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TOGO EPZ PROGRAM ASSESSMENT

FINAL REPORT

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I. INTRODUCTION

A. PURPOSE OF MISSION

This report was prepared by The Services Group under Task Order Number 47 (g) of the U.S. Agency for International Development's PEDS contract with Coopers & Lybrand. The report is based on the findings of a field mission to Togo carried out by TSG consultants Torge Gerlach and Robert Rauth during the August 25 to September 9, 1992 period. A follow-up mission to Togo was undertaken by Torge Gerlach from September 27 to October 4, 1992, to further refine the conclusions of the study, and participate in the development of performance indicators for USAID/Togo's six year strategic plan.

The primary objectives of this study are:

- (1) To provide clear and detailed answers to questions regarding
 - (a) the attractiveness of Togo's Export Processing Zone (EPZ)¹ program to domestic and foreign investors;
 - (b) the political economics of Togolese export promotion in general, and the EPZ program in particular;
 - (c) the functions of the Centre Togolais pour la Promotion Industrielle (CTPI) and the Société d'Administration des Zones Franches (SAZOF); and
 - (d) the role of the state versus private sector management of the EPZ program.
- (2) To advise OAR on alternative ways of integrating this increased knowledge about the EPZ program in its strategic planning.

Drawing upon substantial knowledge and understanding of the Togolese EPZ program based upon direct involvement at various stages of its development, as well as the findings of the aforementioned field mission, the consultants were in a strong position to provide assistance to USAID/Togo in developing and refining its six year strategy as it relates to the EPZ program in Togo.

The remainder of this report is composed of the following sections:

Chapter II presents an overview of the Togolese EPZ regime, providing background on the program and reviewing its development to date; discussing its current status and the program's primary achievements in attracting investment and creating employment opportunities; and testing the competitiveness of Togo's EPZ program vis-à-vis other emerging free zone programs. This chapter also provides an overview of the

¹ Also known as the Industrial Free Zone program.

UNDP/UNIDO support to the Togolese EPZ program to date, as well as their future commitment to the program and its implications for USAID/Togo.

Chapter III discusses the regulatory and institutional structure of the EPZ program, reviewing both the SAZOF's and the CTPI's functions and responsibilities, as well as their development status to-date.

In Chapter IV the Government of Togo's industrial development and export promotion strategy is discussed as it relates to the EPZ program. The chapter attempts to analyze the GOT's commitment to the program and provides an overview of the key institutions and players, both in the public and private sectors, involved in the EPZ program

Chapter V reviews how assistance to the EPZ regime may fit into the mission's five year strategic plan and objectives. USAID/Togo's strategy to promote non-traditional exports as a target of opportunity is reviewed briefly. This chapter also provides an overview of the key issues and recommendations surrounding the EPZ program in Togo and its future development.

The team would like to thank USAID/Togo Program Officer John Grant, and Private Sector Officer Dennis Panther, who provided invaluable guidance and background information to the project team. During the course of the mission, meetings were held with the Ministry of Plan, Ministry of Industry and State Enterprises, the UNDP, SAZOF, CTPI, and numerous free zone enterprises. The team would like to thank representatives from those organizations for their advice and insights.

B. ECONOMIC RATIONALE FOR EPZ PROGRAM

The Togolese economy has declined in recent years, and per capita incomes have been declining for the past five years. Total employment is falling in both the public and private sectors, and private investment in Togo is stagnant.

Given the Government of Togo's (GOT) chronic deficits, there is little short-term potential for increasing national income and creating new jobs in the public sector. In fact, balancing the budget will require public sector employment cuts. Under these conditions, sustainable economic growth will require substantial increases in private investment and enterprise.

Prospects in Togo's traditional cash crops -- cotton, cocoa, and coffee -- are not good. With Togo's small, poor population, the country must therefore look to non-traditional exports for future growth. Near term opportunities exist for private sector growth in light manufacturing and agroprocessing exports. Both of these sectors build on longer-term comparative advantages of Togo: competitively priced labor, good transportation facilities, and abundant agricultural resources.

Free zones have been extremely successful in a number of small countries faced with similar constraints including Mauritius, Taiwan, Hong Kong, and the Dominican Republic. These programs have been successful because they have been built upon, in varying degrees, investment climates characterized by:

- highly productive, low cost labor;
- tax holidays or minimal levels of taxation on income and dividends;
- freedom from all duties, taxes, and other levies and licenses for imports of machinery and raw materials and also on the exportation of finished products;
- liberalized currency control;
- regulatory relief through streamlined regulations and procedures.

USAID/Togo conducted an assessment of Togo's growth potential as part of the mission's TOPS project design effort, after which increasing non-traditional exports emerged as being the key to stimulating economic growth in the short to medium term. In the short run, export oriented industrial investment under the Export Processing Zone (EPZ) regime offers the best prospects for significant increases in the growth rate of real GDP. The reason is that the EPZ program provides businesses with an environment that is free from many of the serious policy and institutional constraints that affect other businesses in Togo. Although the EPZ regime has faced a number of implementation hurdles, its world class incentives package is already in place and provides a comprehensive framework to overcoming Togo's constrained policy environment. This substantial policy reform is not possible for the economy as a whole from a political perspective at the present time. As such, the EPZ program offers a focused approach to market-driven reform.

Increased exports of private companies operating under the EPZ regime will have the following direct benefits for the Togolese economy:

- Increased foreign exchange earnings;
- Increased earnings for both foreign and local entrepreneurs;
- Increased number of jobs and increased incomes for Togolese workers; and
- Improved vocational skills, primarily in areas of light manufacturing and industrial management.

As discussed in more detail in the following chapter, some of these results have already been achieved under the Togolese EPZ regime, despite of the political difficulties currently facing Togo. The GOT's industrial development strategy to encourage investment in non-traditional exports, and its policy towards the EPZ regime, is discussed in detail in Chapter IV.

II. OVERVIEW OF THE TOGOLESE EPZ PROGRAM

The purpose of this chapter is to provide background on the development of the EPZ program in Togo. While a number of studies and reviews of the Togolese EPZ program have been undertaken at various stages since the beginning of the program, this chapter provides a comprehensive review of the historical development of the EPZ program to-date, assesses the program's current status and achievements, and reviews the competitiveness of Togo's EPZ program vis-à-vis other emerging free zone programs.

A. HISTORICAL REVIEW OF EPZ DEVELOPMENT IN TOGO

Beginning in 1985, the Overseas Private Investment Corporation (OPIC) expressed interest in the possibility of developing EPZ industrial estates in Africa as a means of improving the investment climate and stimulating American direct investment on the continent. OPIC commissioned a study and internally reviewed this concept.

Subsequently, as part of an internal review of its programs, the OPIC examined possibilities for initiatives which could lead to increased investment in the poorest developing countries, particularly those of sub-Saharan Africa. In 1988, OPIC received an extraordinary budget allocation from the U.S. Government to implement an African EPZ/Industrial Estate (EPZ/IE) initiative. This initiative consisted of a project to select one African country with the greatest potential for development of an EPZ/IE, in particular a privately run EPZ/industrial estate, and provide that country with technical assistance to establish the project. This assistance would include project development and the identification of qualified private groups who could serve as developers of an EPZ/industrial park.

USAID, specifically AFR/MDI, contributed to the funding for this project, which was implemented by The Services Group (TSG), a technical assistance and consulting firm specializing in free zone development. The project consisted of four phases, the technical elements of which were undertaken by TSG with participation from OPIC and AID:

- Phase 1: Country selection, to identify the country for targeted technical assistance;
- Phase 2: Prefeasibility Analysis, consisting of the definition of appropriate legislative framework; site assessment and location analysis; market analysis; master planning and capital cost estimates; financial analysis; and identification/recruitment of a private developer;
- Phase 3: Regional Conference, to explain key elements of industrial free zones to a selected group of public and private sector African leaders; and

Phase 4: Feasibility Analysis, conducted jointly with the identified development group, to define the project further and undertake detailed analysis to generate a bankable project.

Phase 1 was completed in spring/summer of 1989, with the selection of two countries, Cameroon and Togo, for further U.S. Government assistance. Based on this decision, phases 2 and 4 proceeded in parallel in each country, and an international EPZ conference was sponsored by OPIC and AID in Mauritius in the fall of 1990.

The selection of Togo for further financial assistance to develop an EPZ program came at a time when the Government of Togo had decided that an outward, export-oriented strategy was the most promising route for the country. In 1987, the Government of Togo undertook a long-term planning strategy for the country's economy. The document identified many of the structural weaknesses faced by the Togolese economy; these included high unemployment, lack of natural resources, uncertainty in the phosphate market, a limited internal market, and a lack of a diversified export sector. The study concluded that the most viable path of development for Togo was to evolve into an offshore manufacturing center through the creation of an export processing zone program.

As previously mentioned, Togo was selected by OPIC and AID as one of two sub-Saharan African countries with the necessary ingredients for a free zone program. In the case of Togo, these factors included: competitive factors of production (cost of labor, utilities, transportation, etc.); reliable infrastructure; excellent available sites for industrial park development; and a strong government commitment. For these reasons, Togo was chosen to receive a prefeasibility study for a privately owned and operated EPZ/IE in Togo.

A highly competitive free zone law was passed in September 1989. This law offers an exceptionally strong package of regulatory and fiscal incentives for companies that can export 80% of their production. The main benefits include:

- duty-free importation and exportation of raw materials, components, equipment, and finished goods for the life of the company;
- corporate tax holiday for 10 years followed by a 15% flat rate tax;
- reduced payroll tax of 2% for the life of the company;
- tax exemption on dividends for 10 years;
- freedom to hold foreign exchange accounts;
- freedom to repatriate profits, dividends, and capital;
- preferential utility rates for port service, telecommunications, and electricity;
- flexibility to hire employees outside the National Labor Board process (Service de Main d'oeuvre) and freedom to terminate contracts of unsatisfactory employees;
- accelerated approval process.

Two sites at the port of Lomé and one at the airport have been made available for privately owned and operated free zone development. In April of 1990, the government enacted the implementing regulations for the program. In the meantime, in October 1989 the GOT set up a temporary Free Zone Promotion Center, (which eventually became the CTPI) to serve as a central point for information on the Free Zone. Staff from various government ministries and the Chamber of Commerce (CCAIT) were seconded there to respond to investor inquiries and to work on the implementation of the program.

The prefeasibility analysis for Togo was completed in September 1990; a development group was selected by the Government in December from among three competing proposals solicited under the project. As part of the activities of phase four, OPIC provided financial support for the feasibility study being conducted by the development group, an American-Canadian consortium led by Trammel Crow Company, the largest U.S. industrial real estate developer. The U.S.-owned STS was also an initial member of the consortium but withdrew after the parties were unable to reach an agreement.

The above mentioned efforts to create a privately driven EPZ program in Togo were sponsored by OPIC and AID/W and were coordinated by USAID/Togo, as well as by the U.S. Embassy in Lomé. As such, the U.S. played a key role in the development of the Togolese EPZ program, with its role decreasing only after the UNDP/UNIDO assumed a more active participation in the implementation of the program.

B. CURRENT STATUS AND ACHIEVEMENTS OF THE EPZ PROGRAM

Initial investor response to the opportunities offered under the Togolese EPZ regime was positive and encouraging; Togo had managed to generate substantial publicity for the program, which attracted potential investors and also aroused public interest. Domestically, the free zone program was presented as something which the GOT had "won" or been given by the United States, and therefore was an achievement of the leadership of the President. Thus the "zone franche" entered the political vocabulary and public relations machinery, which ultimately led to the creation of unrealistic expectations concerning the impact the zone would have, such as the potential creation of 100,000 new jobs in the zone franche, and the speed of its establishment.

Following the publication of the Textes d'Application (implementing regulations) in April 1990, the government began receiving applications for zone franche status. While applications were to be reviewed by the Société d'Administration des Zones Franches (SAZOF), the organization's start-up was delayed. Consequently, the Free Zone Promotion Center filled that role with the Ministry of Industry signing the licenses. (Under the law, the Minister's signature is required to give legal effect to the SAZOF review.) In practice, Minister Djondo, the Minister of Industry and State Enterprises, played a key but also domineering role in the first year of free zone operations until his resignation in April 1991. Without the machinery of staff set up at

SAZOF to review and process applications efficiently, approvals were stalled and routinely took several months to effect, in contrast with the maximum 30 day approval process stipulated in the law.

Program Achievements. Since the program became operational approximately two years ago, 45 projects designed to invest more than US\$70 million and create over 6,000 jobs have been approved. However, these figures represent approvals; actual results are significantly lower. There are many reasons why firms will not proceed or succeed, including problems due to internal management, financing, or planning difficulties of individual free zone firms (e.g., one EPZ firm was unaware that Togo is not a member of the francophone CEA trade bloc). Companies have also suffered from the political unrest last year which caused most operations to lose up to 30 percent of production time.

At the present time, nine firms are operational. These companies employ over 900 workers and represent approximately US\$11 million in investment. In addition, one private EPZ/industrial estate is operational at the airport. These results have been achieved in a period of disinvestment and political unrest in Togo and in Africa in general. Given the relatively small amount of technical assistance provided to establish the regime, the EPZ program must be considered one of the most successful private sector development projects in Africa. These numbers are particularly impressive given the present political situation and compare well with investment and employment levels of EPZ programs in Asia and Latin America upon start-up. Equally important, the EPZ has brought about the first job creation and new investment in the industrial sector in years. Within less than two years of operation, the EPZ program already represents 15 percent of formal private industrial sector employment.

The free zone program has shown the willingness of both local and foreign investors to use Togo as a base for export markets. In spite of numerous lingering bureaucratic difficulties, the EPZ program has demonstrated that an improved policy and regulatory environment can generate significant investor interest in Togo. Many local firms see the regime as their only hope to expand, given Togo's limited market and constrained policy environment for non-exporters.

Moreover, the attractiveness of the EPZ regime is well demonstrated by comparing its performance to that of the new Investment Code. Revised in 1989, only three new firms have been approved. This would appear to indicate that new investors in Togo prefer the benefits of the EPZ program despite the fact that the Investment Code offers greater flexibility in terms of allowing domestic sales. It is also evidence that the future of industrial development in Togo requires companies which serve export markets.

Even with the current political difficulties, the EPZ program has a number of firms preparing to install factories. In fact, the Togo Promotion Centre reports that only one potential investor has chosen a neighboring country over Togo in the past 18 months; Togo lost this opportunity not for political reasons, but due to higher electricity rates than Nigeria's.

While the lack of a fully-developed and serviced industrial estate has posed a constraint to a number of investors, the airport free zone is now operational and is host to two EPZ firms. Consequently, Togo can boast the second private EPZ/industrial estate in Africa and the first in West Africa. Taba Industries -- developer and owner of the Hotel Palm Beach -- has also become a "de facto" industrial space developer, given the demand for standard factory building space.

The quick take-off of the Togo EPZ program is especially noteworthy when compared to the performance of other programs in their start-up phase and signifies the attractiveness and potential of Togo for foreign investment and export development. In contrast, Costa Rica, the Dominican Republic, El Salvador, Jamaica, and Senegal all had attracted fewer than five firms after their first year of operation. Even Mauritius, host to one of the most successful EPZ programs, had only nine firms after its first year.

Although not all of the provisions of the EPZ law have been implemented, investors report that the regime has made significant progress in improving the business climate in Togo and provides significant advantages over the non-EPZ operating environment. In fact, the EPZ program is the only way in which formal sector firms can access some of the benefits enjoyed by informal sector businesses, the one dynamic sector of the Togolese economy. These advantages include:

- The EPZ registration process is faster and less costly than that for non-EPZ firms. A complete EPZ application requires no licensing fees. In contrast, the registration of a small business generally costs CFA60,000 and requires 60 days for approval from the various governmental agencies.
- Utility hook-ups are greatly accelerated due to support provided by the Togolese Promotion Centre. As one investor noted, the Centre acts as an "effective blocking back" on this and other bureaucratic matters.
- Customs procedures are much easier and faster for EPZ shipments. One trucking firm with a broad range of clients stated that EPZ shipments are typically cleared in one day versus the three to four days required for non-EPZ shipments.
- EPZ firms are not subject to the high taxes and duties hampering the rest of Togo's formal private sector. As a result, the import tariffs such as a statistics tax of 3 percent, droit fiscal of 5-35 percent, TGA of 5-30 percent, toll tax of CFA200/ton, and a stamp tax of 4 percent are not imposed on free zone companies. The exemption from the relatively high corporate tax rate of 40 percent and a flat revenue tax of 0.5 percent have shown the importance of reducing tax levels in Togo.

Breaking New Ground. There are a few additional points which should be made concerning the development impact of the Togo EPZ program. First, unlike other EPZ programs, much of Togo's EPZ production is exported to neighboring developing countries rather than solely to

developed country markets. In this manner, the regime is assisting in the development of regional trade and integration in spite of Togo's lack of membership in the CEAO. Because of the regional orientation of firms, Togo's EPZ program is attracting a much wider base of industries than other EPZ programs and should therefore be less susceptible to changes in world markets, quotas etc. Many of these industries are new to Togo and include activities such as wigmaking, and telephone cord manufacturing.

Second, as a result of francophone Africa's relatively high labor costs, Togo's EPZ program is attracting more capital-intensive industries than are typically found in such programs. While this may be considered a negative in terms of maximizing job creation, it should foster higher levels of technology transfer. Third, in contrast to previous industrial enterprises in Togo, the program has generated substantial employment opportunities for women. Approximately 30-35 percent of all EPZ workers are female.

Lastly, the EPZ program is creating an important demonstration effect for economic liberalization. Non-EPZ firms are more forcefully demanding reductions in red tape, tax and tariff levels to allow them to better compete with both international producers and the informal sector. Consequently, the EPZ program has strengthened the campaign for broader liberalization of the private sector environment.

C. SUMMARY OF UNDP'S EPZ ASSISTANCE PROGRAM

Following the OPIC/USAID free zone initiative, the UNDP formulated a program to provide assistance in the start-up and implementation of the Société d'Administration and the Centre for the Promotion of Free Zones. In this manner, UNDP assistance was designed to provide the necessary regulatory and promotional base for the operation of the free zone program.

The UNDP planned for a 30-month project costing approximately US\$ 2 million. Included in this amount were two long-term technical advisors, one for each organization. In addition, UNDP has also paid for all local staff, with the exception of the Director Generals of each organization, who, as under UNDP policy, had to be paid for by the local government. Apart from staffing costs, UNDP financed the purchase of office equipment, furniture, and vehicles, as well as money for undertaking a limited number of promotional activities. Additional funding was made available for short-term consultants and training. Though funded by UNDP, UNIDO has executed the project. The project started with the arrival of the first long-term advisor in January 1991, and the second in April of the same year. The project was originally designed to provide a total of US\$1,898,330 from the UNDP, which was subsequently revised to US\$2,228,476. The financial contribution to the project from the government was estimated to be approximately CFAF 210 million (approximately US\$800,000).

To attain the project goals, the following two areas of assistance were to be provided under the project:

- (a) Strengthening of the capabilities of the free zone promotion center, the CTPI, in order to assure an adequate investment promotion program for the free zone to increase the number of enterprises registered under the program and to increase the number of jobs created.
- (b) The establishment and creation of the structures of free zone regulatory institution, the SAZOF, to operate like a "guichet unique", or one-stop-shop, to ensure the regulation and control of the free zone regime, as well as the assistance to free zone enterprises and developers.

According to an internal project evaluation undertaken by UNDP in March 1992, the two project objectives listed above were judged as less than satisfactory in terms of their qualitative and quantitative results, due primarily to external factors (institutional, political, etc.). The project review pointed out that an adequate analysis of project impact and results was difficult, due to the lack of performance indicators and criteria in the original project document. Following the posting of the two long-term experts in January and April 1991, the national staff (13 people) has been hired under the UNDP project. However, the project document envisaged the hiring of two director generals, as well as messengers and other support staff by the government. Besides the two Director Generals and one economist, none of the other staff, which was to be covered by the GOT, has been provided. Moreover, the GOT has not covered the full operating expenses of the two institutions as originally envisaged by the project. Regarding the training activities, the national team has benefitted from on-the-job training by the long-term expatriate experts, as well as study tours and promotional visits to Canada, South Africa, Ireland, and the Canary Islands. Regarding office furniture and equipment, which was provided for by the UNDP project, the SAZOF and the CTPI are well equipped.

The lack of financial support from the government of Togo, as originally envisaged in the project agreement, is considered to be one of the primary problems of the project. Moreover, as discussed in more detail below, the fact that the two institutions have yet to be legally incorporated and the lack of progress of the development of the industrial park style free zones are two other major problem areas for the UNDP.

In sum, even though the UNDP concludes that the project's impact in terms of investment and employment creation is positive, the project review committee has recommended to reduce the project funds by approximately US\$325,000 for the remainder of the project and not to extend the life of the project past its expiration date of January 1, 1994. The reduction of funds represents a 15 percent reduction of the entire project budget, and approximately a 30 percent reduction of the funds remaining for the next last 18 months of the project. While at this point it is impossible to predict whether or not the UNDP will entirely end its support to the EPZ regime at the end of 1993, it is clear that UNDP support for the program will be limited to a bare minimum for the remainder of the project, and it is highly unlikely to be renewed at the

end of that period. Given these developments, UNDP staff in Lomé have stated that they would welcome and encourage an increased role played by USAID/Togo to support the EPZ program, and perhaps eventually take over the project in its entirety.

D. COMPETITIVENESS OF TOGO'S EPZ PROGRAM

A detailed assessment of the economic factors of production and the overall competitiveness of Togo as an EPZ site was conducted in 1989 and 1990, under the OPIC/AID initiative. This assessment led to the selection of Togo as a high potential country for privately led EPZ/IE development in sub-saharan Africa. (A list of the various studies undertaken over the past few years is presented in the report's bibliography.) Subsequently, a number of analyses have been undertaken to further test Togo's competitiveness as an offshore manufacturing center. A detailed analysis of Togo's competitiveness as an EPZ host country goes beyond the scope of this assignment, and this section will merely provide a brief review of the findings of the previous studies, basing the assessment primarily on the findings of the MAPS study sponsored by USAID/Togo and completed a few months ago.

1. Labor

Under the Togolese Labor Code, all hiring (except for EPZ firms) must be conducted through the National Labor Board (Service de Main d'Oeuvre) which limits the flexibility of firms in hiring. Overall, the labor code is restrictive and a burden to private sector development in Togo. While the restrictive labor code is a constraint to business development in Togo, the free zone law exempts zone enterprises from many of the provisions of the code. Under the EPZ law, zone enterprises may hire and fire workers freely, as well as negotiate salaries based on performance and experience rather than strict salary categories. While there are still some problems with the labor regulations in free zone operations, the majority of the existing free zone companies report that the free zone law provides strong advantages over the national labor code.

Togo, like other Francophone West African nations, has a complex set of minimum wages depending on the job and seniority level. These artificially high rates discourage formal sector job creation. In general, semi-skilled factory workers earn anywhere between FCFA 15,000-30,000 (US\$50-100) per month. This is more than the US\$30-40/month for workers in Indonesia, Bangladesh, Madagascar, and Kenya -- countries which have also recently begun non-traditional export campaigns. It is also approximately three times higher than Nigeria, which has experienced a series of devaluations. (However, it is less than labor costs in more established offshore manufacturing centers like Hong Kong, Singapore, Mauritius, and Costa Rica.) Not surprisingly, Togo's free zone program has been attracting relatively capital-intensive firms. Togo's fringe benefit ratio of approximately 35% is slightly higher than that found in other developing countries due to the large number of vacation days and holidays, the 7% payroll tax and the widespread practice of giving a 13th month bonus at the end of the year.

Again, while the labor cost in Togo is higher than in some competing locations, the free zone law provides flexibility in negotiating salary levels, as long as the national minimum wage level is maintained. This provides for the possibility of hiring well qualified workers at lower rates than outside the free zone regime, where salary levels have to be paid according to years of experience and educational levels.

Employers encounter little difficulty in finding and training entry level workers. On a higher level, tailors and mechanics are reportedly of good skill and good supply in Togo, but there are difficulties in finding qualified managerial staff. Only 1% of Togolese students receive a formal technical education; instead, 60% of all workers begin as apprentices.

2. Basic Infrastructure

The quality of Togo's infrastructure remains one of the country's most important advantages; however, reports of deterioration in the past year have been increasing. The quality of Togo's infrastructure is higher in the coastal region than in the interior. While Lomé's infrastructure is well above the level of service provided in other West African capitals, there are disturbing reports that telecommunications and electricity service are diminishing.

Togo has high electricity and telecommunications rates, but is competitive in water provision and air and sea freight. Togo has some of the most expensive electricity rates in the world. Even free zone firms, which receive a preferential variable use electricity rate (generally between FCFA 31-35/kwh or US\$0.11-13/kwh), pay extremely high electricity rates. Total electricity rates are actually more than two times higher than the variable use rate due to other fees imposed. This can make Togo uncompetitive as a base for energy-intensive firms and was the deciding factor in Wrangler's decision to establish a plant in Nigeria rather than Togo. Non-free zone firms pay as much as FCFA 48/kwh (\$0.19/kwh) on the variable use rate alone, which is significantly higher than the US\$0.03-.10/kwh rates (inclusive) typical in other countries.

Water rates -- starting at FCFA 140/cubic meter (US\$0.50/m³) -- are competitive with other countries, where rates can range between US\$0.20-.79/m³. International telecommunications costs of FCFA 850/minute (US\$3/minute) to Europe are not the most expensive in the region, but are high by international standards. Calls from Mauritius and Kenya to Europe cost between US\$1.60-1.69/minute; telecommunications costs from Central America and the Caribbean to the United States range between US\$1.05-1.25/minute.

The cost of shipping a 20 foot container to Europe is approximately US\$1,400, which compares well with other African nations. The cost from Kenya is US\$1,650, while from Mauritius the rate is US\$2,000. A special air freight rate recently instituted gives Togo a significant advantage at only FCFA 220/kilogram (US\$0.79/kg). This compares to US\$1.72/kg from Mauritius to Europe, or US\$2.58/kg from Cameroon to Europe. It is even lower than rates for shipping from the Caribbean Basin to the United States, where rates vary from US\$1.03-1.24/kg.

Again, the free zone law compensates for some of the artificially high cost factors of the Togolese economy, such as electricity and telecommunications, by providing preferential rates to the zone users, although these have not yet been implemented.

3. Political Stability

The political difficulties experienced in Togo have been a destabilizing force on business. Despite strong support from many segments of the business community for democracy, there is no denying that the instability has had a substantially negative impact on business. Transport firms report 60% drops in business while informal traders report decreases of a similar magnitude. Most industrial firms lost 2-3 months of production in 1991, a situation that is bound to result in difficulties. Both slowdowns in receiving imported inputs and strikes caused some firms to miss deadlines, resulting in penalty charges. Misunderstanding of the meaning of democracy has also led to increased problems with laborers in some situations.

The increase in crime is also becoming a concern, a departure from Lomé's reputation as one of the safest cities in West Africa. As a result of these factors and the loss of some of its comparative advantages, Togo is losing many of its skilled expatriate managers; a number of expatriate clubs and schools report substantial membership losses.

4. FCFA Value

While an analysis of the economic effects of a devaluation of the FCAF is beyond the scope of this study, it should be stated that the free zone program would benefit greatly from a devaluation. Moreover, it is clear that the overvalued FCFA reduces the overall competitiveness of the Togolese free zone program. However, one of the primary reasons for establishing an EPZ regime is to compensate for some of the high costs of doing business in a country, whether direct costs, such as wages and other economic factors of production, or indirect costs, such as high levels of bureaucracy, corruption, or an overvalued exchange rate. On balance, it is clear that, even if Togo is not the most competitive EPZ host country, it does remain competitive. The Togolese EPZ regime addresses many of the problems of doing business in Togo, and warrants being supported from that perspective alone. The positive effects of the EPZ regime, which have been discussed in other sections of this report, speak strongly for the EPZ program's potential for generating new private sector investment and employment in Togo.

E. FUTURE DEVELOPMENT POTENTIAL OF THE TOGOLESE EPZ PROGRAM

A successful EPZ program can yield a number of benefits. Perhaps most important among these are employment generation and increases in foreign exchange earnings. Moreover, EPZ programs have allowed economies to diversify while allowing for the transfer of managerial and production technology that is often associated with foreign investment. EPZ programs have also, in a number of countries, proved to be successful demonstration cases for market policies,

thus encouraging governments to seek further liberalization. This aspect has always been an important part of the long-term goals of the Togolese EPZ initiative.

It is always difficult to predict the future performance of development projects, particularly in a political situation as volatile as the one that currently exists in Togo. Given the achievements of the program to date, and historical performance of free zone programs in other countries, some estimates can be made if it is assumed that the political situation stabilizes to a reasonable extent.

At the present time, there are approximately nine firms, with over 900 employees, in sound operating condition. Over the course of the next five years, the program can attract, on average, five additional firms per year. Thus by 1997, the EPZ program can be estimated to be host to 35 firms. Using an average of 100 workers per enterprise, employment levels by 1997 would equal approximately 3,500. Because of the relatively capital-intensive nature of the initial EPZ firms, an unusually high level of exports to employees have been generated. In 1992, for example, gross EPZ exports are expected to be US\$13 million, or approximately US\$14,000 per employee. This ratio can be expected to be reduced over time, particularly as the program begins to attract more typical free zone industries such as apparel operations. An average export value of US\$6,000 per employee is more typical. Using this guideline, by 1997 gross EPZ exports would total US\$21 million, or about the same as Togo's fourth leading export (cocoa) in the late 1980s. This would represent a medium case, since these estimates are neither overly optimistic or pessimistic; based on the experience of ten other free zone programs, the median number of EPZ firms after three years was only nine. The table below summarizes the growth potential of Togo EPZ program using three scenarios, a low case (scenario I), a medium case (scenario II), and a high case (scenario III).

The low case could occur in the case of a deterioration of the political climate in Togo, as well as a lack of adequate promotion of the program. In this case, the average number of employees used is 80 per firm, and the export volume based on US\$4,000 per employee. This case is highly pessimistic, since these numbers have already been surpassed, and this case would be a decrease in employment and productivity from the current situation.

The medium case is based on the current numbers, and a stabilization in the political situation. As discussed in more detail above, an average of 5 firms per year, 100 employees per firm, and US\$6,000 per employee is used. Again, this case may be exceeded, since experience in free zone programs worldwide has shown that after an initial "trial period" of three or four years, free zone investment increases dramatically. Moreover, export earnings may be substantially larger, if the current multiplier of US\$14,000 per employee can be maintained.

The high case, while slightly optimistic, is not too far fetched, and quite possible with the installment of a stable government, a solid promotional program, as well as the development of a well managed industrial park free zone. In this case, an average number of employees of 120 per firm, and US\$9,000 in exports per employee is used.

An EPZ program, if successful, will have other positive but less quantifiable aspects. Policy and institutional reforms should occur, with reductions in the time needed to process applications and move goods through customs. As a stronger private sector environment is created, a growing middle class will emerge, allowing Togo to better undertake political reforms.

Table 1
EPZ Program Growth Potential

Scenario	Number of firms	Employment created	Export Volume
I:			
1992	10	800	US\$3,200,000
1993	12	960	US\$3,840,000
1994	15	1,200	US\$4,800,000
1995	19	1,520	US\$6,080,000
1996	25	2,000	US\$8,000,000
II:			
1992	13	1,200	US\$ 7,200,000
1993	18	1,700	US\$10,200,000
1994	24	2,300	US\$13,800,000
1995	30	3,000	US\$18,000,000
1996	37	3,700	US\$22,200,000
III:			
1992	15	1,800	US\$16,200,000
1993	22	2,640	US\$23,760,000
1994	30	3,600	US\$32,400,000
1995	38	4,560	US\$41,040,000
1996	47	5,640	US\$50,760,000

III. INSTITUTIONAL ANALYSIS OF THE FREE ZONE PROGRAM

A. ORGANIZATIONAL STRUCTURE

The administration and regulation of the free zone program falls under the responsibility of the Société d'Administration de la Zone Franche (SAZOF). The creation of SAZOF is mandated under the free zone law. In addition to SAZOF, the Centre Togolais de la Promotion des Investissements (CTPI) was also created to undertake promotional activities. The CTPI was originally established to promote only the free zone program but has broadened its role so that it now promotes the whole of Togo, rather than just the free zone program.

While the UNDP technical assistance program to the free zone regime is oriented to the institutional development of the SAZOF and CTPI, the two organizations have, in reality, become one operation with two divisions. This joint operation has been encouraged by the fact that SAZOF and CTPI share office space and have a number of joint employees. Moreover, responsibilities between the two organizations often times cannot be clearly delineated. The central role of the CTPI is to attract and provide information and assistance to investors. Similarly, the SAZOF offers investors a guichet unique (one-stop shop) to help investors in obtaining necessary permits, infrastructure connections, etc. Consequently, CTPI and SAZOF staffers often perform similar functions in their efforts to assist investors. It should be emphasized that the overlapping of activities should not be considered a weakness of the organization. It is in fact a strength, as it demonstrates the promotional officers understanding that investors cannot just be lured to Togo and then forgotten about; good marketing requires after the sale service. The de facto merging of the two organizations is demonstrated by the fact that many investors refer to the office as the "free zone center" rather than to SAZOF or the CTPI specifically.

As originally conceived, there were two primary reasons for establishing separate promotional and regulatory/administrative organizations. The first reason is that the merging of promotional and regulatory functions can sometimes lead to conflicts of interest. The rationale was that while one organization might lead to greater efficiency and be easier for investors, potential conflicts of interest could severely damage the program. Second, given the regulatory nature of SAZOF's activities, the long-term sustainability of its activities will depend to a great degree upon governmental support. It was feared that as the government plays a larger role in the financing of SAZOF's activities, there will be greater pressure to staff it with government personnel. In other countries, government personnel have typically been ill suited for promotional activities. For this reason, a second private sector led promotional organization would be more likely to attract high quality, dynamic personnel by remaining outside the civil service. To this point, this has not been a major issue as the UNDP project has provided competitive salaries for the hiring of quality individuals at the cadre level for both organizations.

The unofficial marriage of the two organizations appears justified. The separation of the promotion and approval of investments has been maintained and the perception of conflicts of

interest have not emerged. The existence of one organization in one office has allowed Togo to offer a relatively responsive one-stop facilitative service to investors.

B. LEGAL STATUS AND IMPLICATIONS

One of the major constraints to the institutional development of the free zone program is that neither SAZOF nor the CTPI have ever been legally chartered. Drafts of the two charters were prepared over two years ago but have never been finalized. This inaction has occurred despite the fact that one of the conditions for the UNIDO/UNDP project was the approval of these charters. As each organization was envisaged to have private sector majorities on their respective Boards of Directors (six out of nine seats are to be reserved for private sector members), some observers note that the delay has been due to government reluctance to validate two autonomous, private sector-led organizations. In addition, there has been little pressure from within or outside the government to make this happen. The UN's Chief Technical Advisor has not pushed for their passage as he believes (with good reason) that the division of the organizations at this point will only lead to confusion.

Nonetheless, the absence of legal footing has had a severely negative impact. Without being chartered, SAZOF/CTPI has (have) not been able to establish a Board of Directors. A strong Board of Directors would likely give SAZOF/CTPI a clearer direction of where it should be going, as the institutions at this time are largely reactive and lack focus. Moreover, it has made it more difficult for SAZOF/CTPI to implement the free zone regime as many agencies refuse to respect provisions of the law. For example, after nearly three years, the preferential port and telecommunications charges for EPZ firms have still not been set. Preferential electricity and water rates have been established but are not being followed. An autonomous Board of Directors would also facilitate the hiring of the best available Director General. At present, the two Director Generals are seconded from the Ministries of Plan and Finance -- and despite their strengths, lack the necessary private sector experience needed for these positions. The lack of a Board of Directors essentially means that the free zone lacks a real power base in both the public and private sectors.

C. SAZOF/CTPI FUNCTIONS

SAZOF and CTPI have a total of seventeen employees. CTPI and SAZOF each have a Director General, long-term advisor, and four cadres. In addition, the two organizations share four chauffeurs and a receptionist. All of the employees, with the exception of the two Director Generals² and the economist (one of the cadres), are paid for out of UNDP funding. In general,

² As part of the civil service, their salary levels are lower than that of some of the cadres.

the number of staff members appears to be adequate, although one to two more persons are needed for the guichet unique. The main activities undertaken by SAZOF/CTPI are discussed below.

1. Promotion

Due to the cutback in UNDP funding, SAZOF/CTPI can no longer undertake any active promotional campaigns. Consequently, marketing personnel have shifted their attention completely to servicing existing free zone investors. The strategy being followed is that if Togo can emerge from these difficult political times with a satisfied base of enterprises, they will serve as the country's best advertisement to future potential investors.

Even with full UNDP support, the promotional activities that could be undertaken by the CTPI have been limited due to funding and bureaucratic constraints. For example, GOT budgetary woes have meant that the Center has no funding for representational activities and is operating with only one phone line (all other lines have been cut for lack of payment by the GOT). This is obviously not an ideal situation for a promotional agency.

The CTPI has also been constrained by its lack of autonomy from UNIDO/UNDP. To be effective, a promotional organization must be able to respond quickly to the demands of potential investors. However, to visit potential investors (even in neighboring countries), approval must be obtained from the Ministry of Industry, UNIDO/Lome, UNDP/Lome, and then from headquarters in Vienna. Despite the fact that the CTPI's main task is to promote, it has no budget for promotional expenditures. As a result, funding must come from budgets set aside for study tours and fellowships.

Promotional officers seem to be well grounded in the philosophy and techniques of marketing. In contrast, due to their government backgrounds, the DGs of the two organizations are less comfortable in this role. The number of staff devoted to promotional activities is sufficient and is adequately equipped. Promotional activities are not as well coordinated as possible, partly as a result of staff personality conflicts as well as the absence of any computerized tracking system for investor leads.

As a result of the GOT's non-payment of rent, the Ministry of Industry has decided to move SAZOF/CTPI to another facility. This is a negative from a promotional aspect as the current building is modern and clean. Its location near the port and in the heart of Lome's industrial zone contrast greatly with their future space which is downtown. The future quarters will be more difficult to find, be farther from most EPZ enterprises, and without parking spaces. The future location -- near the Grande Marche -- is highly congested, noisy, and dirtier. Despite these negatives, the move is necessitated by the GOT's inability to make payments to the present landlord, forcing the move to an unused GOT-owned building.

2. Investment Approval

Once receiving a complete application, SAZOF is required by law to approve or disapprove a potential investment within 30 days. This requirement has not yet been met. Nonetheless, firms that have submitted complete applications are generally granted EPZ permits in under two months, which is competitive by international standards. Given the requirement that products must be transformed to some degree to qualify for status, SAZOF has tried to remain as flexible as possible.³

3. Facilitation Services

Both the CTPI and SAZOF provide assistance to firms after approval, although this responsibility is formally under SAZOF's guichet unique. Typical activities include assistance in obtaining:

- construction permits;
- work and residency visas;
- import cards;
- installation authorization; and
- commercial registration.

In addition, SAZOF's guichet unique assists investors in accelerating utility hook-ups, customs delays, etc. The need for additional staff in this area has become necessary due to SAZOF's increasing role in preserving good labor-management relations; SAZOF has played an important role in mediating conflicts that have arisen from the more liberal political environment. Non-free zone firms have noted that SAZOF/CTPI serves as an effective "blocking back" in the reduction of bureaucratic difficulties existing in Togo. This aspect is particularly appreciated by foreign investors.

4. General Administration

Overall, SAZOF/CTPI have had their effectiveness curtailed by a lack of autonomy. As discussed above with regard to promotional activities, SAZOF/CTPI has little flexibility. The organizations have no control over their budgets and any purchase over US\$400 must be cleared by a number of authorities. The Chief Technical Advisor complains that there is no real budget and it is difficult to ascertain where the organizations stand financially.

As mentioned above, SAZOF/CTPI is likely to be moved to new offices over the course of the next few months. This move will make it more difficult for SAZOF/CTPI to attract and assist investors. Overall, SAZOF/CTPI is well equipped with necessary furniture, computers, etc.

³ There are reports that potential investors of certain nationalities are discouraged, but this could not be confirmed.

Nonetheless, the computers have not been fully utilized due to the large variety of hardware and software programs and lack of training.⁴

Lack of financial support from the GOT has resulted in phones and rent remaining unpaid for two years. Of the CFA 40 million to be received from the GOT this year, SAZOF/CTPI will use approximately CFA 25 million for these two accounts payable alone. The rest of the money has already been committed before having been received. The financial situation has been worsened by the fact that SAZOF has never established a nominal annual fee or application charge to supplement its revenue as is allowed under the EPZ law.

Staff overall seem to be well trained as a result of the long-term advisors, but there does appear to have been a reluctance to utilize some overseas training opportunities. Nonetheless, the DG of SAZOF recently completed a management course in the United States while one of the marketing officers will spend three months with South Carolina's promotional agency to benefit from its experience.

5. Customs

In addition to SAZOF/CTPI, a customs division oriented solely to free zone enterprises was created in June of this year. The individuals who comprise the nine member team were chosen by the Director of Customs for their youthfulness and the dynamism they showed in their previous customs postings. The Customs Bureau is presently preparing a manual which will detail customs procedures as they relate to free zone operations. In addition, regular customs officers will be posted at each single-factory free zone to prevent any leakages into the local economy. Firms will pay customs CFA20,000 for this service.

The EPZ division members have been selected based on their energetic attitude towards development of the EPZ program, and are unusually driven and thoughtful and appear to understand well the flexibility and responsiveness required of them for the free zone program to work effectively. Despite this, the bureau suffers from a lack of training and equipment. No one in the division has had any first-hand look at free zone customs operations elsewhere and no training or study tours have been planned. Similarly, the division does not have access to vehicles or motorbikes; as a consequence, the director of the office either rides his bicycle or has the free zone enterprise give him a ride when a meeting is necessary. This clearly limits customs' ability to monitor EPZ activities.

To date, free zone firms have generally been satisfied with customs' operations. EPZ goods and materials have first priority and are usually cleared within one day. Customs allows

⁴ SAZOF/CTPI have inherited and were given a number of computers, many of which have not been fully compatible.

containerized export and import shipments to remain sealed as they pass through the port, which is an effective way to prevent pilferage. Currently, the greatest problem facing customs is the leakage of free zone goods onto the local market; this problem will be curtailed as soon as customs agents are stationed at each factory.

IV. GOVERNMENT OF TOGO'S INDUSTRIAL POLICY AND EXPORT PROMOTION STRATEGY

A. REVIEW OF GOT'S INDUSTRIAL DEVELOPMENT STRATEGY

Numerous USAID-sponsored studies, as well as other bilateral and multilateral donor agencies, have reviewed the industrial development strategy of the Government of Togo. (A number of these studies are referenced in this report's bibliography.) This section is a review of those findings and is based primarily on the recently completed MAPS survey, conducted for USAID/Togo by J.E. Austin Associates and The Services Group during the first half of 1992.

To address structural economic weaknesses, the Government of Togo initiated stabilization measures in 1979-1980 that materialized in the Fourth National Plan of 1981-1985. These measures refocused public investment on infrastructure, rural development and debt reduction, and were introduced after a five-year period (1976-1980) of industrialization that resulted in unserviceable external debt levels, mismanaged parastatals and high public sector payrolls. The GOT's Fifth National Plan (1986-1990) accentuated these priorities, doubling nominal public investment in rural development and infrastructure while severely curtailing investment in the parastatal industrial and commercial sectors. The GOT has since revised the Fifth National Plan due to changing terms of trade in 1986 that reduced export earnings, compounded debt problems and added to balance of payments deficits. The budgets and priorities of the Fourth and Fifth National Plans have been driven by the Structural Adjustment Program (SAP) pursued by the GOT since 1983, with assistance from the IMF and World Bank.

Current GOT Policy and Objectives: Since 1988, the GOT has reformed the tax and trade regime, encouraged increased private (foreign and domestic) investment, contained public expenditure and imports, and developed a strategy to boost export earnings via diversification of products and markets, increased productivity and higher value-added content. Key GOT objectives for the 1988-1990 period were real GDP growth of 4.0 percent, an inflation rate of less than 3.0 percent, and fiscal and current account deficits no greater than 5.1 percent and 9.4 percent, respectively, of GDP. Results were mixed, with an 8.0 percent current account deficit ahead of schedule, but real GDP growth of 3.6 percent and a fiscal deficit of 6.2 percent behind schedule.

The Export Sector in GOT Strategy: Export earnings are critical to the achievement of GOT balance of payments and GDP targets. Given limited volume of and experience with the marketing of non-traditional exports, Togo's export earnings are likely to continue to come from increased production of traditional exports (phosphates, cotton, cocoa, coffee) in the short term while promoting investment in non-traditional export areas for medium- and long-term growth. Both efforts will be critical as recent tax reforms reduce government revenues derived from the direct taxation of agriculture and mining, previously 20 percent of government revenues (until 1986). Given reduced traditional revenue sources and insufficient development to date of non-traditional revenue sources, the GOT has had no choice but to limit expenditure, which in turn

has reduced public investment and domestic demand. This has prompted further reforms (e.g., Investment Code, tax reform, EPZ) to stimulate private sector investment and employment, transfer needed skills and technology to build a solid industrial base, and to promote real GDP growth without relying on public sector investment to stimulate domestic demand.

B. GOT'S COMMITMENT TOWARDS EPZ DEVELOPMENT

The free zone regime was formulated before the appearance of the present transitional government. Because of the nature of the OPIC/USAID free zone initiative, President Eyadema politicized the selection of Togo. As a consequence, the EPZ program has -- since its inception -- been closely associated with the President. Subsequently, some observers have questioned the commitment of the transitional government and opposition leaders to the EPZ program. The lack of progress in the finalization of the SAZOF/CTPI legal statutes and failure to provide adequate funds for their operation have given credence to this view.

Discussions with government officials and reports from opposition leaders, nevertheless show that the program enjoys wide support and continues to be viewed as one of Togo's only realistic options for economic development. On a rhetorical level at least, a private sector Board of Directors for SAZOF/CTPI continues to have strong support. The insufficient funding and inadequate implementation by the GOT is thus likely more a reflection of the current political and economic situation than of government dissatisfaction with the program. It is probably more accurate to say that the broad-based support is shallow, and has not been dynamized due to the absence of a strong advocate for the program at senior levels within the government.

C. SUMMARY OF KEY GOVERNMENT AND PRIVATE SECTOR PLAYERS

The new orientation of the GOT's industrial policy and strategy, as outlined above, has required a strengthening of the institutional support structures to further encourage and develop private sector investments in the Togolese economy. The industrial sector finds itself under the coordination of public sector organizations, as well as more privately driven support institutions. This section will provide a brief summary of each of these organizations and their roles as it relates to industrial development in Togo. Moreover, the section will provide an overview of proposed structures, which are currently under review and may be established in some form in the future.

The two organizations directly related to the development of the Togolese EPZ regime are the Société d'Administration des Zones Franches and the Centre Togolais de la Promotion Industrielle. The functions, responsibilities and institutional structures of these organizations are described in detail in Chapter III above, and will thus not be reviewed here.

1. Public Sector Organizations

a. Le Ministère du Plan et de l'Aménagement du Territoire (MPAT)

The Ministry of Plan is charged with planning, programming, and coordination of all development activities in all areas of the nation's development program. This Ministry is the focal point of and primary interlocutor of the entire donor community assisting Togo.

The MPAT's direct involvement with the free zone program has been limited to date, since the coordinating ministry is MISE, described below.

b. Le Ministère de l'Industrie et des Sociétés d'Etat (MISE)

Before the end of 1991, MISE was the only interlocutor of the national industrial sector. It was reorganized in 1988 with the following objectives:

- promote the development of public and private industrial activities; and
- develop, apply, and control the proper measures required to promote the development of industrial and artisanal activity.

The Ministry of Industry and State Enterprises has been the Ministry responsible for the development of the EPZ regime through its Direction de l'Industrie. Prior to his resignation in the summer of 1991, Minister Djondo made the free zone program one of his priorities for development of the Togolese export sector. The Ministry of Industry remains the primary government organization responsible for the development of the free zone regime.

Discussions with Togolese and foreign advisors to the Minister have indicated that he is supportive of the free zone program. SAZOF reports that free zone approval is obtained without any delays and that the Minister is very cooperative in approving investments under the free zone regime. If USAID/Togo were to get more involved in the implementation of the EPZ program, it would be working in cooperation with the MISE. Any conditions precedent would have to be "negotiated" with this Ministry.

c. Le Ministère du Tourisme, de l'Artisanat et des Petites et Moyennes Entreprises (MTAPME)

Created in December 1991, MTAPME is charged with the development of the small and medium size enterprise sector in Togo. While it was apparently under discussion to transfer the portfolio of the free zone program to the MTAPME, sources at both Ministries have confirmed that the free zone program will remain under the supervision of the Ministry of Industry.

The MTAPME was dissolved during the September 1992 reorganization of the government.

2. Public/private Support Institutions

A number of semi-private/semi-public institutions exist, which are charged with promotion, financing, and general support to industrial development in Togo. The most important of these are listed below:

- The Chamber of Commerce, Agriculture, and Industry of Togo (CCAIT) is based on the French system and therefore considered more a public than private sector institution, with its funding received from the Ministry of Industry. While there are plans to split the Chamber into three organizations to make it less political and more responsive to member needs, this restructuring has not yet occurred. The CCAIT has two divisions as follows:

The Division d'Assistance aux Entreprises (DIVAE), or Enterprise Support Division, whose primary objective is to provide technical, judicial and management advice to enterprises.

DIVAE is supported by UNDP/UNIDO's small and medium enterprise support project and provides direct assistance to industries in difficulty, through its technical assistance and training programs. The program is well regarded and has assisted a large number of industrial firms in Togo.

The CCAIT's participation in the development of the Togolese EPZ program has been limited to some financial support and the seconding of personnel to SAZOF and the CTPI. This support has been in the form of loans to pay some of the operational cost of the two institutions, which was to be paid for by the GOT under the UNDP/UNIDO project, as discussed below.

- The Centre Togolais des Investisseurs (CTI), which was created in 1987, is charged with providing practical support and assistance to developers for the creation or expansion of enterprises. Funded primarily by the World Bank, the CTI's primary function has been to conduct feasibility studies to facilitate access to financing for new projects, and to provide small grants to defray start-up costs, through its Fonds de Participation aux Prestations de Services (FPPS). Largely considered a failure, there has long been talk of its closure. This organization is thus not likely to play a large role in stimulating free zone investments in the future, even though its assistance is geared towards processing industries.

Besides the above-mentioned organizations, there are a number of small associations and industry groups, such as the Conseil National du Patronat (CNP), the Groupement Togolais des Petites et Moyennes Entreprises (GTPME), as well as some professional organizations, such as the Professional Bankers Association or the Pharmacists Association. These groups are quite small in nature and will not play a primary role in the development of the free zone regime at this time. Some of them, however, may be considered in the future as members of the Board of Directors of SAZOF/CTPI.

3. Other Donor Activity

The US government, through the OPIC/AID free zone initiative, has been the key donor in assisting the development of the EPZ program at the outset, as discussed in Chapter II. A. above. Other than that, the UNDP/UNIDO has been the primary actor in implementing the program through its project assistance over the past two years, as discussed in detail in Chapter II. C. above.

The French government has provided some financial resources to prepare promotional materials for the free zone program, but has otherwise limited its involvement in the free zone program. In terms of other industrial development programs, the French are the primary donor behind the idea of the creation of the Agence de Promotion des Investissements et des Exportations, as described below.

The German government and the World Bank have not been directly involved in supporting the EPZ program, but are behind the creation of the Maison de l'Industrie, discussed below.

4. Proposed Industrial Development Institutions

There are currently two other institutional structures under discussion to support the industrial development of Togo. It is too early to say which of the two, if either, will be adopted, since they are only being considered and further investigated at this time. However, it is important to follow their development as they could have a significant impact on the EPZ program. The following is a brief summary of the two concepts:

a. La Maison de l'Industrie

In March 1991, the Ministry of Industry began discussions about the creation of one structure or "cell" to coordinate and organize the activities of the free zone program, the Centre Togolaise des Investisseurs and the Chamber of Commerce, Agriculture, and Industry.

Based on this idea, two approaches have been studied and considered for future development, both referred to as the "Maison de l'Industrie":

- A legal structure, which would group under one roof all services, functions and responsibilities of SAZOF, CTPI, CCAIT, and CTI, would instead be organized by function: promotion, assistance and support, and study and research; or alternatively,
- Creation of an umbrella organization, where each organization would maintain its legal autonomy. Under this structure, one "coordinating cell" for consultation and collaboration between the various agencies would be established.

In both cases, the management of the Maison de l'Industrie would be based on private sector principles, with a private sector majority board and a private sector Director General.

During a donor's meeting held in November 1991, both options were discussed and the concept of an umbrella organization was preferred by the donor community. However, due primarily to the socio-political developments over the past year, very little progress has been made towards the creation of this institution. It is only in the last couple of months that discussions about the Maison de l'Industrie have intensified again.

Recent meetings with the World Bank and the German aid organization's (GTZ's) economic advisor at the Ministry of Industry have clarified that while the World Bank is favorably inclined towards the creation of the Maison de l'Industrie, it is the GTZ that is the driving force behind its creation. The GTZ is ready to provide financing for the creation of the umbrella or "holding" organization described. Based on a similar structure recently created in Mozambique, the GTZ is proposing the creation of a coordination cell, which would be the link between the various GOT ministries and the agencies involved in promoting private sector development in Togo. Under this proposed structure the various private sector development agencies would maintain an autonomous structure, and the only formal link to the Maison de l'Industrie would be through representation on its Board of Directors. Thus the SAZOF would remain a stand alone autonomous agency responsible for administering and regulating the Togolese EPZ program.

The GTZ's timeframe for the creation of this agency is to have the Maison established in May 1993. If the current proposal of an independent structure with no direct involvement in the day to day operation of the SAZOF and the free zone program in general is maintained, this will not pose a problem for USAID/Togo's potential involvement in the implementation of the program. However, it is recommended for USAID/Togo to follow the progress made towards the Maison's creation very closely to avoid a potential move towards a more bureaucratic structure, such as the alternative of creating one legal structure incorporating the SAZOF under its roof.

b. APIEX - Togo

The concept of the Agence de Promotion des Investissements et des Exportations (APIEX) was proposed by the president of the Conseil National du Patronat Français pour l'Afrique (CEPIA), the French employers association, during his visit to Lomé in February of this year, and is based on the model of API created in Tunisia to support and promote private sector investment in that country. If based on the Tunisian model, the agency would be a public sector organization, managed by a Board composed of the Conseil National du Patronat, as well as other private and public sector organizations.

A mission of Togolese businessmen visited Tunisia in May 1992 to study the concept. Moreover, a consultant from CEPIA has visited Togo to prepare a concept document. While a copy of this report was not available for review for this study, it has apparently been submitted to the Prime Minister's office for review and approval. Moreover, it appears as if a proposal

to provide financing for the establishment of APIEX has been under consideration by the Coopération française since December 1991.

The Government of France has proposed and supported the creation of similar structures in a number of former French colonies in Africa. The primary purpose of this type of organization appears to be to promote French investment in, and trade with, Africa. Since this organization is designed to incorporate all investments -- tourism, the EPZ regime, investments on the national customs territory, SME, etc. -- and is likely to become a highly bureaucratic organization, it is recommended that USAID follow closely the status of this proposal and be prepared to develop a strong position against its implementation.

Latest discussions with representatives from the GOT and the donor community have revealed that support for the creation of APIEX is very limited, and the project has been shelved for the time being. It appears as if the Maison de l'Industrie is the preferred mechanism for coordinating private sector development activities in Togo.

A meeting to review the two approaches and discuss the future steps to establish either the "Maison" or the APIEX - Togo was held on September 3, 1992. This meeting was an internal GOT planning session, and the outcome of this meeting has not yet been communicated to the donor community. Informal discussions with a government official who participated in the meeting, however, revealed that there appears to be a general preference towards the idea of the privately driven "Maison de l'Industrie" rather than the public sector APIEX structure. The primary concerns at this time, which are likely to stall the creation of this institution are the political uncertainty and the absence of a clear mandate to go forward with the concept, as well as the problem of financing the establishment of such a structure. It is likely that a definitive decision as to the future organizational structure of the above-mentioned institutions will not be taken until a new permanent government is in place.

V. KEY ISSUES SURROUNDING EPZ DEVELOPMENT AND FUTURE USAID INVOLVEMENT

A. REVIEW OF USAID/TOGO'S STRATEGY TO PROMOTE NON-TRADITIONAL EXPORTS

USAID/Togo's strategic goal is to help Togo achieve sustainable, broad-based economic growth. Already in 1989, it was determined that without a long-term increase in export earnings, the GOT would have substantial difficulties achieving economic growth, balance of payments and debt service objectives. At that time USAID added a target of opportunity, an increase in non-traditional exports, to Mission strategy in support of the GOT.

At the current time, given the economic need for non-traditional export growth, as well as the high potential for future growth in investment and employment under the EPZ regime, as outlined above, USAID/Togo selected increased exports through the EPZ program as a target of opportunity for the Mission. USAID has been assisted in developing its five-year strategy by a consulting team, which visited Togo in early July 1992; the following is largely based on their findings. In selecting this target of opportunity, the Mission considered the following factors:

- A general declining trend in per capita income and employment;
- Low levels of private investment in the economy;
- Political instability and declining investor confidence in Togo;
- Togo's areas of economic comparative advantage: light manufacturing, agriculture and regional services;
- The limited potential for domestic markets to absorb industrial output;
- The large and complicated problems facing the agriculture sector;
- The potential for the EPZ program to stimulate the development export-oriented firms and to develop linkages to Togolese suppliers of raw materials; and
- The need for USAID/Togo to focus and concentrate its limited private sector development resources on a clearly defined, achievable and manageable objective.

Moreover, the Mission examined the results of its recent studies of private sector opportunities and constraints. These included the MAPS and agribusiness studies, 1991 TRIPS evaluation, the UNDP/UNIDO EPZ program evaluations, as well as discussions with technical advisors

associated with the Togolese EPZ program. An inventory of the Mission's private sector activities during the past two years was also completed.

After consideration of all these inputs, mission staff concluded that the development of private export-oriented industry has the best potential to stimulate investment, create jobs, raise incomes, and encourage the GOT to liberalize its policies affecting private enterprise. USAID/Togo is well placed to play a larger role in the development of the Togolese EPZ program; the Mission has the following comparative advantages in pursuing the strategic objective of increased exports through EPZ program development:

- The Mission was closely involved in setting up the EPZ program in Togo and has closely monitored its progress. The U.S. Embassy in Lomé and USAID/Togo were the key players involved in the creation of the Togolese EPZ regime in 1989 and 1990 under the OPIC/AID initiative to develop privately driven EPZ/Industrial Estates in sub-Saharan Africa. Following the passage of the EPZ law and regulations, USAID/Togo's limited financial resources prevented it from assuming the critical role in the EPZ program's institutional development and has stood on the sidelines as UNDP/UNIDO became the lead donor for the program. With increased financial resources, and a diminishing role played by UNDP/UNIDO, USAID/Togo is well positioned to again assume a lead role in the development of the Togolese EPZ program.
- Mission staff are well acquainted with the key officials involved in the development of the EPZ program. The Mission has maintained close contact with the Ministries involved in the development of the EPZ program and has continued to have meetings with key officials in the various GOT agencies promoting the growth of non-traditional exports. This close relationship bodes well for a stronger USAID/Togo involvement in the EPZ program.
- The GOT and other donors associate the EPZ effort with the U.S. Government. Due to the U.S.'s role in developing the EPZ regime in Togo through the OPIC/AID initiative, the program remains closely associated with the U.S. Government and the GOT would welcome future USAID participation.
- The EPZ regime, including the legislation and its supporting institutions are already established, so the cost and time involved in start-up will be small. Tremendous work has been done over the past three and a half years to establish the Togolese EPZ program and future involvement by USAID/Togo would be limited to assisting in the implementation and promotion of the program.
- Technical services for trade and investment promotion are readily available through contractors and PSCs, centrally-managed AID contracts and OPIC. USAID/Togo should be able to manage an EPZ support program even with its limited staff and management resources, due to the availability of qualified

contractors, as well as other support mechanisms, such as OPIC's investment missions and other services.

As such, USAID/Togo is exceptionally well placed to achieve its proposed objective of encouraging non-traditional exports through the EPZ program. USAID/Togo's assistance and support to the program should be well focused and limited to institutional support, training, and promotion.

B. KEY ISSUES

Before USAID can proceed with a project related to the free zone program a number of issues need to be examined. Some of these issues are outside the control of USAID/Togo but should be raised to allow USAID to make a fully informed decision regarding its future program development. In addition, there are a number of issues which USAID/Togo can play a role in addressing.

EXTERNAL ISSUES

Current Political Situation. The present government in Togo is transitional and has recently been modified -- and extended -- through the end of 1992. The situation has been, and remains, volatile. Violence has erupted periodically and the level of security in Lomé has fallen. The overall climate of instability has, not surprisingly, focused the government's attention away from long-term economic to short-term political issues. This situation has clearly had a detrimental impact on the free zone regime. The ten potential investor visits per week in the past have been reduced to two weekly. Nonetheless, four EPZ firms are currently in the process of installing their operations despite the political situation. Given the long gestation process for the start-up of USAID projects, a clearer picture of the political situation should be apparent well before a project would get underway. The phasing of project design would keep USAID financial losses to a relatively small amount should the political situation warrant the termination of any USAID project.

GOT Commitment to Future EPZ Program Development. As discussed in more detail in Chapter IV above, GOT commitment to the EPZ program appears to remain strong. Given the political uncertainties, as well as the economic conditions, however, the GOT has not been able to provide its financial support to the UNDP/UNIDO project as originally programmed. In considering future assistance to the EPZ program, USAID/Togo will have to take the limited financial resources of the GOT into account and design its program accordingly. Government contributions to the program could be in the form of in-kind contributions, such as making the EPZ/IE land available at no cost to a private developer.

Labor Disputes. The liberalization of the political environment has encouraged workers to press for increased wages and benefits after a decade of austerity and strictly controlled union activity. This wage pressure was not completely unexpected, as the base salary has declined in real terms

for the last five years. Along with increased wage demands, many employers note that the former discipline of the labor force is waning, as many workers have misinterpreted the meaning of democracy. As a result of all of this, some EPZ and non-EPZ firms have experienced labor difficulties over the last year. It is important to recognize that these difficulties are a reflection of the dynamic political situation in Togo and not the result of systemic problems in the free zone regime.

CFA Valuation. It is widely believed that the CFA is overvalued by anywhere from 10-50 percent, with the World Bank estimating the Togolese CFA to be overvalued by 15 to 20 percent. Clearly, an overvalued CFA makes some production costs -- particularly labor -- more expensive. The overvaluation of the CFA thus makes Togo less competitive in labor-intensive industries most likely to establish in a free zone program. However, as discussed above, Togo remains fairly cost competitive on the most important factors of production (labor and transport). While an overvalued CFA will limit the free zone program's ability to maximize its potential, the country has been able to attract a significant level of interest despite this factor. Similarly, while the free zone programs in Mauritius, the Dominican Republic, and Mexico benefitted greatly from devaluations, these countries were still able to generate significant employment before devaluation. Mauritius (with a population of one million) and the Dominican Republic (with a population of seven million) had both created 20,000 jobs prior to their devaluations in the early 1980s.

EPZ Concept. DAA/AFR's August 12, 1992 draft memorandum on Togo's informal strategy review meeting expressed a number of concerns about the EPZ concept. It is stated that EPZ programs "distort the economies of countries and disadvantage if not asphyxiate local companies from flourishing." In fact, experience around the world proves otherwise. An EPZ program is the most comprehensive package available to remove economic distortions. The Togo EPZ program is currently the only way firms in Togo can operate outside the highly distorting tax and tariff regime. Similarly, the EPZ program in Togo lessens the investment approval hurdles and Customs procedures that have been strangling the formal private sector for years. As a consequence, many Togolese firms rightly view the regime as their only hope to survive or expand, given Togo's limited market and constrained policy environment.

As demonstrated by the experience of Taiwan and Mauritius, a successful EPZ program can serve as an effective demonstration case for market-led policy reforms throughout the economy. Although most EPZ programs are dominated by foreign investors in the first phase of operation, local firms comprise a significant amount of free zone investment in Taiwan, Mauritius, and the Dominican Republic. To date over 35 percent of the EPZ approvals have gone to Togolese companies. Far from asphyxiating local firms, it has been found that free zone programs can be an effective way to re-orient firms once operating under import substitution policies. With

an effective partial export regime, significant backward linkages can also be created. In Taiwan, for every EPZ firm there exist four local suppliers.⁵

With regards to the number of jobs created in relation to USAID investment, a recent World Bank study found that most EPZs have generated positive economic rates of return. To date, technical assistance (UNDP, OPIC, USAID, FIAS) to the Togolese EPZ program has resulted in a cost of under US\$ 2,000 per job, a figure that compares well with private sector development projects around the world. This is an impressive result given the difficulties the program has faced.

INTERNAL ISSUES

UNDP Reduction/Termination of Assistance. Officials at UNDP/UNIDO have clearly stated their intention to reduce or even terminate their role in assisting the free zone program. The Chief Technical Advisor's contract ends in April 1993 while the Togolese cadres' and the long-term promotional advisor's contracts end in December 1992. At this point in time, UNDP/UNIDO have not yet made a decision on whether these contracts will be renewed or whether any assistance will be made available to SAZOF/CTPI after the end of 1993. UN officials have strongly indicated that they would like to cooperate with USAID on this project, and seem willing to allow USAID to play the lead role.

However, given the long gestation process for designing USAID projects (18-24 months), there is a real danger that SAZOF/CTPI could be without assistance for up to one year should UNDP/UNIDO decide to end their project involvement in December 1993. From USAID's perspective, it would be optimal if the contracts of both international advisors and national experts were renewed until the start of USAID assistance. But it is not entirely clear whether the two long-term advisors would accept this offer of renewal. At minimum, to maintain the well-trained and skilled national staff, it is recommended that USAID encourage the UN to renew the contracts of all national experts at SAZOF/CTPI. If UNDP/UNIDO fails to renew the contracts of the international advisors, the presence of these staffers would allow for SAZOF/CTPI to function at an adequate level before the start of any USAID project. At present, there is a danger that SAZOF/CTPI could lose valuable local employees. With neither national cadres nor international experts, a USAID free zone project would essentially have to begin from scratch from an institutional perspective.

As UNDP/UNIDO have not yet made any final decisions concerning their involvement with the free zone program, it will be necessary for USAID project design to be comprehensive in scope. This will allow USAID to address all necessary tasks should UNDP/UNIDO pull out altogether. If desired, UNDP/UNIDO and USAID can subsequently agree on what the UN role should be,

⁵ EPZ programs can effectively hamper two traditional sectors of developing country economies. Because of better working conditions and higher pay, many low-skilled workers chose to work in EPZ factories rather than as agricultural laborers or domestics.

and which components should be addressed by the UN. One possibility that should be further explored with UNDP/UNIDO is whether it would be willing to undertake a program to train EPZ workers. This would be a focus with which it has substantial experience and would be an attractive incentive to potential EPZ investors. It would also be attractive from the USAID viewpoint in that while being complementary, it is clearly delineated from SAZOF/CTPI institutional development.

Maison de l'Industrie/APIEX - Togo. As discussed in detail in Chapter IV above, the GOT is currently reviewing the possibility of establishing a new institutional support infrastructure to promote industrial development in Togo. The Maison de l'Industrie and the Agence de Promotion des Investissements et des Exportations (APIEX) are both designed to organize the various investment promotion and support institutions, such as the Chamber of Commerce, the CTI, the SAZOF, the CTPI and others, under one roof. While the concept of an umbrella structure, such as the one proposed for the Maison de l'Industrie may be acceptable, it is strongly recommended not to support the APIEX concept of a large public sector organization. Either way, it is recommended that the SAZOF and the CTPI remain autonomous organizations, either in the form of two separate entities or one combined institution.

Merger of SAZOF/CTPI. As discussed in the institutional analysis above, SAZOF/CTPI have evolved into a single operation. Fear that this would lead to potential conflicts of interest have been prevented by the separation of application review from promotion within the organization. The provision of competitive salaries (except at the DG positions) has addressed fears that effective promotional personnel could not be recruited and retained. The close coordination between SAZOF and CTPI has actually increased the efficiency of investor services and created a closer approximation of a one-stop shop. For these reasons, it is recommended that the de facto marriage of the two organizations be formalized through the passage of a legal statute. As originally envisaged for SAZOF and CTPI, this singular institution should have a private sector majority Board of Directors. Apart from reducing confusion among investors of SAZOF/CTPI respective responsibilities, the union of the two organizations would make it easier for USAID to manage EPZ program assistance.

Industrial Estate. As detailed above, the OPIC/USAID initiative focused on the creation of an industrial estate facility. After nearly two years of negotiation with a consortium headed by the Trammel Crow Corporation (TCC) in Texas, it is fair to say that the consortium is unlikely to proceed, despite the fact that some members of the original consortium claim to remain interested in undertaking industrial estate development. While the failure of the TCC group to proceed has been a disappointment and had important negative symbolism, the free zone program has been able to go forward for two reasons. First, the EPZ law allows EPZ firms to establish operations anywhere in the country, not just in industrial estates, and these single-factory free zones have accounted for most of the program's investment. Second, the privately operated airport authority has created a small EPZ/industrial estate which houses two EPZ firms while a Taba Industries development houses another two free zone companies.

Nevertheless, a number of approved firms are reportedly waiting for suitable industrial estate space at more reasonable rental rates. The GOT has reserved two areas for future industrial estate development. One is 35 ha. in size and already has received substantial infrastructure development. A second site consisting of 72 ha. has also been set aside for future development. The existence of unoccupied, fully serviced industrial space would be a strong promotional tool for the program, but given the flexibility of the law, it is not a precondition necessary for success of the free zone regime. Consequently, it is not recommended that USAID directly assist the GOT in developing these sites. As such, USAID need not provide financing, or guarantee loans, to develop an industrial estate. This will allow USAID to avoid the creation of a possible white elephant. A well functioning free zone program -- which should occur as a result of USAID program assistance -- will be the best incentive that USAID can make to foster private sector industrial estate development. Nevertheless, USAID/Togo should encourage the identification of an industrial park developer, and can be instrumental in promoting the project in the United States, through facilitating and coordinating a developer search.

One issue that should be raised with regard to both the 35 ha. and 72 ha. sites is that individuals who formerly farmed the land are claiming that they have not been reimbursed by the GOT (Port Authority). The settlement they are demanding is CFA 300/square meter -- or US\$430,000 for the entire 35 ha. site. The GOT, in letters to the TCC group, have already assumed responsibility for this matter and this should be a condition of any USAID-GOT project agreement. While USAID could conceivably assume this debt, it is recommended that this be a test of the GOT's commitment to proceed with the project.

GOT Liability. The upcoming SAZOF/CTPI move to other quarters is a negative from all but the cost perspective. While this is clearly an important aspect, the advantages of the current office space outweigh the relatively small savings in cost (US\$59,000 per annum). It is unclear whether USAID could assume the present liability in time to prevent this move. Given the past delays in payment from the GOT, it is not known whether the present landlord would even be amenable to this arrangement. But from a promotional and investor service perspective, US\$ 59,000 per year is a small price to pay for the advantages of staying in the current location.

Other on-going liabilities include US\$80,000 to the Chamber of Commerce and US\$40,000 for telecommunications. While the GOT recognizes that it is liable for these items, the GOT has not released the necessary funds. USAID should make the payment of all past liabilities a condition for its support of the free zone program. However, in the meantime, USAID may want to advance funding to re-open SAZOF/CTPI phone lines. Given the organization's need to provide efficient service to existing firms, improved phone access is critical.

GOT Financial Commitment. Under the present agreement between UNDP and the GOT, the government's contribution was limited to operating costs such as rent, telecommunications costs, and the salaries of the Director Generals. Unlike USAID, UNDP is not allowed to assume these expenses. The subsequent non-payment of these funds has crippled the operations of SAZOF/CTPI and limited its promotional and investor service activities. Failure to meet these relatively small financial commitments has had an inordinate impact on SAZOF/CPTI's ability

to operate effectively. For these reasons, USAID should strongly consider assuming all operating costs, including promotional expenses.

AID/W's Review of Agency Support of Investment Promotion Centers. A recent magazine advertisement promoting U.S. investment in a Central American country, placed by an AID-funded investment promotion agency, raised strong concerns about AID's involvements in these types of organizations. The advertisement portrayed a female apparel worker from the Central American country, suggesting that U.S. apparel jobs should be moved to the Central American region, since tremendous cost savings could be realized. This advertisement led to a review of AID policies of supporting investment promotion agencies that encourage the move of U.S. jobs offshore. While the Togolese EPZ program is not likely to hold much attraction for U.S. firms, USAID/Togo should seek clarification from Washington as to the Agency's current position on this issue.

Partial Export Regime. Given that sales from local firms to free zone firms are considered as exports, a partial export regime to stimulate these exchanges can be an important element in creating backward linkages and re-orienting already existing firms to external markets. At the present time, the only type of partial export regime which exists in Togo is a drawback program -- or the reimbursement of duties paid on goods which are subsequently re-exported. Drawback programs are common in most countries and although it exists in the Togolese Customs Code, it has never been implemented. Even if implemented, a drawback regime would be less attractive than other partial export programs available elsewhere. Given the limited number of backward linkages that could be created at the present time, and the difficulty in developing and implementing such a scheme, it is recommended that this be a medium-term focus, once the free zone program is on firmer ground.

Necessary Conditions. To properly implement a free zone program, USAID needs the GOT to agree to a number of conditions. Preliminary discussions with GOT officials indicate that the government would be amenable to these conditions. The most critical of them include:

- legal establishment of a merged SAZOF/CTPI;
- naming of the Board of Directors;
- hiring of a Director General by the Board;
- agreement that the free zone program remain autonomous and outside a possible APIEX and Maison de l'Industrie;
- fixing and implementing of utility and service rates;
- GOT payment for past outstanding EPZ program related expenses (e.g., debts to the Chamber of Commerce, settlement of the industrial estate land dispute, and unpaid telephone and rental bills);
- agreement to provide the 35 and 72 ha. sites near the port to potential industrial estate developers.

Agreement from the government for these changes is essential to redynamize the program. The promotion center has been unable to undertake fully its activities with the absence of state

funding. Moreover, the failure to legally establish and appoint a private sector majority board of directors for SAZOF/CTPI has left the EPZ program without a strong foundation or focused plan for the future. It is critical that the GOT agree to the conditions before USAID's role in the program is undertaken. Disbursement of funds should not occur before SAZOF/CTPI are legally merged and a private sector Board of Directors is named. If USAID/Togo does not ensure that the conditions are met, then the project will continue to limp along without any clear direction.

USAID Management Implications. Given USAID/Washington's reluctance to expand the number of staff in Lome, it is important that any forthcoming project design be configured to ease the burden on USAID/Togo staff. The current operations of SAZOF/CTPI have been constrained due to weak overall project management and coordination. Similar non-traditional export projects in other countries have benefitted from institutional contracts. This would allow USAID to subcontract much of the day to day activities of the project while simultaneously expanding the areas of technical expertise which could be drawn upon during the course of the project. This aspect is particularly important with regards to a free zone program as a good portion of the technical assistance required is highly specialized and short-term in nature. This could include everything from the establishment of Customs procedures to the creation of an MIS system for the promotional center. By funding SAZOF/CTPI directly -- as has been done under the USAID's PREPS project in Cameroon -- USAID's management burden can be further reduced, as it would limit USAID's role to one of general oversight of the project. Lastly, the merger of SAZOF/CTPI -- as discussed above -- will reduce USAID management commitments by focusing on one rather than two organizations.

Programming and Funding Implications for USAID/Togo. While the primary focus of this report is not to design an AID assistance program, the following is a brief summary of the opportunities for USAID to enhance the Togolese EPZ program and its funding implications for USAID/Togo:

Future USAID/Togo opportunities to enhance the EPZ program. Should USAID/Togo decide to move forward with an assistance program to support the development and implementation of the Togolese EPZ program, it is recommended that USAID provide assistance in three distinct, yet vital areas: (i) the regulation and administration of the program; (ii) the promotion of Togo's free zone regime; and (iii) the customs department to facilitate clearance of EPZ goods. This assistance can be in the form of long-term advisors, short-term technical assistance, and training, as well budgetary support to the EPZ administration and promotion organization.

A full scale assistance program should provide for one long-term advisor each in the areas of EPZ regulatory issues and EPZ promotion, as well as a project coordinator, if necessary to minimize USAID/Togo staff involvement in the implementation of the program. These long-term advisors should be supported by a number of short-term consultancies. While it is premature to exactly identify the areas of short-term assistance at this stage, it is envisaged that specialists will be needed to address emerging problems

and shortcomings in the EPZ administration organization's activities and performance involving the following: financial management, administrative delays in reviewing and approving applications, staff deficiencies, enforcement techniques of Free Zone rules and regulations, and the development of national medium- to long-term Free Zone strategy. To support the promotional activities of the organization, short-term technical assistance needs are could be envisaged in the following areas:

- **MIS System Development:** Technical assistance will be needed to develop a computerized integrated MIS which includes office automation, accounting, communications, investor tracking, and database management.
- **Development of Promotional Materials:** Assistance is needed in designing and drafting a basic set of promotional materials.
- **Database and Reference Library Development:** Assistance is required for the development of databases on business operating conditions and macroeconomic data relating to investment and export.

These are only examples, which will have to be reviewed in project design to obtain a clear sense of what has already been accomplished.

In the customs area, short-term technical assistance is needed to conduct an audit of the existing customs practices and regulations. Short-term technical assistance can be provided to determine optimal procedures (regarding entry, clearance, audit/inventory control) to ensure that the treatment of zone goods is in accordance with the Free Zone Law. Moreover, detailed operating manuals, specifying step-by-step the streamlined clearance, in-bond transit, surveillance/monitoring, and release procedures that Customs will employ for the Free Zone firms should be developed.

Training will be needed to provide Togolese with the capacity to implement the Free Zone Regime in accordance with the intent of its provisions. Togolese in key institutions will need to acquire knowledge and skills in specific areas related to the Free Zone Regime.

USAID funding implications. Based on the full-scale assistance program described above, it is estimated that US\$1.5 million per year would be required. This would include two long-term advisors and a project coordinator, budgeted at US\$250,000 each, US\$350,000 to cover the EPZ organization's basic operating cost, US\$250,000 per year for promotional activities, and approximately US\$150,000 per year in short-term technical assistance activities. This is an indicative budget, which will have to be refined during the project development stage.

In conclusion, the EPZ program offers USAID a unique opportunity to develop and implement market-oriented reforms in Togo's highly distorted economy. The targeted focus of the program makes it politically acceptable as well as manageable for the USAID/Togo staff. In terms of the cost and quality of the basic factors of production, Togo has strong potential to develop non-traditional exports, as demonstrated by the high levels of interest in the program by investors. The free zone regime has already been created, which will allow USAID to reap potential benefits such as employment and export generation within a relatively short period of time. The mission's long-standing involvement with the program gives it a sound understanding of the key issues and constraints that need to be addressed as well as the GOT conditions that must be met for successful implementation of the project. If the program develops as envisaged, it will ultimately strengthen the case for broader policy reform throughout the economy.

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