



Analysis of the business environment in Least Developed Countries

Togo

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A powerful
and balanced
voice for business

Togo

Region

West Africa - West African Economic and Monetary Union (WAEMU)

Population

7 889 094

Demographic growth

2.42%

GDP per capita (2020)

915 USD

Human Development Index:

0.513 (204/228)

Economic overview

It is important to note that the government's policy of facilitating the business climate and making the country more attractive to private investment has enabled Togo to rank among the ten most reform-minded countries, with positive repercussions on economic growth. Since 2018, Togo has experienced sustained growth, estimated at 5 per cent of GDP, thanks to strong contributions from the agricultural sector, the extractive industry and trade, which are the pillars of the economy, as is the case in several WAEMU countries.

Togo's National Development Plan (NDP) launched in 2018 aims to make the country a logistics platform of excellence and a qualified business hub in the sub-region within five years. The private sector is firmly committed to supporting the implementation of the National Development Plan (NDP 2018-2022). It was expected that the ongoing structural reforms in the three pillar sectors of the economy mentioned above would raise the country's GDP growth to 7.6 per cent by 2022, with a 10-place jump in the UNDP Human Development Index (HDI), also given the ongoing reforms in education, health and social protection.

However, despite these numerous efforts, the road to a structural transformation of the Togolese economy, notably towards a buoyant, competitive and sustainable private sector, is still long according to the International Monetary Fund (IMF). In fact, Togo is still among the world's least developed countries (LDCs) in 2022 according to the United Nations Conference on Trade and Development (UNCTAD). Togo's economic performance in terms of cross-border trade and industrialisation is still below expectations.



Moreover, a study on the impact of the coronavirus pandemic (COVID-19) on the private sector carried out by the Chamber of Commerce and Industry of Togo (CCIT) shows that the private sector has not been spared. Indeed, the CCIT notes that the private sector finds itself in a fragile environment due to the pandemic, thus undermining all the gains made through the reforms undertaken in the country in recent years.

The ensuing findings are as follows: (i) More than 92 per cent of companies saw their turnover drop between February and March 2020. The services sector is the one in which more companies (93.5 per cent) saw the greatest drop in turnover, followed by trade (92.6 per cent), industry, mining and construction (92 per cent) and agriculture (87.2 per cent). (ii) With regard to employment, almost 62 per cent of private sector companies kept all their employees, despite the difficulties linked to COVID-19. Redundancies, lowered production and temporary cessation of activities are much more common in small companies. (iii) Private sector

companies operating in the trade segment were more likely to face the problem of declining sales and supplies. In addition to supply problems, companies operating in the services sector saw a decline in business activity. (iv) Not only did companies in the industrial, mining and construction sectors face problems with supply and access to finance, they also experienced a drop in production and sales. As for companies in the agricultural sector, the drop in sales was the main difficulty, followed by the problem of access to finance and the transport of goods in addition to supply problems. (v) Medium-sized and large companies were much more likely to opt for part-time work (53.8 per cent). Others preferred to temporarily stop their activities (24.6 per cent), put their employees on short-time work (21.3 per cent) or reduce their production (13.3 per cent). Part-time work is a measure taken in almost all sectors, mainly by small companies. On the other hand, some companies made staff redundant (5.2 per cent) or simply changed their activities (2.7 per cent).

The report points out that all the measures taken by the Togolese government to deal with the pandemic will probably only help businesses hold on in the short term, but not if the pandemic continues over time. All these measures are likely not to work in the long term due to the low resilience of companies, many of which might go bankrupt, which in turn would encourage the growth of the informal economy for the survival of the population. The study found that overall, the measures taken by the Togolese government to combat COVID-19 are considered effective and relevant by more than 50 per cent of business owners.

Challenges faced by the private sector

According to the findings of the Integrated Regional Survey on Employment and the Informal Sector (ERI-ESI) carried out by the National Institute of Statistics and Economic and Demographic Studies (INSEED), there are still obstacles that do not always make life easier for business owners in Togo. These obstacles include the following:

- **Informality** - 91.6 per cent of workers operate in the informal economy compared to 8.4 per cent in formal jobs in 2017. It was with this in mind that the support project for mechanisms

to effectively extend social coverage to workers in the informal economy was launched on 25 February 2021. The project, implemented by the National Social Security Fund (CNSS) and the International Labour Office with the support of the EU, should help accelerate the process begun a few years ago, and guarantee effective access to social security for informal workers.

- **Informality affects key sectors of the economy** - The three main non-agricultural sectors that attract the most workers and enterprises in the informal economy are: trade (44.2 per cent), industry (29.3 per cent) and services (26.5 per cent). Industrialisation is still weak in Togo.

- **The low level of human-capital education/training** - although there is a strong correlation between the level of education and the quality of integration into the workforce. Togo is one of the countries with a low Human Development Index (0.515 in 2019) and ranks 167th out of 189 countries. Overall, the average number of years of education successfully completed is 5.5 years. The average number of years of successful education in the informal sector is 4.55 years, while in the formal sector it is 10.38 years. In the informal non-agricultural economy, the average number of years of successful education in the industry, trade and services sectors is 5.1, 4 and 4.6 years respectively. Consequently, the low level of human-capital education/training is a brake on the development of the economy in general, and the private sector in particular, given that 87.9 per cent of jobs are concentrated in the informal economy in Togo.

Furthermore, when looking at the variation in the level of education and salary received, it also appears that the level of education significantly influences the average monthly income depending on the sector (formal and informal). For example, in Togo, the average monthly income is FCFA 70,634 for an average level of education of 5.5 years in formal jobs. However, the average monthly income varies from FCFA 40,761 for workers in the informal sector to FCFA 93,206 for workers in the formal sector with an average of 4.55 years of education. In other

words, workers in the formal sector earn twice as much as workers in the informal economy for the same number of completed years of study.

- **The gender dimension of informality** - A greater proportion of women work in informal jobs than men, 95.6 per cent versus 78.3 per cent in 2017.
- **An inefficient labour market with gender disparities** - Overall, only 12.1 per cent of individuals (men and women) are in formal non-agricultural jobs. Only 4.4 per cent of women are in formal non-agricultural employment compared to 21.7 per cent of men.
- **A weak labour market regulation system**- Overall, more than 30 per cent of individuals (men and women combined) work excessive hours beyond 48 hours per week, exceeding the 35 hours recommended by the ILO.
- **A gender dimension for poverty that disproportionately impacts self-employed women** - 13.8 per cent of individuals (men and women combined) who are self-employed earn less than the minimum wage, i.e. 17.6 per cent of women compared to 9.8 per cent of men.
- **Persistent youth unemployment linked to a poorly developed private sector** - Like all WAEMU countries, Togo does not have an unemployment problem in the strict ILO sense, but rather a problem of underemployment exacerbated by the informal economy.
- **Low effectiveness of national employment policies** - Overall, unemployment affects the following categories more: people with higher education (14.5 per cent), young people in the 15-34 age bracket (6.8 per cent) and the urban environment, particularly the capital Lomé (7.8 per cent).
- **Insufficient national infrastructure to absorb out-of-school youth in vocational training** - This represents a significant shortfall when more than 25 per cent of young people aged 15-24 are not in education or employment.

- **A mismatch between the school system and the needs of the labour market, particularly the expectations of private sector employers** - Technical and vocational education and training (TVET) absorbs only 20.66 per cent of students, whereas the three main activities in the country that create non-agricultural jobs in the private sector are trade, industry and services/tourism.
- **A private sector that is still weak in terms of employment opportunities** - The manufacturing industry employs less than 15 per cent of people (men and women combined).
- **Insufficient access to credit** - The two main sources of capital financing for the start-up of an informal production unit (IPU) are own savings from tontines (57.9 per cent) and informal loans from friends or family (17.1 per cent).
- **A low level of public-private dialogue**- This is typically justified by insufficient government efforts to raise awareness among informal economy promoters about formalising their activities. Indeed, 45.2 per cent of IPU heads cite the lack of information as the reason for not registering their activities in the various commercial registers and national statistics, as opposed to 38.7 per cent who seem to benefit from the fact that formalising a business is not compulsory in the country.
- **Excessive taxation combined with a high level of corruption** - Only 5.9 per cent of private sector business owners pay taxes on their business activities. In contrast, 24.9 per cent of business owners operating in the informal economy say they are willing to pay taxes and formalise their activities if regulatory measures become less burdensome in the absence of abuse of power by governing authorities. This is consistent with the country's 134th place out of 180 countries in Transparency International's 2020 public sector Corruption Perceptions Index.
- **A legal system that is still contested** - More than 30 per cent of individuals (men and women alike) do not trust the justice system.

It is important to stress that the current and consecutive improvement noted over the past two years in Togo's business climate, despite the COVID-19 crisis, is the result of the government's commitment to achieving not only the 2030 SDGs, but also the development goals of the African Union's (AU) Agenda 2063 for sustainable and inclusive growth, a transformed economy focused on digitisation and the full employment of its working population, as expressed in its NDP (2018-2022). Accordingly, Togo has copied Nigeria's example and is now among the most reform-minded countries.

These reforms focus in particular on the following areas: setting up businesses, obtaining a location and access to finance, especially credit. However, much work remains to be done in terms of the daily management of operations and the effective securing of the business environment to make the country more attractive to international investors and the diaspora.

- **Business creation** - Togo has facilitated business creation by removing the obligation to legalise business documents and by reducing the time required to register a business.
- **Management of construction permits** - In this area, the country has put in place measures to facilitate the processing of construction permits by reducing fees and launching an online portal for application and payment. In addition, Togo has also improved building quality control by regulating inspections during construction.
- **Electricity connection** - Togo has made access to electricity cheaper by further reducing the cost of connection and the security deposit for new connections.
- **Property registration** - Togo has made property registration easier by streamlining administrative procedures and reducing costs.
- **Obtaining credit** - Togo has improved access to credit information by expanding the coverage of credit bureaus and allowing better disaggregation of data from utilities.

Private sector policy recommendations

The recommendations apply to the following areas:

1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine public-private partnership;
- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor of peace, security and good governance;
- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;
- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

2. Supporting young investors and women, developing entrepreneurship and fighting against informality

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;

- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;
- Promoting women's access to land in particular and favouring a reorganisation of the land register;
- Eliminating minimum fees for business start-ups and shortening the waiting period for registering and authenticating documents;
- Creating national savings in the various countries to finance income and employment-generating projects, especially for young people and women.

3. Cross-border trade

Specific objectives include:

- Promoting the development of intra-African trade by removing customs barriers;
- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;
- Modernising and deploying one-stop shops;
- Guaranteeing a secure and stable climate at national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;

- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale transactions, usually carried out by small traders, especially women;
- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;
- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;

- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;
- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

4. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;
- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;

- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;
- Establishing and modernising an electronic system for creating and registering businesses at national level;
- Creating a level playing field for businesses to facilitate their formalisation.

5. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);
- Ensuring a match between training/education received and the needs of the labour market in technical and vocational education, general secondary education and universities;

- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

6. Improving the labour market

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions;
- Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

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