure for smallholders Banking sector insolvency Microfinance sector insolvency Inadequate use of urban spaces for energy efficiency and disaster preparedness
Current constraints for inclusion and equity	<p>(5) Low accessibility and quality of health-related services and disease prevention (including medical services, insecticide-treated bed nets, improved ambient air quality and clean drinking water, where unavailable)</p>	<ul style="list-style-type: none"> Gender-based discrimination in economic and social spheres. Poor educational quality in poor and rural areas Poor urban water service. Worst forms of child labor and human trafficking. 	<ul style="list-style-type: none"> Insecure land tenure in rural areas.

*Rated higher in importance due to consultations, key analytical gaps remain.

**Analytical gaps.

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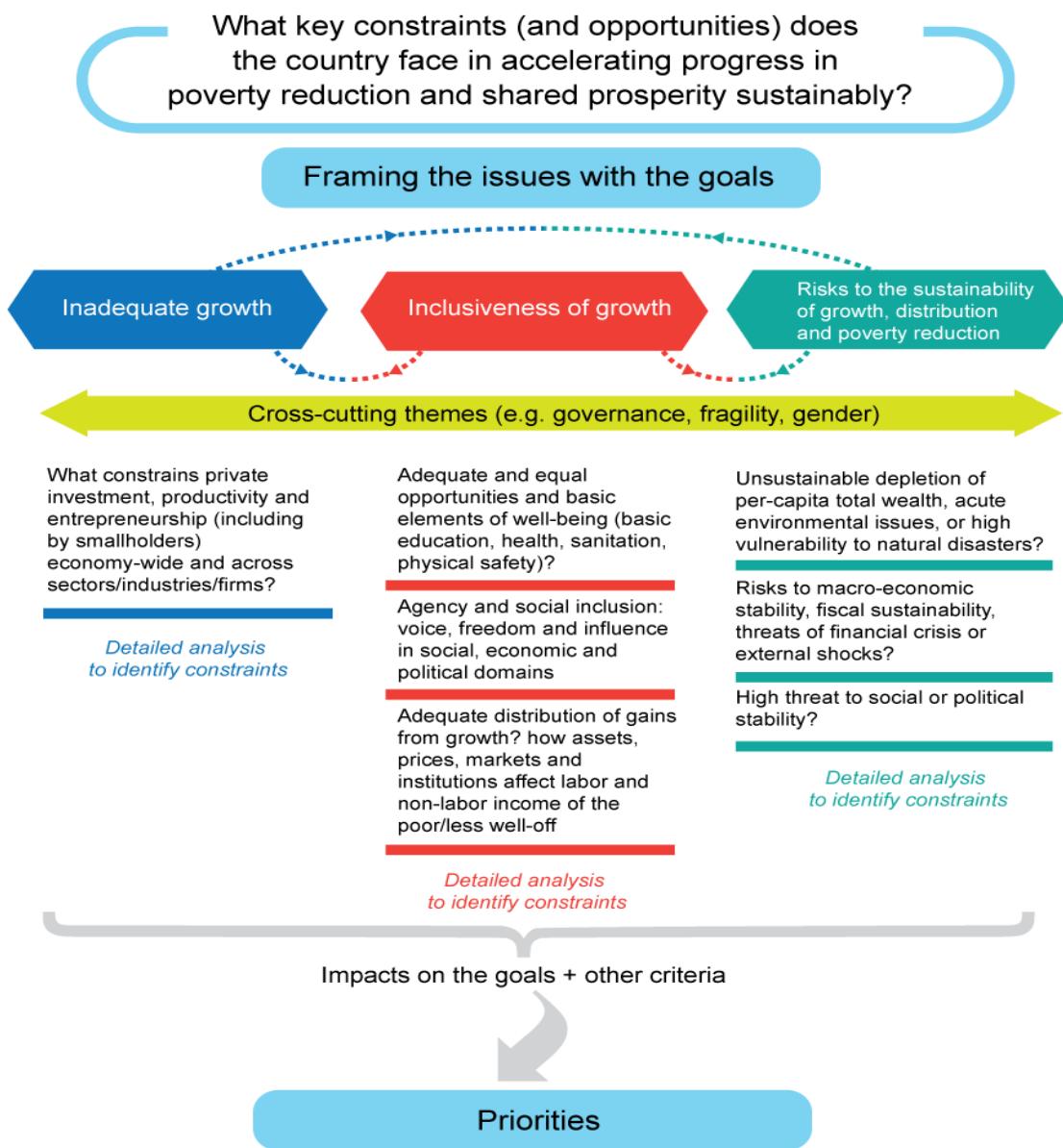
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Appendix A: Methodology and Data Appendix

Appendix Figure 1: SCD Guidance on Framing the Issues

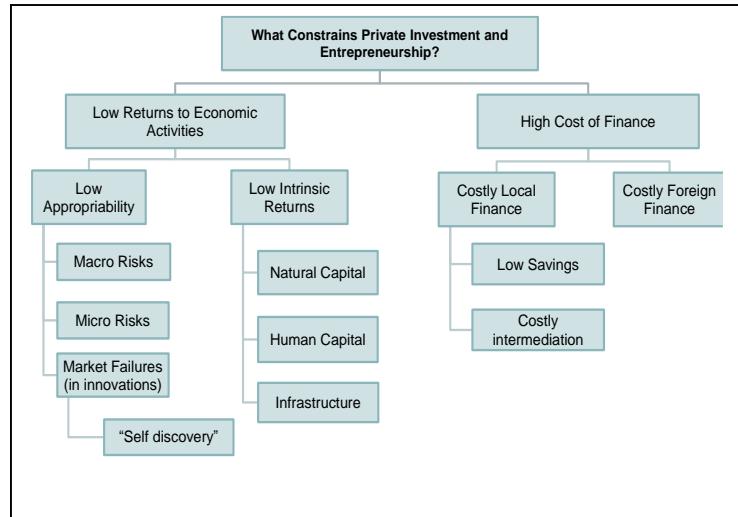


A.1 Detailed Methodological Discussion

192. The approach to diagnosing binding constraints to sustained, broad based growth proposed by Haussmann, Rodrik, and Velasco, and recommended by the World Bank SCD Secretariat, starts from two simple and uncontroversial propositions. First is the recognition that private investment and entrepreneurship—the process of identifying profitable business opportunities, productivity improvements, and innovations, and applying resources to the creation of value—are the primary drivers of sustained, broad based economic growth. Second is the recognition that these drivers mainly depend on scope to invest and the prospect of an adequate rate of return to the investor, given the risks as well as the costs of financing. These investors include the poor and agriculturalists, who must decide how much to invest in productivity-

enhancing inputs in agriculture, just as other entrepreneurs do. **The HRV approach suggests three general possibilities, as depicted by the three main branches of a tree (Box 1).** First, on the two left-most branches, returns to entrepreneurs in an economy may be too low to make investment worthwhile. This may be due to weak private “appropriability” of the economic gains from investments due a large distortions even where investments otherwise would be highly profitable (in this report this is called “distortions to private economic activity”). Alternatively, as depicted in the next (central) branch, private returns may be low because the intrinsic (social) returns are low due some lacking complementary factors such as infrastructure, natural capital (e.g., soil or water resources), or human capital (skills, education, and health). The third (right) branch captures the possibility that private returns are high, and thus there are sufficiently strong incentives to invest, but that the level of investment is primarily constrained by the high cost of financing.

Box 3: HRV Framework



193. **The approach requires a prioritization based upon a preponderance of empirical evidence.** The approach to developing such evidence proposed by Hausmann, Klinger, and Wagner (HKW 2008) serves as a general guide for interpreting the data and information available. To identify and rank constraints requires an examination of multiple symptoms or indicators of a high value (a high “shadow price”) to the economy of a specific constrained factor (e.g., investible funds or skill), through the application of up to 4 types of diagnostic “tests.” The approach is summarized in Box 2. To illustrate the diagnostic mindset HKW propose, take the example of skills. If a poor level of skills training were a binding constraint to growth, one would expect to see not only a low level of skills relative to other similar economies, but also signs of high demand for skills. In particular, one would expect to see: (i) a high return to individuals with the skills in demand; (ii) unusual and/or costly efforts by entrepreneurs to circumvent the constraint by using foreign workers, and/or spending on employee training; (iii) relatively few enterprises in the economy requiring high skills; and (iv) a correlation over time in the level of skills available and investment or growth. Some of these may not be feasible, depending on the issue and data.

In many cases, benchmarking was used in order to assess whether outcomes in Togo (e.g., skills levels or financing costs) should be considered “high” or “low.” Benchmark countries were chosen to have similar levels of income and, in some cases, to have similar historical or geographic features to those of Togo. For this reason, Benin, Cote d’Ivoire, and Ghana, as well as Senegal were selected. Mozambique and Tanzania were used to represent poor, coastal African countries with a different colonial influence. At the same time, comparing a country to others outside its region, even if dissimilar in these dimensions, can enrich the value of the comparisons and help avoid falling into the trap of comparing countries with similar constraints. Therefore, three Asian countries with the closest levels of GDP per capita to that of Togo were included – Bangladesh, Cambodia, and Nepal – despite their other dissimilarities. The precise choice of comparators for each benchmarking exercise is adapted to the availability of data and the question to be addressed, and

in some cases, high goal countries such as Mauritius may be included to illustrate contrasting cases or possibilities.

Appendix Table 1: Characteristics of Comparator Countries

	Population, total	GDP per capita, PPP (current international \$)	Merchandise trade (% of GDP)	Population density (people per sq. km of land area)	Rural Population (% of Total)
Low income		\$ 1,874.40	48.9	57	70.0
Sub-Saharan Africa (developing only)		\$ 3,358.31	50.6	40	63.4
Benin	10,323,474	\$ 1,790.75	46.9	92	56.9
Cote d'Ivoire	20,316,086	\$ 3,210.45	83.6	64	47.2
Ghana	25,904,598	\$ 3,992.09	65.1	114	47.3
Mozambique	25,833,752	\$ 1,105.07	83.8	33	68.3
Cambodia	15,135,169	\$ 3,041.08	146.3	86	79.7
Bangladesh	156,594,962	\$ 2,948.01	43.7	1203	67.2
Nepal	27,797,457	\$ 2,244.80	38.8	194	82.1
Senegal	14,133,280	\$ 2,242.00	63.3	73	56.9
Tanzania	49,253,126	\$ 1,775.06	51.7	56	69.8
Togo	6,816,982	\$ 1,390.52	84.1	125	61.0

Source : WDI

Rigor and Shortcomings of HRV/Growth Diagnostic Approach: The HRV methodology may appear to some to be insufficiently rigorous insofar as it relies upon indicators. However, any rigorous evidence on specific sub-questions (e.g., the returns to training) available can and should be factored into this approach. Moreover, there are no other real alternatives. Whereas Computable General Equilibrium modeling and econometric modeling can be used to explore sub-questions, it is not generally feasible to use these approaches in a single unified model containing all of the variables one needs to examine in a comprehensive diagnostic.

A complementary methodological approach, which could help illuminate the marginal impact of alleviating constraints at the household level, would be through an econometric estimation of household income or consumption as a function of productive factors. Factors such as land, skill, and other productive assets, productive inputs such as fertilizer, seed, ideally rainfall and soil quality, health status, road access, access to other infrastructure, *inter alia*, would be included in the analysis. If data on all these factors were available, and simultaneity issues could be addressed to identify causal impacts of each, this would be of significant value for the study. However, such comprehensive data are not available in an integrated data set for Togo (See Appendix Table 2). Moreover, the coefficients estimated may not explain *why* the returns to fertilizer, land, labor, physical capital, skill, or livestock were low, as all of these appear to be. Thus while informative as one piece of a larger diagnostic, such results may not tell us what the underlying constraints impeding a more robust economic transformation are.

A.2 Togo-Specific Data Utilized

Appendix Table 2: Togo-specific data used

Data set	Details/comparability to other data	Issues or gaps with data source
Togo Formal Firm Survey 2015 Undertaken for this SCD	Sampling frame: All firms filing tax declarations in 2013. This survey includes 34.2% were microenterprises, 45.5% small enterprises, 15.8% medium-sized enterprises, and 4.5 percent large enterprises, whereas the WBES for Togo conducted in 2009 included 58.7% small firms (with over 5 employees and less than 500 million FCFA in revenues), 29% medium-sized firms, and 12.3% large firms, Ten percent of firms had less than 4700 US\$ in annual revenues, 25 percent less than US\$ 15,000, and 50 percent less than US\$ 71,000. The TFFS surveyed firms in Lomé, as well as Sokodé and Kara, the country's second and third largest cities.	No agricultural firms were surveyed and few agriculture-service related firms due to inability to identify such firms from the population listing.
World Bank Enterprise Survey 2009	Survey of formal firms with at least 5 employees (no micro-enterprises)	Not representative of all formal firms in Togo.
QUIBB 2006, 2011, 2015	Household-level consumption and welfare indicator surveys	No data on access to or use of inputs apart from land. No community-level data on access to infrastructure or other public and private services. 2015 QUIBB is not representative at the regional level.
Agricultural Census 2011-2014	Surveys of agricultural households.	Detailed data on access to and use of inputs, but no data on production. Data quality issues make findings uncertain.
Togo Informal Firms Impact Evaluation Baseline Survey	Sampling frame: 1,500 informal companies in the non-agricultural sector in Lome who applied to a World Bank funded training program. To be eligible, the firms had to have less than 50 employees, have existed for at least 12 months, and not have registered at the Chamber of Commerce or the CFE.	Only includes entrepreneurs in Lome and does not include agricultural firms. Furthermore, as the entrepreneurs applied to a training program, they may have different characteristics than an average entrepreneur.

Togo Informal Firms Impact Evaluation Third Round Follow-up Survey	Sampling frame: The same 1,500 informal companies in the non-agricultural sector in Lome as in the Togo Informal Firms Impact Evaluation Baseline Survey. A random subset of 300 firms was selected to answer additional questions designed for the SCD on obstacles and reasons for informality.	Only includes entrepreneurs in Lome and does not include agricultural firms. Furthermore, as the entrepreneurs applied to a training program, they may have different characteristics than an average entrepreneur.
Togo Youth Employment Impact Evaluation Baseline Survey	Sampling frame: 3,700 youth who enrolled at ANPE and who were eligible for the program AIDE. To be eligible, youth had to be between 18 and 40 years of age, have a minimum degree of CAP or BEP, and have completed their studies. The program targeted youth with little or no professional experience.	Not representative of all youth and a higher concentration of youth in Lome.
Afrobarometer Survey	Political opinions survey of 1,200 individuals.	Includes a wide range of questions on political perceptions and actions; however, the questions are mostly opinion based rather than fact based.

Appendix B: Other Less Severe Distortions to Private Sector Activity

194. **Togo's most binding constraints to inclusive growth are barriers and distortions that severely impede the ability of households and enterprises to retain a sufficient share of the gains from their economic efforts.** At the same time, there are other risks and distortions that could distort private economic activity in Togo, but which do not appear to be binding – in particular, the country's labor market regulation, exchange rate levels, and land tenure arrangements.

B.1 Labor Market Regulation

195. Reasonable labor market regulation is important for guaranteeing worker health and safety, fair compensation, and decent working conditions; yet if such regulation raises the risks and costs of investing too much, it could hinder job creation and possibly pose a binding constraint to growth.

Appendix Table 3: Regulation of Labor Market Contracts

	Are fixed-term contracts prohibited for permanent tasks?	What is the maximum cumulative duration of a fixed-term employment relationship (in months), including all renewals?	Paid annual leave (working days) - 1 year	Is third party approval needed before dismissing one worker?
Bangladesh	No	No limit	17	Yes
Benin	No	48	24	Yes
Cambodia	No	24	19	No
Cote d'Ivoire	No	24	27	No
Ghana	No	No limit	15	Yes
Nepal	Yes	No limit	18	Yes
Senegal	Yes	24	24	Yes
Togo	Yes	48	30	Yes

binding for most firms. The majority (60%) of formal sector workers hold indefinite term contracts, and the average duration of definite term contracts falls well below 48 months (on average about 13 months). Only 16.4 percent of firms use hiring practices such as the use of consultants, independents, interns, apprentices, and temporary workers to avoid regulation. In addition, only one percent of firms hire foreign workers for greater regulatory flexibility (TFFS 2015). Yet 8.5 percent of formal firms claim they would have hired more workers if there were no labor market regulations.

197. **Togo's minimum wage appears to be the most problematic of its labor regulations.** Although low by many standards at 35,000 FCFA (US\$ 58) per month, it gives the highest ratio of minimum wage to average labor productivity of comparator countries (See Appendix Table 4), ranking 183rd in the world of 189 countries (Doing Business 2016). Given this misalignment, relatively few workers actually receive

196. Togo's labor regulation is not particularly restrictive with respect to the rules governing contractual terms and dismissal with the possible exception of paid leave requirements (Doing Business 2016. See Appendix Table 4). Although an enterprise's ability to adjust its workforce is important for its hiring decisions, Togo's requirement of a permanent (indefinite term) contract for workers employed beyond 48 months does not appear to be

Appendix Table 4: Ratio of Formal Minimum Wage to Value Added Per Worker

Country	Ratio of minimum wage to value added per worker
Bangladesh (Dhaka)	0.00
Cambodia	0.00
Rwanda	0.00
Ghana	0.26
Cabo Verde	0.30
Tanzania	0.46
Benin	0.65
Nepal	0.84
Senegal	1.14
Togo	1.25

Source: Doing Business 2016

the minimum wage. Of all paid workers formally and informally employed in 2011, 67 percent received less than the minimum wage (at the time) in their primary employment. Among informal enterprises, just over half earned less from their labor and asset income combined.¹⁵⁸ In addition, of the businesses using independent or temporary workers to avoid labor regulations, 23.4 percent did so to avoid paying the minimum wage; only 3.6 percent did so to avoid contract rigidity, and even less to avoid social contributions (3 percent) or hiring/firing procedures (3 percent). Moreover, 25.2 percent of firms pay a wage equal to the minimum, suggesting that it is binding for them, and may have dissuaded other potential investors. At the same time, only 11.4 percent of formal firms pay a wage below the minimum; and 63.4 percent of formal businesses pay all of their workers a wage higher than the minimum. These data suggest that although Togo's minimum wage is a potential deterrent to investment and job creation, there is no strong indication that it represents a binding constraint to growth.

B.2 The Exchange Rate, Exports, and Growth

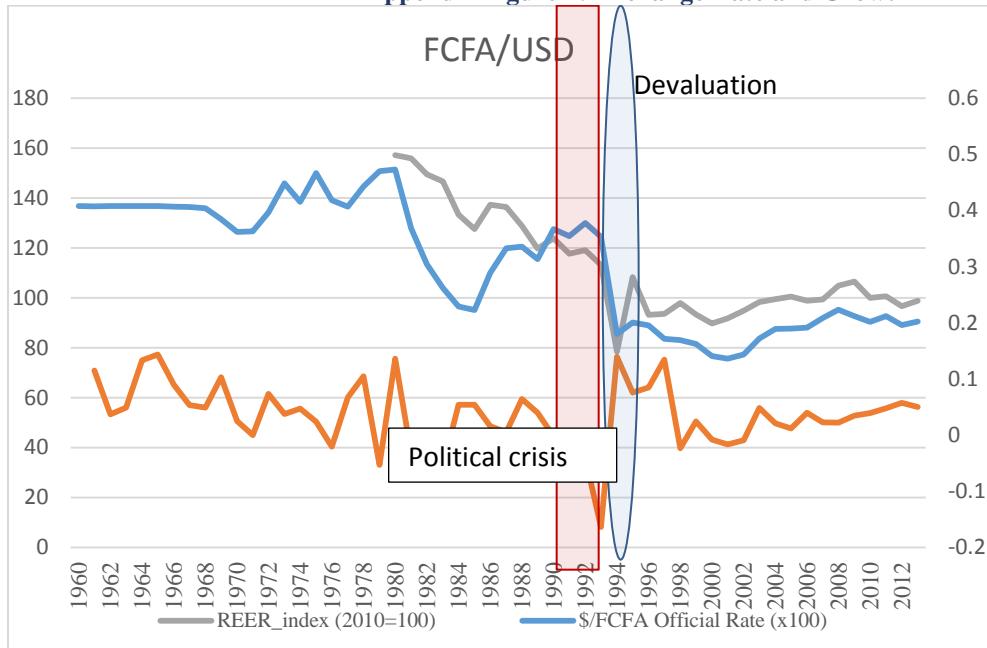
198. **The optimal arrangements for the currencies of the FCFA zone is a complex topic involving issues of history, monetary policy, control of reserves, and sovereignty, which go beyond the scope of this study.**¹⁵⁹ Yet for this SCD to be comprehensive, it must at least attempt to address a narrower question – whether the value of the currency has such a large and direct negative impact on Togo's international competitiveness and growth to constitute a binding constraint. If the FCFA were systematically over-valued, the price of Togolese exports in a foreign currency would be higher and disadvantage exporters and domestic producers. The FCFA has clearly been overvalued from Togo's perspective during various periods since independence, notably in the years leading up to the 1994 devaluation against the French Franc. Following devaluation, the economy enjoyed a 3-year growth spurt. Yet despite the fact that the official exchange rate (\$/FCFA) remained lower thereafter, subsequent economic growth returned to more modest levels consistent with long run averages. As shown in Appendix Figure 2, the real effective exchange rate (REER), which takes into account price movements within Togo and in trading partners, has remained consistently lower than the pre-devaluation period. The IMF's most recent assessment of the FCFA's alignment with fundamentals within the West African Monetary Union, using four methodologies, shows a slight overvaluation of between 1 and 9.8 percent (See Appendix Table 5 from IMF 2015b),¹⁶⁰ before the recent depreciation of the currency and the euro against the dollar.

¹⁵⁸ Staff calculations from World Bank BIFS (2013).

¹⁵⁹ See, e.g., Pouémi and Diawara (1980). For example, without greater control of monetary policy, Togo may not be able to smooth growth cycles effectively.

¹⁶⁰ The IMF states: The exchange rate appears broadly in line with fundamentals if the planned fiscal consolidation materializes. Four methodologies are used to assess the WAEMU's real exchange rate from different angles: "EBA-lite" provides a current account benchmark for 2013 based on the WAEMU's fundamentals relative to the rest of the world adjusted by a policy gap (the region's policies relative to an optimal level and relative to the rest of the world). The macro-balance and real equilibrium exchange rate approaches provide current account and real exchange rate benchmarks based on a set of fundamentals expected for the region and its trading partners in the medium term. Finally, the external sustainability approach provides a current account benchmark which is consistent with stabilizing NFA at -40 percent (median for lower middle income countries).

Appendix Figure 2: Exchange Rate and Growth



Source: WDI

199. **Although the FCFA regime certain presents complex issues for Togo.** It may not be the optimal arrangement for currency zone countries, and it precludes the use of counter-cyclical monetary policy. However, at least when the direct and proximate impacts on exports and growth are examined, there is no evidence that the value of the currency is binding on growth for Togo. First, if a misaligned or over-valued exchange rate were a binding constraint, in periods when the currency value was lower, growth or exports would respond positively.¹⁶¹ However, this is not the case whether one examines the correlation between the REER and exports or GDP growth.¹⁶² In addition, a test using the gravity model of trade shows no

¹⁶¹ As in the logic of the Mindbook test 4, the idea is not to test whether there is a statistically significant effect, all else equal, but rather to see if the effect is so large as to dominate other determinants of growth and exports through an unconditional correlation test.

¹⁶² Specifications utilized include: (i) instrumental variables in levels of the variables of interest, using the official exchange rate – a value exogenous to Togo’s economic adjustments—as an instrument for the REER, which adjusts endogenously; (ii) first differences to address a possible unit root in the exchange rates; and (iii) vector autoregressions to address possible lagged effects. Dependent variables were real exports of goods and services in local currency and real gdp in local currency. The only statistically significant results showed a positive correlation between the \$/FCFA exchange rate and exports and positive changes in the \$/FCFA and GDP growth – the opposite of what one would expect if a higher valued currency depressed exports and growth.

effect of being a FCFA country on exports relative to the predicted level of exports, once an indicator variable for Sub-Saharan Africa (which has a negative and significant coefficient) is included.¹⁶³ This does not mean that a devaluation would not have at least a temporary stimulative effect, all else equal, but that the effect is not sufficiently large to dominate other, more binding and persistent influences on Togo's exports and growth performance. Moreover, the structural benefits of a stable currency also need to be considered when assessing the merits of a change in exchange rate regimes, in addition to the likelihood in a country such as Togo of developing independent institutions for setting monetary policy.

B.3 Land tenure issues

200. **Togo's land tenure system is extremely inefficient.** Its formal land registration and titling system ranks among the most costly in the world, at 182nd place in Doing Business 2015. The time required to complete the registration process is the highest of the comparator countries, and the financial cost is among the highest at over 9 percent of property values (See Appendix Figure 3). Yet land markets are reasonably active: 27 percent of households have purchased land, and 26 percent have inherited land. Between 2006 and 2011, the percentage of households owning land increased from 49.2 to 59.2 percent – from 65.1 to 76.9 percent among rural households, and from 22.1 to 36.2 for urban households. Given the dominance of customary forms of tenure in rural areas, only 9 percent of rural landowning households had some type of land-related document in 2011, whereas 49 percent of urban households did. Formal documentation is also lower for low-income households (See Appendix).¹⁶⁴ Given the difficulties of obtaining a title, most land transfers occur without a formal transfer of title. More than 40 percent of transfers are recorded through a

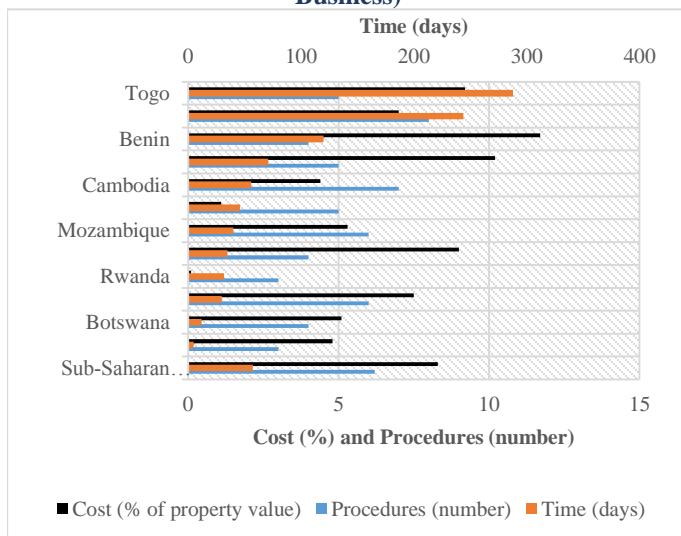
Appendix Table 5: IMF Estimates of Effective Exchange Rate Alignment with Fundamentals, West African Monetary Union Summary: Real Effective Exchange Rate Assessment

	Current Account/GDP		REER ¹
	Norm	Underlying ²	
EBA-lite	-5.7	-8.1	5.7
CGER			
Macrobalance	-7.6	-8.1	1.0
Equilibrium real exchange rate	8.9
External sustainability	-3.9	-8.1	9.8

¹Positive values indicate overvaluation

²Short-term incl. grants, medium term excl. grants

Appendix Figure 3: Costs of Registering Property (Doing Business)



¹⁶³ There are issues with data quality in all trade statistics, so results can never be entirely conclusive. To address self-reporting bias due to smuggling and illegal financial transfers, trade statistics of trading partners are used.

¹⁶⁴ In rural areas customary forms of land tenure are dominant, so a low level of titling is to be expected. By far the most frequent method of accessing land in rural areas is through inheritance, the method reported by 56 percent of households, followed by gifts at 18 percent, and rental for 13 percent

certified sale document (with three official stamps). Of all documents conferring ownership or use rights, only 13 percent in rural areas and 10 percent in urban areas were titles.¹⁶⁵

201. Land conflicts are costly and common. Approximately 12 percent of households have experienced a conflict over land, in both rural and urban populations (QUIBB 2011).

2011). In addition, six percent of formal firms have had legal issues related to land during the past 5 years, with only half of these resolved. Time to resolution averaged approximately one year, but for those still awaiting resolution, the average wait so far has been 880 days. Time spent on the case has absorbed 20 worker-days, and the financial cost has averaged approximately 2 million FCFA (source: TFFS 2015). The frequency of conflicts may be on the rise given population pressures and failures to provide transparent mechanisms to enforce land rights, and there are anecdotal accounts of people being pushed off their lands illegally. Therefore, the issue of regime legitimacy and social conflict intersect to some extent in the lack of legal protections for land rights of the poor.

202. Yet despite the significant cost Togo's inefficient land registration system imposes on households and businesses, it appears less constraining for investment and entrepreneurship than other issues. Purchasing land is a one-time transaction, which normally does not affect businesses on an ongoing basis, as long as no conflicts ensue. In addition, firms have other options, including rental or leasehold; thus, only 30.5% of formal firms own any land or buildings (TFFS 2015). Ownership is more common for firms outside of Lome (49.4%) and for those in manufacturing (71.5%). For those who do not own land, only 7 percent said this was due to the complexity of procedures. Many investors also seem to feel secure enough to invest without a title. Of land-owning businesses, only 40.4 percent have a title document; 20.2 have a certificate (with three stamps), and 29.4% have no document proving ownership. Only 10 percent of businesses who have ever lacked a land title say they had reduced the level of investment for this reason (TFFS 2015). In addition, although the land registration system may be a greater barrier to those not investing than those who do, there appear to be ways to manage this obstacle: Difficulty accessing land ranks only 15th among constraints most frequently considered major or severe by formal firms (TFFS 2015). Among informal entrepreneurs, this was the most severe obstacle for less than one percent of firms (TRIFS).

203. Moreover, ownership of land does not seem to be a prerequisite for accessing formal credit. Among formal firms, having land does not affect the probability of being denied credit: 64 percent of firms with landholdings experienced a recent loan rejection, whereas only 36 percent of those without land were rejected. Further econometric investigation shows no positive association between landholdings and loan applications or rejections, conditional on sector and size of the firm (Bank staff using TFFS 2015).

204. In agriculture, land tenure issues pose a mild obstacle for both commercial scale operations and smallholders. There are relatively few commercial scale agricultural plantations in Togo. However, based upon interviews, it appears that as long as local officials are favorable to an investment, they will help arrange land access. Sugarcane, horticultural, dairy, fisheries and other commercial agricultural investments that have taken place, if disrupted, have experienced issues associated more with rent seeking or lawlessness

Appendix Table 6: Percentage of Households with a Land Document

All	National Consumption Quintiles				
Rural households	1	2	3	4	5
8.87	4.39	4.44	5.07	9.71	18.05
Urban households					
49.04	24.59	48.56	43.99	62.26	67.74

Source: QUIBB 2011

¹⁶⁵ Source: Bank staff using QUIBB 2011.

rather than access to land or title disputes per se. For smallholders, greater security of tenure may affect incentives to invest in land and increase agricultural productivity. Although there is no direct evidence on this question for Togo, the empirical literature on land tenure in Sub-Saharan Africa suggests that the impacts of improved tenure arrangements on the continent, if any, are not large (Lawry et al. 2014). A recent study in Benin showed, for example, that in communities benefitting from land demarcation and formalization, households were one percentage point more likely to plant tree crops and in some cases fallow land to preserve soil quality (Goldstein et al. 2015). This suggests that tenure security may be an important obstacle to more productive and sustainable agriculture in Togo as well. Nonetheless, the size of the effect from the Benin study suggests an increase in income for a relatively small share of the poor population, at least in the short run.

205. **The evidence is somewhat mixed and incomplete on the issue of Togo's land system.** The available indicators suggest that Togo's cumbersome and insecure land rights regime elevates the risks of social exclusion and conflict and may disadvantage female farmers and foreign investors. However, they provide no clear evidence that it is a binding constraint to growth and poverty reduction in Togo's current context.

Appendix Table 7: Doing Business Trading Across Borders Indicators of Costs of Compliance with Border Procedures

Economy	Trading Across Borders								
	Rank	Time to export: Border compliance (hours)	Cost to export: Border compliance (US\$)	Time to export: Documentary compliance (hours)	Cost to export: Documentary compliance (US\$)	Time to import: Border compliance (hours)	Cost to import: Border compliance (US\$)	Time to import: Documentary compliance (hours)	Cost to import: Documentary compliance (US\$)
Nepal	60	64	226	19	85	30	156	48	80
Cambodia	98	45	375	132	100	4	240	132	120
Senegal	113	41	486	26	96	56	885	54	545
Benin	116	72	387	57	80	72	579	59	529
Togo	126	26	163	15	25	256	820	203	252
Mozambique	129	78	602	70	435	14	354	24	310
Côte d'Ivoire	142	110	364	120	136	125	456	89	267
Rwanda	156	97	183	42	110	282	680	290	366
Sierra Leone	164	55	552	134	227	182	782	137	387
Ghana	171	108	490	89	155	282	725	282	302
Bangladesh	172	100	408	147	225	183	1,294	144	370
Tanzania	180	96	1,160	96	275	402	1,350	240	375
Nigeria	182	159	786	131	250	298	1,077	173	564

Appendix C: Additional Exhibits

Appendix Table 8: Top 20 Togolese Goods Exports by Value (2013)

	Net weight in kg.	Value in US\$
Cement and Clinker	1,629,977,830	\$ 165,659,941.19
Cotton, neither carded nor combed	33,617,208	\$ 57,402,253.53
Transport or packing materials	27,192,492	\$ 53,200,427.67
Water, mineral water, and sparkling water	30,635,428	\$ 31,622,999.30
Wigs, beards, other hair product	4,260,147	\$ 24,936,484.23
Packing sacks	8,419,459	\$ 19,413,279.85
Plaits and similar articles	7,132,510	\$ 17,763,576.27
Milk and cream, including concentrated or sweetened	12,804,179	\$ 13,346,225.52
Other plates, sheets, films	14,359,700	\$ 12,085,723.26
Marble, travertine, limestone products	301,615,400	\$ 9,439,274.30
Mineral and chemical fertilizer containing 2-3 elements	14,359,700	\$ 9,342,871.28
Laminated plate products in iron, steel and other alloys	9,756,223	\$ 8,993,496.62
Iron ore and its concentrates	870,000,000	\$ 8,396,081.29
Petroleum or other bituminous oils, other than crude oils	5,988,127	\$ 8,207,892.74
Candies without cocoa	6,679,087	\$ 8,100,056.96
Cocoa, whole beans or broken, raw or roasted	4,431,105	\$ 7,826,242.79
Automotive transport vehicles	1,219,185	\$ 6,596,438.69
Coffee, whether roasted or decaffeinated, shells and husks	3,884,395	\$ 6,423,011.15
Seeds and oleaginous fruits, including crushed	27,731,474	\$ 5,562,812.79
Medications	457,724	\$ 5,023,026.17
Tarpaulins and Exterior Blinds, tents, and sails	2,356,000	\$ 4,982,592.50

Source: OTR

Appendix Table 9: Inequality Indicators

	2006	2011	2015
Gini coefficient	0.361	0.393	0.380
P90/P10	5.02	6.31	5.92
P75/P25	2.3	2.64	2.59

Source: INSEED 2015 using QUIBB

Appendix Table 10: Plot-Level Frequencies of Second Most Important Crop by National Consumption Quintile

	Q1	Q2	Q3	Q4	Q5
Maize	9	12.9	12.8	11	15
Manioc	12	18.8	19.2	25.7	26.8
Sorghum	16	13.8	14.9	11.4	8.6
Rice	4.3	4.2	3.7	3.4	2.7
Haricots/Niebe	12.4	11	14.6	12.4	16.7
Millet	14.4	6	2.3	3.2	1.2
Peanuts	8.9	5.7	4.4	4.4	3.1

Appendix Table 11: Percentage of Households Landless and Not Owning Livestock by Region

	Percent Landless	Percent with No Livestock
Lomé	83.8	87.8
Maritime	47.1	68.6
Plateaux	40.0	34.3
Centrale	22.3	34.7
Kara	24.2	28.9
Savanes	11.8	21

Source: QUIBB 2011

Appendix Table 12: Conditional Correlations with Per Capita Consumption, Demographic and Geographic Characteristics, 2015

.Explanatory Variables	All	Grand Lomé	Other Urban	All Urban	Rural
Constant	12,190***	12,622***	13,585***	13,192***	11,170***
Domain					
Rural	ref	ref	ref	ref	ref
Grand Lomé	0,171***	----	----	----	----
Other urban	0,311***	---	----	----	----
Number of Household Members by Age Group					
Age 0 to 4 years	-0,372***	-0,437***	-0,418***	-0,425***	-0,404***
Age 5 to 14	-0,389***	-0,508***	-0,397***	-0,463***	-0,376***
Age 15 to 59	-0,364***	-0,285***	-0,458***	-0,363***	-0,348***
More than 60	-0,309***	-0,150***	-0,325***	-0,217***	-0,366***
Age 0 to 4 years squared	0,040***	0,088***	0,078***	0,082***	0,043***
Age 5 to 14 years squared	0,027***	0,051***	0,024***	0,041***	0,026***
Age 15 to 59 years squared	0,018***	0,011***	0,027***	0,018***	0,016***
More than 60 years squared	0,080***	-0,028***	0,049***	0,005	0,123***
Gender of household head					
Female	ref	ref	ref	ref	ref
Male	0,192***	-0,112***	-0,751***	-0,527***	1,219***
Level of instruction, household head					
No education	ref	ref	ref	ref	ref
Primary	0,127***	0,006	0,023***	0,026***	0,169***
Partial Secondary	0,105***	-0,011	0,202***	0,062***	0,078***

Complete secondary	0,475***	0,439***	0,534***	0,481***	0,109***
Superior	0,018**	0,040**	-0,196***	-0,012	-0,002
Level of instruction, spouse of head					
No education	ref	ref	ref	ref	Ref
Primary	-0,069***	-0,007	0,028***	0,012***	-0,113***
Greater than primary	0,251***	0,333***	0,186***	0,283***	0,233***
Marital Status of household head					
Married (monogamous)	ref	ref	ref	ref	Ref
Married (polygamous)	0,219***	0,253***	0,281***	0,244***	0,191***
Widowed	0,425***		0,707***	0,508***	
Household head employment status					
Independent agricultural producer	ref	ref	ref	ref	ref
Public sector salaried	0,249***	0,133***	0,222***	0,165***	0,449***
Private sector salaried	0,125***	0,136***	0,122***	0,101***	0,102***
Other independents	0,165***	0,248***	0,115***	0,179***	0,045***
Not working	0,107***	0,054***	0,183***	0,067***	0,107***
R ²	0,627	0,657	0,509	0,552	0,6090

Appendix Table 13: Return on Assets (ROA) Pre- and Post- Tax, Formal Togolese Firms (2014)

		Location of HQ		Sector					
		All	Interior	Lome	Manufacturing	Construction	Commerce	Other services	Agriculture related*
Gross Return on Assets	Mean	146.0%	59.0%	149.0%	23.5%	223.1%	133.1%	138.4%	75.1%
	Median	29.2%	7.2%	31.6%	3.9%	32.2%	31.6%	29.2%	45.3%
ROA after input taxes	Mean	116.4%	55.3%	118.5%	16.2%	201.0%	113.7%	90.0%	60.7%
	Median	18.2%	7.1%	20.0%	3.0%	25.6%	14.3%	21.3%	30.7%
ROA after input and unreimbursed VAT	Mean	70.1%	43.8%	71.0%	6.3%	182.2%	14.7%	81.5%	32.3%
	Median	13.1%	5.6%	13.1%	3.0%	13.1%	7.7%	20.4%	19.7%
ROA Net of all taxes	Mean	13.9%	21.2%	13.6%	-0.4%	49.0%	-21.7%	36.3%	15.8%
	Median	4.9%	5.1%	4.9%	1.8%	11.6%	4.9%	3.7%	11.7%
Number of observations		177	34	143	28	52	41	56	4

Source: TFFS 2015

*There were too few firms engaged in an agriculture-related business in the sampling frame to obtain a sufficient sub-sample of these firms and consider any differences with other sectors as significant.

Appendix Table 14: Summary of Requirements for Investment Approvals

Approvals of investments	Between 50 million and 600 million CFA: régime de déclaration. Must submit a standardized application to the Agence nationale de la Promotion des Investissements et de la Zone Franche Above 600 million CFA: régime d'agrément. Case-by-case agreement with the Agence after consultation with the Minister of industry, Minister of commerce, Minister of finance, and other relevant ministers. If the investment plan is of strategic interest, companies can negotiate a different agreement with the State (Art. 48)
Restrictive requirements	Investments in the following sectors cannot fall in the régime de déclaration: Mining and hydrocarbons Banking Insurance Weapons and military Trading Brokerage Storage, except for animal/vegetal/fishing products Management of ports and airports These sectors fall into the régime d'agrément. To submit an application, the investment must be at least 50 million and the majority of permanent jobs must be reserved to Togolese nationals. The duration of tax and customs exonerations is limited to a) a “periode d’installation” (up to 24 months for régime de déclaration / 36 months for régime d’agrément, with a possibility of a one-time extension of 6 months) + b) a “periode d’exploitation” of 5 years. The cumulative tax reductions cannot exceed 55% of pre-tax profits.* The company can hire foreigners as supervisors/managers but must train/hire/promote as many Togolese nationals to equivalent positions within 4 years Proceeds from exports must go to a bank account in Togo
Requirements for the government	Régime de déclaration: must process application within 8 business days Régime d'agrément: must process application within 30 business days (but can put it on hold to request additional information) If an application is refused, the Agence must provide a list of reasons why it was refused. The code provides no limitations on valid reasons.

Source: République Togolaise 2012 Loi 2012-001 Portant Code d'Investissements en République Togolaise.

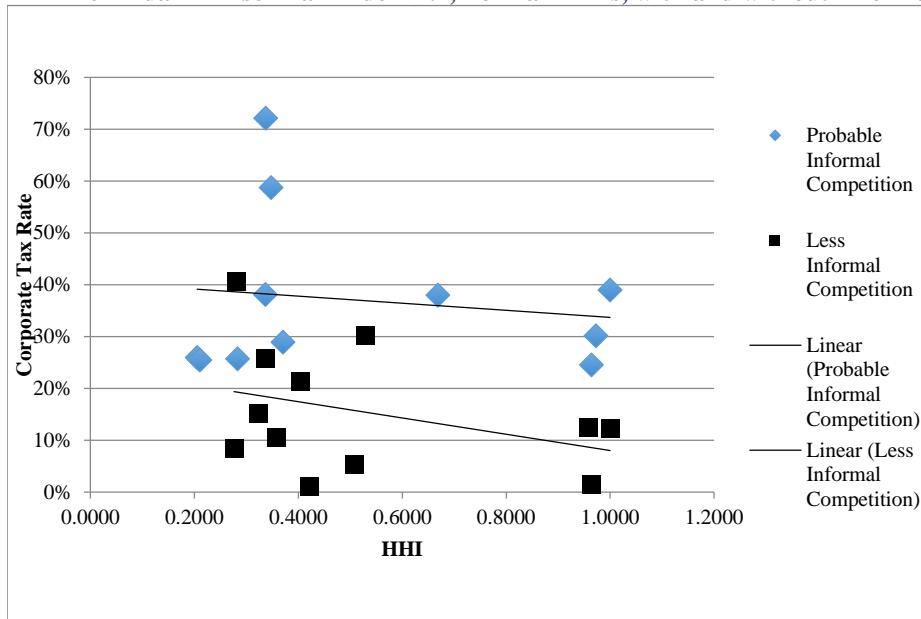
*Prior to 2012, foreign investments of more than \$150 million had the following preferential tax treatment: Always exempt from TVA, import/export duties, TAF, BIC, TFPB, dividend tax, all other trade tariff/duties. Exempt from IS for first 10 years, then 15%; Exempt from IMF for first 10 years, then 15%; Exempt from TP for first year, then 5%-15% for next 20 years, then normal rate TS rate at 2%. These were abrogated in 2012.

Appendix Table 15: Correlation between Concentration and Effective Rate of Taxation

	ROA	Total tax rate as a percentage of profits
Capital to labor ratio	-0.00267 (-1.19) [0.24]	
Market share squared	-1.35591 (-0.97)	-1.11309 (-2.33)**
Construction	0.07806 (0.20)	-0.27553 (-0.59)
Commerce	0.39256 (0.91)	2.33514 (0.83)
Other services	0.65304 (1.32)	-0.33808 (-0.67)
Owns land	-0.15229 (-1.16)	
Multinational company	1.14528 (1.13)	-0.12857 (-0.59)
Salary costs		-0.00000 (-0.09) [0.93]
Sales		-0.00000 (-0.87) [0.39]
Constant	0.10184 (0.25) [0.81]	1.24080 (2.09)** [0.04]
<i>R</i> ²	0.23	0.07
<i>N</i>	81	65

Notes: Sectors across data sources (TFFS 2015 and OTR tax declarations data) were matched using a strict sector matching criteria, which resulted in the sub-samples above. TFFS 2015 is used to compute the rate of taxation in 2014, and 2013 sales (TFFS 2015), and 2013 tax filings (OTR) matched by sector are used to compute the firms' market share.

Appendix Figure 4: Average Corporate Tax Rates and Concentration by Sector, 2010 (Sectors with Herfindahl-Hirschman Index > .2, Formal Firms, with and without Informal Competition)



Source: Bank staff calculations.

Only includes firms with positive pre-tax profits.

Appendix Table 16: Estimates of Returns to Education Using Heckman Correction for Selection Bias

	Pooled	Male	Female		
Ln(wage) equation					
Male=1	0.4153	***			
Years of education	0.0583	***	0.059	***	0.055
Household size	0.0095		0.024	**	0.003
Experience	0.0406	*	0.0285		0.0305
Experience squared	-0.0005	*	-0.0003		-0.0004
Urban	-0.1116		-0.141		-0.103
Rural	-0.6167	***	-0.596	***	-0.644
Urban Golf					
Region dummies	Yes		Yes		Yes
First Stage Results					
Wage employment=1					
Male=1	0.248	****			
Father alive	-0.0335		-0.0938	**	0.0208
Mother alive	0.0767	***	0.0446		0.0869
Years of education	0.0478	***	0.0506	***	0.0404
Household size	-0.0554	***	-0.07	***	-0.0441
Experience	0.165	***	0.1717	***	0.1546

Experience squared	-0.0023	***	-0.0023	***	-0.0021	***
Urban	0.2225	***	0.195	**	0.2454	***
Rural	0.1605	***	0.1559	*	0.1668	***
Urban Golf						
Region dummies	Yes		Yes		Yes	

Source: QUIBB 2011

Appendix Table 17: Summary of Tax Code as of 2014

Regime/Type	<i>TPU</i> regime Only for “personnes physiques.” Revenues <30 M	All Others
TPU (Taxe Professionnelle Unitaire)	2.5% of CA for production/commerce, 8.5% for services, with revenues as estimated by OTR. Cannot be less than 6,000 FCFA for production/commerce and 12,000 for services.	
TP (Taxe Professionnelle)	-	.25%-1% of gross revenues depending on sector + maximum of 2%-6% of rental value of location or 1/3 of TP on gross revenues (Raised in 2013 from .25-.85 percent)
IMF (Impôts Minimum Forfaitaire)	-	Max of this and IS: 1% of CA minus TVA. Fixed amount for companies with CA<5 M (50,000 FCFA) and for companies with CA>50 B (500 M FCFA)
IS (Impôts sur les Sociétés)	-	If IS exceeds IMF: 29% of gross profits for all sectors (Unified from sector specific range 27-30 percent in 2013)
TVA (Taxe sur le Valeur Ajoutée)	Can now opt for VAT registration (Art. 309). 18% of value added. Threshold in 2015 50 million FCFA	18 percent. Agricultural products exempt since 2012. Companies with CA<30 million (now 50 million) exempt.
TS (Taxe sur Salaires)	-	3% of salaries/benefits paid. Declined from 7 percent to 5 percent in 2013, and then to 3 percent in 2014.

Sector-Specific Taxes, 2014

IRTR	Fixed amount per vehicle 2,000-50,000 FCFA	
Taxe spéciale sur les boissons	Fixed amount per bottle	
TAF	10% of financial profits	Added exemptions
Taxe sur les jeux de hasard	5% of chiffre d'affaires from gambling services	
Taxe sur les spectacles	Rate or fixed amount per event	
Accises sur les produits pétroliers	Fixed amount per liter of product	
Autres droits d'accises	1%-30% of import price or wholesale price Increased rate on tobacco (45%) (Art. 390)	

Source: Code Fiscale du Togo et Lois de Finances 2010-2014

Appendix Table 18: Results from Estimation of Gravity Model of Trade

. reg importvalue gdpimportercurrentus gdpexportercurrentus distancekm CFA_exporter SSA TOGO

Source	SS	df	MS	Number of obs = 10780		
Model	5.9170e+22	6	9.8616e+21	F(6, 10773) =	182.39	
Residual	5.8249e+23	10773	5.4070e+19	Prob > F =	0.0000	
Total	6.4166e+23	10779	5.9529e+19	R-squared =	0.0922	
				Adj R-squared =	0.0917	
				Root MSE =	7.4e+09	

importvalue	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
gdpimportercurrentus	.0007702	.0000291	26.51	0.000	.0007132 .0008272
gdpexportercurrentus	.0011156	.000056	19.94	0.000	.001006 .0012253
distancekm	-183085.5	20129.59	-9.10	0.000	-222543.2 -143627.8
CFA_exporter	-8.10e+07	3.98e+08	-0.20	0.839	-8.61e+08 6.99e+08
SSA	-7.32e+08	1.94e+08	-3.78	0.000	-1.11e+09 -3.52e+08
TOGO	-6.52e+07	9.56e+08	-0.07	0.946	-1.94e+09 1.81e+09
_cons	1.09e+09	1.70e+08	6.39	0.000	7.54e+08 1.42e+09

Appendix Table 19: Taxation of Agriculture in Togo

- | | |
|----|---|
| 1- | Tax on farm entrepreneurial income (Impôt sur le revenu des personnes physiques (IRRP)) <ul style="list-style-type: none">a. It is a single annual tax on farm profits from farmingb. It includes the profits that farmers get from selling the products of their harvest.c. Profits from selling others' produce or from transforming their produce are subject to taxation applied to commerce or industry, as applicable.d. However, it excludes individuals (whether farmers or not) whose total net income does not exceed the guaranteed minimum wagee. It also excludes net property income of properties permanently and exclusively affected for agricultural usef. In addition, excluded are farm incomes derived from food crops grown on 10 hectares of rain fed land and 5 hectares of irrigated land.g. Annual net income below 375,000 CFA (approximately US\$ 625.00) after deductions is exonerated. The progressive tax rates is about 4% for annual net income less than 600,000 CFA and 45% for annual income above 15 million CFA (US\$ 25,000). |
| 2- | Corporate Tax (Impôt minimum forfaitaire and Impôt sur les Sociétés) <ul style="list-style-type: none">a. Agricultural producers are liable to corporate tax irrespective of their purpose, limited liability companies, limited shareholder companies, associations and all other legal persons engaged in a business or a profit-making operations.b. However, the following companies with operations related to agriculture are exempted from corporate tax<ul style="list-style-type: none">i. Cooperatives involved in the production, processing, conservation and sale of agricultural products for non-commercial purposesii. Cooperatives and agricultural unions in the supply chainsiii. Agricultural credit unionsiv. Companies, organizations, cooperatives and associations recognized for their public utility and responsible for rural development or agricultural promotionc. The corporate tax rate is 27 percent.d. A minimum forfeit of 1 percent of revenues is payable, as with other sectors.e. Companies also pay an annual flat-rate corporate tax of 50,000 CFA for turnover of less than 5 million but up to 20 million CFA for turnover greater than 30 billion CFA. |
| 3- | Other Taxes: Business Tax (Taxe Professionnelle) <ul style="list-style-type: none">a. For companies (not expressly exempted) engaged in agriculture, forestry and fisheries a business tax of .5 % plus a levy on the rental value of business premises or 1/3 of .5% of revenues, whichever is higher. |
| 4- | Tax on wholesale and export of agricultural goods. <ul style="list-style-type: none">a. An export duty or tax on domestic wholesale sales of goods applies to products from agriculture, fishery and livestock is set at 5% of sale (or FOB) price for operators without a fiscal identification and 1% for those with such identification |
| 5- | TVA <ul style="list-style-type: none">a. Subject to the value added tax (except special exemptions) are all import operations in Togo including import from the ECOWAS free zone. Exemption for operations related to agriculture and fishery have been repealed. Imports of agricultural inputs and equipment are still exempt from VAT. VAT is a unique rate of 18%. |

Map 2: Togo's Regions

IBRD 33497

