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Report No: 57046 - TG

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF
SDR 8.40 MILLION
(US$13 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TOGO

FOR THE

PRIVATE SECTOR DEVELOPMENT SUPPORT PROJECT

March 2, 2011

Financial and Private Sector Development
Western and Central Africa
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2011)

Currency Unit	=	CFA
US$1	=	480
US$1	=	SDR 0.64

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
APROMA	*Action pour la Promotion du Monde Artisanal* (Action for the Promotion of Craft World)
AFCET	Association of Females Owners of Businesses
ARMP	*Autorité de Régulation des Marchés Publics* (Public Procurement Regulation Authority)
BDS	Business Development Services
CCI	Chamber of Commerce and Industry
CCMP	*Commission de Contrôle des Marchés Publics* (Public Procurement Control Committee)
CEM	Country Economic Memorandum
CET	Common External Tariff
CFE	*Centre de Formalité des Entreprises* (One Stop Shop)
CGA	*Centre de Gestion Agréé* (Licensed Management Center)
DADC	*Direction des Affaires Domaniales et Cadastrales* (Land Registry)
DB	Doing Business
DGI	*Direction des Impôts* (Tax Authorities)
DNCMP	*Direction Nationale de Contrôle des Marchés Publics* (National Publics Procurement's Control Direction)
ECOWAS	Economic Community of West African States
ECP	Emerging Capital Partners
ERGG	Emergency Recovery and Governance Grant
EPZ	Export Processing Zone
ESMF	Environment and Social Management Framework
FIAS	Foreign Investment Advisory Service
FDI	Foreign Direct Investment
FM	Financial Management
FNAFPP	*Fonds National d'Apprentissage, de Formation et de Perfectionnement Professionnel du Togo*
F-PRSP	Full Poverty Reduction Strategy Paper
FSGP	Financial Sector and Governance Project
GDP	Gross Domestic Product

GERME	*Gérer mieux votre entreprise* (Improve your business)
ICA	Investment Climate Assessment
ICB	International Competitive Bidding
ICPN	Investment Climate Policy Note
ICT	Information and Communication Technology
IDA	International Development Association
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
IS	Indicator Survey
ISN	Interim Strategy Note
IT	Information Technology
MDGs	Millennium Development Goals
MSE	Micro and Small Enterprise
NPLs	Non-performing loans
OECD	Organization for Economic Cooperation and Development
ORAF	Operational Risk Assessment Framework
PIM	Project Implementation Manual
PAL	*Port Autonome de Lomé* (Lome Autonomous Port Company)
PCU	Project Coordination Unit
PDO	Project Development Objectives
PPA	Project Preparation Advance
PPP	Public Private Partnership
PRGF	Poverty Reduction and Growth facility
PRSP	Poverty Reduction Strategy Paper
RIJEF	Network of Young Entrepreneurs
RPF	Resettlement Policy Framework
SAZOF	*Société d'Administration de la Zone Franche* (Free Zone Management Company)
SEZ	Special Economic Zone
SPF	State and Peace Building Fund Private Sector Revitalization Project
TFZ	Togolese Free Zone
VAT	Value Added Tax
WAEMU	West African Economic and Monetary Union

Regional Vice President:	Obiageli Katryn Ezekwesili
Country Director:	Madani M. Tall
Sector Director:	Marilou Jane D. Uy
Sector Manager:	Paul Noumba Um
Task Team Leader:	Guillemette Jaffrin

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PAD DATA SHEET

REPUBLIC OF TOGO
PRIVATE SECTOR DEVELOPMENT SUPPORT PROJECT
PROJECT APPRAISAL DOCUMENT

AFRICA
AFTFW

Date: March 2, 2011 Country Director: Madani M. Tall Sector Director: Marilou D. Uy Sector Manager: Paul Noumba Um Team Leader(s): Guillemette S. Jaffrin Project ID: P122326 Lending Instrument: Specific Investment Loan	Sector(s): General industry and trade sector (60%); Central government administration (40%) Theme(s): Small and medium enterprise support (50%); Other financial and private sector development (50%) EA Category: Partial Assessment

Project Financing Data:

Proposed terms:

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

Source	Total Amount (US$M)
Total Project Cost:	13.00
Cofinancing:	0.00
Borrower:	0.00
Total Bank Financing:	13.00
IBRD	0.00
IDA	13.00
New	
Recommitted	

Borrower: Republic of Togo

Responsible Agency: Ministère du Commerce et de la Promotion du Secteur Prive
PO Box 383, Togo

Contact Person: Koffi Mensah
Telephone No.: (228) 221-0552
Fax No.: (228) 221-0572
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Estimated Disbursements (Bank FY/US$ m)					
FY	2012	2013	2014	2015	2016
Annual	2.0	3.0	4.0	3.0	1.0
Cumulative	2.0	5.0	9.0	12.0	13.0

Project Implementation Period: Start: March 30, 2011 End: June 30, 2016
Expected effectiveness date: July 1st, 2011
Expected closing date: December 15, 2016

Does the project depart from the CAS in content or other significant respects?	○ Yes X No
If yes, please explain:	

Does the project require any exceptions from Bank policies? Have these been approved/endorsed (as appropriate by Bank management? Is approval for any policy exception sought from the Board?	○ Yes X No ○ Yes ○ No ○ Yes X No
If yes, please explain:	

Does the project meet the Regional criteria for readiness for implementation?	X Yes ○ No
If no, please explain:	

Project Development Objective *Ref. PAD II.A.*,

The proposed project development objective is to contribute to an improved investment climate in Togo, including in a New Free Zone, and to an improved performance of targeted micro and small businesses.

Project description *Ref. PAD III.A., Technical Annex 2*
The project consists of:
Component 1: Support to investment climate reforms (US$3.0 million)
This component aims at improving critical aspects of the Togolese investment climate. To do so, it will focus on two Doing Business indicators (starting a business and registering property).
Component 2: Support to the development of entrepreneurial capacities (US$4.0 million)
This component targets micro and small firms (MSEs) that are the primary source of job creation in Togo and it aims at developing the entrepreneurial capacities of MSEs through targeted and practical business training, coupled with matching grant for registered (formal) firms and mentoring for informal (also referred as "traditional") ones.
Component 3: Support to the development of a new Free Zone (US$3.0 million)
This component will support the Government of Togo to develop a new Free Zone, in lieu of the existing one, to ensure that the Free Zone yields important economic benefits to the country (notably in terms of revenue contribution and job creation).
Implementation : Project coordination unit (US$ 1.5 million)
Unallocated Funds (US$0.5 million)
Refund of Project Preparation Advance (US$1.0 million)

Safeguard policies triggered?	
Environmental Assessment (OP/BP 4.01)	X Yes ○ No
Natural Habitats (OP/BP 4.04)	○ Yes X No
Forests (OP/BP 4.36)	○ Yes X No
Pest Management (OP 4.09)	○ Yes X No
Physical Cultural Resources (OP/BP 4.11)	○ Yes X No
Indigenous Peoples (OP/BP 4.10)	○ Yes X No
Involuntary Resettlement (OP/BP 4.12)	X Yes ○ No
Safety of Dams (OP/BP 4.37)	○ Yes X No
Projects on International Waters (OP/BP 7.50)	○ Yes X No
Projects in Disputed Areas (OP/BP 7.60)	○ Yes X No

Conditions and Legal Covenants:

Financing Agreement Reference	Description of Condition/Covenant	Date Due
Article V, 5.01. (a)	The Recipient has adopted the Project Implementation Manual	Effectiveness
Article V, 5.01. (b)	The Recipient has established the Steering Committee; and the PCU	Effectiveness

Article V, 5.01. (c)	The Recipient has recruited, for the PCU, a Project coordinator; a specialist responsible for financial management; and a specialist responsible for procurement	Effectiveness
Section I, (3) (d)	The Recipient shall recruit, no later than two (2) months after the Effective Date, a short-term procurement consultant in accordance with the provisions of Section III of this Schedule 2 to this Agreement.	Two months after Effectiveness
Section II, B.4	The Recipient shall appoint, no later than four (4) months after the Effective Date, an external auditor in accordance with the provisions of Section III of this Schedule 2 to this Agreement.	Four months after Effectiveness

I. Strategic Context

A. Country Context

1. Togo has experienced a long period of political and economic instability and tensions since its independence in 1960. The signing of a comprehensive political accord (*Accord Politique Global*) on August 20, 2006 was a breakthrough and provided for a transitional government of national unity charged with organizing legislative elections in October 2007. These were deemed free and transparent by the international community and marked a milestone in Togo's democratization process. The new Government has committed to pursue political and economic reforms and to re-engage with the international community, and in particular with the Bretton Woods institutions, whose activities in the country have been modest over the last decade and a half. The incumbent President was re-elected in March 2010. A new Government of national unity was appointed on May 28, 2010.

2. The World Bank approved an Interim Strategy Note (ISN) for Togo in May 2008. This ISN, developed in close collaboration with the International Monetary Fund (IMF), supports the Interim Poverty Reduction Strategy Paper (I-PRSP) approved by the Government in March 2008. The Government of Togo completed in May 2009 a full PRSP (F-PRSP) which is based on four strategic pillars: (i) improvement of governance; (ii) consolidation of the foundations of strong and sustainable growth; (iii) development of human capital; and (iv) reduction of regional imbalances and promotion of community development. These pillars include cross-cutting topics relating to the environment, HIV/AIDS, gender and human rights. The goal of the ISN is to help Togo recover from a long period of instability and suspension of aid and begin laying the foundations for sustained, shared growth over the medium term. This will be achieved through: (i) support for the normalization of relations with the World Bank through the clearance of arrears which will facilitate Togo's efforts to re-establish relations with the rest of the international community and pave the way for Togo toward debt relief; (ii) assistance to improve public financial management and governance in key sectors and public institutions; and (iii) assistance to address critical and social needs on the ground.

3. Since its re-engagement, the World Bank undertook three budget support operations – Economic Recovery and Governance Grant (ERGG) 1, 2 and 3, approved respectively in May 2008, April 2009 and May 2010. The ERGGs have focused on two main policy areas: (i) public finance management; and (ii) governance and transparency in the key sectors of the economy (finance, cotton, phosphates and energy). The ERGGs have been completed by operations in the financial and infrastructure sectors, and by a community development operation. The IMF approved in April 2008 a three-year program through a Poverty Reduction and Growth Facility (PRGF).

4. Since 2008, the authorities have pursued a significant series of reforms, remaining on track with the IMF program in spite of the difficult global economic environment and major floods (in August 2008 and October 2010) which destroyed critical infrastructure. However, key structural bottlenecks (notably, with regard to the investment climate and infrastructure) still need to be addressed to unleash private-sector led growth. To realize its growth ambitions, the Togolese Government will need to strengthen its efforts toward the emergence of a strong and

modern private sector which will drive growth, competitiveness, diversification of the economy and export promotion.

5. In 2010, the lingering effects of the global recession were expected to hold growth at 3.3 percent, even with countercyclical fiscal policies. With the overall deficit (excluding grants) rising to 9.1 percent of GDP in 2010 from 5.5 percent in 2009, fiscal policy is supporting economic activity and helping address post-crisis needs. The net impact of the fiscal policy is however mitigated by large amount of external grants and arrears clearance (IMF, Country Report No. 10.216, July 2010). The tables below provide further data on the economic situation of Togo.

Tables 1: Key economic data

	2005	**2006**	**2007**	**2008**	**2009**
Real GDP growth (%)	1.2	3.9	1.9	1.8	3.1
Population (million)	6.0	6.1	6.3	6.5	6.6
Exports of goods (US$ million)	634	630	677	853	818
Imports of goods (US$ million)	-917	-949	-1,072	-1,307	-1,261
Current account balance (US$ million)	-204	-176	-216	-222	-236

Main exports (2008)	**% of total**	**Main imports (2008)**	**% of total**
Cement and clinker	12.9	Capital goods	15.7
Phosphates	2.7	Food	10.5
Re-export	52.7	Petroleum products	18.9

Destination of exports (2009)	**% of total**	**Origin of imports (2009)**	**% of total**
Germany	16.6	China	37.1
Ghana	12.1	France	8.7
Burkina Faso	10.5	Netherlands	6.8
India	9.7	India	5.2

Origins of Gross Domestic Product (2008)	**% of total**
Primary sector	40.7
Secondary sector	20.5
Tertiary sector	38.8

Source: Economist Intelligence Unit, Country Report, Togo, October 2010

B. Sectoral and Institutional Context

6. ***An unfavorable investment climate.*** Private sector development in Togo is hindered by an unfavorable investment climate. Togo indeed ranks at the 165th position (out of 183 countries) in the 2011 Doing Business Report, as highlighted in the table below. Togo's performance is particularly weak on the "Starting a Business" indicator: Togo ranks at the 169th position. Starting a business in Togo requires seven procedures, 75 days and it costs 178 percent of the per capita income. By comparison, the average numbers for the Organization for Economic Cooperation and Development (OECD) countries are respectively: 5.6 procedures, 14 days and 5.3 percent. There has been limited improvement between 2010 and 2011. The recently appointed Government has stressed that it was committed to significantly improve Togo's performance on the Doing Business Report.

Table 2: Togo rankings in Doing Business reports (2010 and 2011)

Ease of	2011	2010
Doing Business	**160**	**162**
Starting a Business	169	170
Dealing with Construction Permits	152	150
Registering Property	158	155
Getting Credit	152	150
Protecting Investors	147	146
Paying Taxes	157	155
Trading Across Borders	93	91
Enforcing Contracts	151	151
Closing a Business	84	98

7. ***The importance of unleashing the potential of micro and small businesses.*** The recently completed Investment Climate Policy Note (ICPN, which is based on a quantitative survey of micro, small, medium and large firms in Lomé) provides useful additional insights. The analysis undertaken in the ICPN suggests that micro and small businesses' employment growth appears to be particularly weak. In addition, it points towards large productivity gaps between larger companies and MSEs (Micro and Small Enterprises) often correlated with characteristics largely dependent on the managerial capacities of the entrepreneurs such as education and use of ICT (Information and Communication Technologies) to communicate with clients. This evidence suggests that MSEs may be especially suffering from the difficult Togolese investment climate, but beyond this, they require specific and targeted support in order to become more productive and able to create more jobs.

8. Currently, business training is extremely limited in Togo. First, only a few private firms provide entrepreneurial and business training services. Second, the large majority of small-scale entrepreneurs in Togo have received very little formal business training, if any. Third, in addition to being quantitatively reduced, the supply of business training services is of uneven quality in the absence of a quality certification system. The information on "good" training providers as opposed to low-quality ones is practically available only to those that have actually used the services. Finally, if the availability of training in general is scarce, the supply of management and business training is even scarcer because the little training routinely supplied by trade associations and trade unions to their members has been fundamentally limited to technical skills.

9. ***The urgent need to develop a new Togolese Free Zone and attract dynamic firms.*** The ICPN and the Country Economic Memorandum (CEM) carefully analyzed the Togolese Free Zone (TFZ) because of its potential role as a growth engine for Togo. The analysis of the TFZ points towards two key conclusions. On the one hand, through a set of generous tax incentives, the TFZ has been relatively successful during the previous decade in attracting investments and providing incentives to create a manufacturing nucleus in the country. On the other hand, analyses of the performance of the TFZ highlighted several important weaknesses. First, average value added in the TFZ enterprises has dropped from 51 percent, in 2000-2001 to 36 percent in

2007-2008. Second, during the same period, linkages with the local economy have weakened, as measured by a reduction in the use of local inputs from 32 percent in 2000-2001, to 12.5 percent in 2007-2008. Third, capacity to compete on the global market is limited: more than 80 percent of the exports are oriented towards the regional market. Fourth, compared with exporters located out of the TFZ, companies in the TFZ appear to be less productive.[1] Additionally, the current strategy of the TFZ – which focuses on the regional market – is not sustainable. Exports from the TFZ are ineligible to benefit from duty free entry in the regional market (Economic Community of West African States, ECOWAS).[2] Further progress in regional trade integration and ultimately the establishment of joint border posts will, over time, lead to more stringent implementation of ECOWAS rules. The TFZ's current business model based on lax implementation of ECOWAS trade rules will therefore, in all likelihood, become unsustainable.

10. Based on the CEM and ICPN, the World Bank has engaged in a dialogue with the Togolese authorities since mid-2009. A consensus has been reached on the need to develop a new Free Zone. In parallel, the World Bank has provided guidance on the review of the Free Zone law and Investment Code.

11. ***Proposed approach.*** Based on these various analyses, the project proposes to focus on investment climate reforms and targeted support to MSEs in order to promote job creation – a key priority for the Government of Togo. In addition, the project will include a specific focus on the Togolese Free Zone: which is comprised of the largest private sector enterprises operating in Togo (60 TFZ enterprises, with total sales amounting to US$324 million in 2008) and is therefore an important provider of (formal) jobs, currently estimated at 9,000 jobs. The new Togolese Free Zone could become an important contributor to economic growth and job creation in Togo.

12. The proposed project builds upon the recently approved Private Sector Revitalization State and Peace Building Trust Fund. This US$1.1 million project aims at: (i) strengthening the business environment; (ii) building the capacity for private sector advocacy and preparing a private sector development strategy; and (iii) promoting entrepreneurship and MSEs development. The project aims at consolidating the activities launched under the Trust Fund.

C. Higher Level Objectives to which the Project Contributes

13. The Togo's F-PRSP calls for annual economic growth in excess of 7.5 percent in order to meet the Millennium Development Goals (MDGs). The F-PRSP's second pillar emphasizes the consolidation of strong and sustained growth. The challenge for the Government is to ensure that the rising growth rates translate into higher employment levels.

14. The project therefore aims at tackling two interrelated issues: (i) improving the Togolese investment climate to allow for private sector development and thus economic growth; and (ii) improving the performance of Togolese firms in order to create the much needed jobs for the Togolese population and in particular, the youth. The project will therefore support reforms in

[1] Based on ICPN where productivity is measured as output per worker (World Bank, 2010).
[2] Currently exporters circumvent this prohibition by obtaining a special permit to export in the ECOWAS market without having to pay duties.

the overall legal, regulatory and institutional environment (and specifically in the business environment of the TFZ), as well as provide direct support to micro and small businesses.

II. Project Development Objectives

A. PDO

15. The proposed Project Development Objective (PDO) is to contribute to an improved investment climate in Togo, including in a New Free Zone, as well as to an improved performance of targeted micro and small businesses.

B. Project Beneficiaries

16. The direct project beneficiaries are the following:

- Togolese Chamber of Commerce which houses the *Centre de Formalité des Entreprises* (CFE) and which will sponsor the first *Centre de Gestion Agréé* (CGA) which reports to the Ministry of Commerce and Private Sector Promotion;
- Free Zone Management Company (SAZOF), which reports to the Ministry of Industry, Free Zone and Technical Innovation
- Land registry (*Direction des Affaires Domaniales et Cadastrales),* which reports to the Ministry of Economy and Finance;
- 2,000 informal / "traditional" micro-businesses (30 percent female)
- 1,000 registered micro- and small businesses (10 percent female)

C. PDO Level Results Indicators

17. The PDO level results indicators are the following: (i) the number of days required to create a business has been reduced; (ii) the performance of MSEs supported by the project has been improved (as measured by increased turnover); and (iii) A Public Private Partnership (PPP) legal, regulatory and institutional framework applicable to the Free Zone and to Special Economic Zones is established.

III. Project Description

A. Project components

18. ***Component 1: Support to investment climate reforms (US$3.0 million)***. This component aims at improving critical aspects of the Togolese investment climate. To do so, this component will focus on two Doing Business indicators (starting a business and registering property). Further details on the choice of these two indicators are provided in the technical analysis under the Appraisal Section (section VI).

19. This component will be undertaken with the support of the Doing Business Reform Team, which will also continue to provide technical assistance across all Doing Business indicators. This component will thus focus on the following activities:

(i) Support to the implementation and operation of the one-stop shop to register a company. The CFE has already been established and is receiving limited support from the Private Sector Revitalization State and Peace Building Trust Fund;

(ii) Support to the establishment of the first - CGA in Togo. Such Centers aim at helping small enterprises with their accounting and are required in each West African Economic and Monetary Union (WAEMU) country (as per a WAEMU regulation).

(iii) Support to the Land Registry (*Direction des Affaires Domaniales et Cadastrales*), which has been recently put under the oversight of the Ministry of Economy and Finance to improve its performance, with a view to simplify and accelerate the issuance and transfer of land titles.

(iv) Support to (a) public-private dialogue to help identify, prioritize and implement key reforms to improve the Togolese investment climate; and to (b) the development and implementation of a communication strategy on investment climate reforms.

Table 3: Summary of Component 1: "Support to investment climate reforms"

Activity	**US$ m.**
Support to one stop shop to start a business (*Centre de Formalité des Entreprises*, CFE)	0.7
Support to the establishment of the first Licenses Management Center (*Centre de Gestion Agréé*, CGA)	0.5
Support to the simplification of procedures to register property	0.9
Support to public private dialogue and communication	0.9
Total	**3.0**

20. ***Component 2: Support to the development of entrepreneurial capacities (US$4.0 million)***. This component targets the micro and small enterprises[3] (MSEs) – the primary source of job creation in Togo and aims at developing the entrepreneurial capacities of MSEs through targeted and practical business training, coupled with matching grants, as well as mentoring for informal (also referred to as "traditional") businesses.[4]

21. Support to informal micro-businesses. This sub-component will focus on 2,000 traditional micro-businesses and will provide two types of support: training and mentoring. The training program will focus on the following themes: (i) basic accounting and how to calculate costs; (ii) marketing and customers relations; (iii) managing and negotiating with suppliers; and (iv) how to approach a financial institution for financing. To complement the training program, 1,000 businesses will be provided with a "mentoring" service to help them implement what they

[3] Based on the "*Charte des PME*" signed by Togolese authorities in November 2010, MSEs are companies of less than 50 employees. Based on the enterprises' survey, these companies represent 97% of formal enterprises in Togo.
[4] "Formality" is not always a clear attribute. However, in Togo "formal" enterprises fall under a clear distinct regime in terms of their registration requirements and tax regime: they have to be registered at the Chamber of Commerce and have to comply with tax regulations as defined by the existing fiscal regime. Instead, "informal" or "traditional" enterprises are not registered at the Chamber of Commerce and, some of them, comply with a simplified fiscal regime (i.e. only pay the "TPU" – *Taxe Professionelle Unique* – that is a forfeit tax).

have learnt in the training program.[5] Additionally, during the training program, the participants will all be encouraged to apply for a matching grant to finance a viable project within their enterprise.

22. Support to formal micro- and small businesses. This sub-component will focus on 1,000 formal MSEs and will provide them with training tailored to their needs. As the training needs of this group of businesses are more sophisticated, a rapid training need assessment will be first undertaken (in the context of the Project Preparation Advance (PPA)). During the training program, the participants will all be encouraged to apply for a matching grant to finance a viable project within their enterprise.

23. Support through matching grants. In addition to the training, any Togolese firm operating and paying taxes in Togo with less than 50 employees will be eligible to apply for a matching grant. The matching grants will be open to both formal companies (i.e. registered at the Chamber of Commerce and Industry) and "traditional" companies, which have been in operation for at least 12 months and provide evidence of taxes paid during this period.[6] Beside companies, business associations will also be eligible to apply for matching grants.[7] A matching grant may finance the purchase of additional training, accounting, consulting services, participation to trade fairs, quality certification, or other Business Development Services (BDS). A matching grant cannot be used to finance the purchase of land, building nor equipment for the enterprise. The maximum subsidy amount will stand at 50 percent of the project cost, with a maximum life-time subsidy amount of US$10,000. An estimated 500 matching grants, of an average amount of US$3,500 each, will be provided.

24. A side impact of these two programs will be the development of a pool of qualified entrepreneurship trainers and mentors in Togo. They would be available – at a reasonable cost – to all micro and small businesses in Togo and could also benefit the proposed CGA.

25. This component is designed as a pilot and will include a thorough impact assessment mechanism. This impact assessment mechanism would allow to verify the efficiency of the proposed approach and to improve the design of the component, with a view to scale it up. Further details on this component are provided in Annex 2 "Detailed Project Description" and Annex 3 "Implementation Arrangements".

[5] Given (i) the higher cost of the mentoring relative to the training, (ii) budget constraints and (iii) limited existing rigorous information on the returns of the mentoring, coupled with training; during this pilot phase, only half of the enterprises will be eligible for mentoring. The proposed impact evaluation will allow to measure mentoring effectiveness and to potentially make adjustments.

[6] Tax receipts eligible include both taxes paid to the General Directorate of Taxes as well as taxes paid to local authorities such as "*Préfecture*" or "*Mairie*".

[7] In addition to the condition that each individual company, member of the association - in business for 12 months and evidence of tax payment, the associations will have to be legally established and their statute approved by the competent Togolese authorities.

Table 4: Summary of Component 2: "Support to the development of entrepreneurial capacities"

Activity	US$ m.
Support to traditional MSEs	1.21
Support to formal micro and MSEs	0.75
Support through matching grants (including technical audits)	1.77
Support to the development of a pool of qualified trainers and mentors	0.07
Impact assessment	0.20
Total	**4.00**

26. ***Component 3: Support to the development of a new Free Zone (US$3.0 million)***. Under its present structure and strategy, the Togolese Free Zone has brought limited benefits to the Togolese economy (few backward linkages with the national economy, low fiscal contribution and limited job creation). In addition, its current focus on duty free exports within ECOWAS is unsustainable, considering the implementation of the Trade Liberalization Scheme within the ECOWAS Customs Union. Nevertheless, the TFZ counts 60 enterprises, generates US$324 million in annual sales and sustains 9,000 jobs. Developing a new Free Zone is a priority and could yield important benefits to the country (notably in terms of revenue contribution and job creation). Additional background on the Free Zone is provided in the technical analysis under the Appraisal Section (section VI.).

27. The following approach is proposed in support to the Government of Togo in developing a new Free Zone:

(i) Phase 1: "Preparatory phase to development of a new Free Zone" during which several essential diagnostic studies and assessments will be undertaken to define a new strategic vision;

(ii) Phase 2: "Development and agreement on the strategic vision of the new Free Zone" aims at building a consensus around the strategic vision of the future Free Zone and includes measure to consolidate the institutional capacity of the SAZOF;

(iii) Phase 3: "Implementation of the Strategy of the new Free Zone, based on the findings of Phase 1 and 2, would include technical assistance to identify potential investors and resolve social and environment issues in the new site.

28. The technical assistance provided to develop a new Free Zone will lead to the following outputs and results:

- A strategy for the development of the new Togolese Free Zone has been approved. This strategy will allow for the sustainable development, ensuring that the Free Zone brings significant static (jobs, value added, tax revenues, foreign exchange) and dynamic (development of entrepreneurship, vocational training, economic openness) benefits to the country;
- A new legal, regulatory and institutional framework for the Free Zone is established, which will allow for private sector participation in infrastructure investments and/or in the management of the Free Zone;
- The functions of regulation and management of the Free Zone are separated.

- A detailed feasibility study for the development of a new Free Zone has been completed, fully addressing potential social and environmental issues.
- A private partner has been identified for the development of the new Free Zone.

Table 5: Summary of Component 3: "Support to the development of a new Free Zone"

Activity	US$ m.
Phase 1: "Preparatory phase to the development of a new Free Zone"	0.65
Phase 2: "Development and agreement on the strategic vision of the new Free Zone"	1.75
Phase 3: "Implementation of the Strategy of the new Free Zone"	0.60
Total	**3.00**

B. Project Financing

1. Lending Instrument

29. The lending instrument is a Specific Investment Loan (SIL). A SIL is selected as it is a flexible instrument that allows the financing of a diversity of activities (consultants, equipments and works).

2. Project Financing Table

30. The table below summarizes the budget of the project. Recognizing the difficult budget situation of the country, the project proposes to finance 100 percent of the proposed activities. No cofounding from development partners could be mobilized, as (surprisingly) few development partners have a focus on private sector development at present. The total project cost is US$13 million.

Table 6: Project Financing Table

Project Components	Project cost	IDA Financing	% IDA
1. Support to investment climate reforms	3.00	3.00	100%
2. Support to the development of entrepreneurial capacities	4.00	4.00	100%
3. Support to the development of the new Free Zone	3.00	3.00	100%
Implementation (Project Coordination Unit)	1.50	1.50	100%
Unallocated	0.50	0.50	100%
Refund of Project Preparation Advance	1.00	1.00	100%
Total	**13.00**	**13.00**	**100%**

C. Lessons Learned and Reflected in the Project Design

31. The following lessons learned have been considered while designing the proposed project.

- The project has a strong analytical base. The project has relied on the in-depth analyses undertaken in the context of the Country Economic Memorandum and Investment

Climate Policy Note, both completed in 2010. The project has also been able to build on the feedback from the Togolese authorities on these two reports.

- The project recognizes that difficult reforms cannot be imposed and that ownership is critical. With regard to the Free Zone, the project therefore proposes to undertake a comprehensive diagnosis of the existing Free Zone and then, based on the findings, to build a consensus on the strategy of the new Free Zone. The project does not forebode what the future strategic vision of the new Free Zone should be.

- The project is focused on three targeted components, with selected activities and a realistic timeline, to avoid the development of an over-ambitious project which could lead to disappointing results.

- Experience from previous investment climate reforms recommends that (i) efforts be concentrated on a limited number of areas in order to be more effective and achieve better and concrete results; and (ii) areas where there is strong political commitment and ownership be identified. Component 1 ("Support to Investment Climate Reforms") thus focuses on two indicators (starting a business and registering property).

- With regard to Component 2 ("Support to the Development of Entrepreneurial Capacities"), lessons learnt from other matching grant programs have also been taken into account in the design. On the one hand, robust evaluation mechanisms are included in order to assess performance early and learn from implementation. On the other hand, the team managing the program will be professionally and independently recruited to minimize pressures (political, etc.).

- Finally, the design of Component 3 ("Support to the development of a new Free Zone") builds on the lessons from past and ongoing experience, which emphasize the importance of (i) sound and flexible legal and regulatory framework; (ii) integration into the country's trade, investment and wider economic growth strategy; (iii) progressive reform of the national investment climate; and (iv) public-private coordination. Component 3 addresses the need to carefully identify sources of comparative advantages and support the Government in the different phases of planning and implementation. Besides, this component will benefit from investment climate reforms undertaken under Component 1.

- The project will focus on results. The project will ensure that the recommendations of the various studies financed are implemented and that they lead to practical reforms. During implementation, the focus therefore will be on outcomes and results rather than the completion of studies.

IV. Implementation

A. Institutional and Implementation Arrangements

32. The implementation of this project will require the involvement of several ministries, notably, the Ministry of Commerce and Private Sector Promotion, the Ministry of Economy and Finance, the Ministry of Industry, Free Zone and Technological Innovation and the Ministry of Planning, Development and Land Administration. The Togolese authorities have proposed that the Ministry of Commerce and Private Sector Promotion should take the lead in the oversight of the project.

33. Project Coordination Unit. It has been agreed that the project would be implemented by a dedicated team competitively recruited. The Project Coordination Unit (PCU) would be composed of the following staff: one Coordinator, one expert per component (investment climate reform, entrepreneurship and Togolese Free Zone), one matching grant officer, one procurement specialist, one financial management specialist and support staff. The PCU will be in charge of managing the Designated Account. The PCU will be established through the Project Preparation Advance (PPA). The PPA will also finance training for the procurement specialist and financial management specialist to ensure that the PCU is fully operational by Board presentation. The PCU would work in close collaboration with the different ministries involved in the project, as well as with private sector representative bodies (*Patronat*, Association of Females Owners of Businesses, Network of Young Entrepreneurs), through designated *focal points*.

34. Project Steering Committee. The Project Steering Committee will gather high level representatives of the various institutions and will be responsible to set the strategic direction of the project.

35. The Project Coordination Unit of the Financial Sector and Governance Project will help implement the Project Preparation Advance and will focus in particular on the recruitment of the new PCU.

36. Further details on implementation arrangements, and more particularly on Procurement and Financial Management arrangements, are provided in Annex 3.

B. Results Monitoring and Evaluation

37. Under the proposed implementation arrangements, each component will be managed by a dedicated staff from the PCU. Each “component leader” will be responsible for Monitoring and Evaluation for his/her respective component (this will be specified in their Terms of Reference). The Coordinator will ensure that each “component leader” fulfills his / her responsibilities.

38. Most M&E data will be readily available (for example, two indicators are from the annual Doing Business report published by the World Bank Group). The M&E data for Component 2 will require specific surveys of MSEs supported by the project, as well as MSEs not supported(the control group). As such, Component 2 includes an impact evaluation sub-component to generate the required data (see appendix in annex 3).

C. Sustainability

39. The Government of Togo has stressed several times its commitment to significantly improve the investment climate in Togo, as measured by the Doing Business Report. Since the World Bank and the IMF re-engaged in Togo in 2008, the Government has demonstrated its willingness and ability to undertake the required (often difficult) reforms.

40. A consensus has been reached with the Government on the need to develop a new Free Zone. The Free Zone Management Company (SAZOF) has expressed strong interest for the reform and has actively participated in the preparation of the project.

41. The project aims at supporting the implementation of reforms that will have a lasting impact on private sector development in Togo. The Government is also aware that while undertaking reforms to improve the investment climate is critical, it is also important to ensure that the population at large feels the benefit of these reforms – as it often takes some time for the benefits to "trickle down". Togolese authorities have therefore proved very interested in the proposed entrepreneurship component, and on its potential replication and scale-up. This component will also create a pool of certified trainers in business management which will remain available after project completion.

42. The PCU will be established for the duration of the project – it does not aim at being a sustainable institution.

V. Key Risks and Mitigation Measures

43. Key risks and their mitigation measures are described in the Operational Risk Assessment Framework (ORAF) in Annex 4. The risk rating for project implementation is considered: "high impact / low likelihood". Various risks could significantly affect the implementation of the project (the country political and economic situation, the commitment of stakeholders to the project and the reforms it supports, weak governance, fraud and corruption), but their likelihood is considered low, in view of the current context in Togo. Certain unique issues relate to environmental and social issues, and more particularly to possible involuntary resettlement issues within the existing Togolese Free Zone. Note that the Project focuses on providing technical assistance relating to the Free Zone at a new site. However, the World Bank – because of its proposed support to a new Free Zone site – could be associated with resettlement actions undertaken by SAZOF at the existing Free Zone sites, as well as the fact that there are occupants in the existing Free Zone sites who do not have title to the land. To address this issue, the financing agreement includes a remedy to ensure that if Togolese authorities undertake actions in the Free Zone sites that run contrary to environmental and socially sustainable best practice principles, then financing can be suspended. This remedy has been introduced so that the World Bank can mitigate the risk of being associated with environmental or social misconduct regarding the existing Free Zone sites, contemporaneous with our engagement in supervising the technical assistance for the new Free Zone site. These issues, which are outside the scope of the contemplated project, are further discussed in Annex 5 and addressed here for information purposes only. Furthermore and insofar as the project is concerned, a stock taking on

resettlement issues was elaborated during project preparation and a Resettlement Policy Framework has been developed which will need to be implemented by SAZOF should it consider undertaking involuntary resettlement for the new site during project implementation.

VI. Appraisal Summary

A. Economic and Financial Analysis

44. ***Component 1: Support to investment climate reforms (US$3.0 million)***. It has been well established, notably in the 2005 World Development Report "A Better Investment Climate for Everyone" that the investment climate is central to growth and poverty reduction[8]. A good investment climate drives growth by encouraging investment and higher productivity. Investment underpins growth by bringing more inputs to the production process. A good investment climate reduces unjustified costs, risks, and barriers to competition, and encourages private investment. As a result of investment climate reforms, private investment as a share of GDP nearly doubled in China and India; in Uganda it more than doubled. The same result is confirmed by more micro-level evidence. Improving the investment climate is critical in poverty reduction. First, at the aggregate level, economic growth is closely associated with reductions in poverty. Second, a good investment climate enhances the lives of people directly—in their many capacities (as employees, entrepreneurs, consumers, etc.).

45. As highlighted by the 2010 Doing Business report[9] business registration has several benefits. In particular, registered businesses have access to services and institutions ranging from courts to commercial banks. Among 388 informal firms interviewed in the World Bank Enterprise Surveys of 2008 in Côte d'Ivoire, Madagascar and Mauritius, 85 percent cited better access to finance and 68 percent better access to markets as main reasons for registration. Furthermore, a growing body of empirical research relates easier start-up to greater entrepreneurship and higher productivity among existing firms, particularly in economies open to trade. A study found that in relatively poor but well-governed economies, a 10-day reduction in start-up time was associated with an increase of 0.4 percentage points in the growth rate and 0.27 percentage points in the investment rate.

46. The 2010 Doing Business report also highlights the importance of well administered property systems[10] which allow land to be turned into productive capital. Land property without former titles is described by Hernando de Soto as "dead capital," as it cannot be used as collateral (formal titles can ease access to credit). Making property registration simple, fast and cheap allows entrepreneurs to focus on their business. Property owners with formal title invest up to 47 percent more in their property, a study in Argentina finds.

47. This component will therefore focus on these two key Doing Business indicators. It will also support the establishment of a CGA which can play a critical role in helping informal businesses move to the formal economy. Finally, a sub-component to foster a constructive

[8] World Development Report "A Better Investment Climate for Everyone", 2005, Overview Chapter, p. 5-6.
[9] Doing Business Report "Reforming Through Difficult Times", 2010, p.10-11
[10] Doing Business Report "Reforming Through Difficult Times", 2010, p.27

dialogue between the private and public sectors is included: as it is critical for the private sector to play an active role in investment climate reforms.

48. ***Component 2: Support to the development of entrepreneurial capacities (US$4.0 million).*** The provision of training to roughly 3,000 micro and small entrepreneurs in Togo will immediately improve the management ability of these entrepreneurs. As a result, entrepreneurs will be able to improve the efficiency of their business. Providing managers of micro and small formally registered businesses with the training that they have requested in the demand-study survey will allow them to make better use of the firms' human and material resources for meeting their firm's goals. At a minimum, firms that benefit most from this training opportunity, and managers whom the training most advances their own entrepreneurial abilities are likely to see their businesses expand (both in terms of sales and employment). Similarly, although training for informal entrepreneurs will not be based on a demand study, it will be based on experience in informal sector training in other contexts, where even simple training in the careful separation of home and personal accounts has led to increased profits for the small enterprise.

49. Increased knowledge for those who benefit from training is certain. What is also likely, although not guaranteed, is that the training program serves to develop the formal business training market in Togo: training beneficiaries share their experience and the benefits from training with their social networks. This should increase the demand for, and therefore the depth of, business training in the Togo market over the medium to long term.

50. Providing complementary interventions – including the provision of matching grants and mentoring– helps avoid bottlenecks that have frequently been identified after some other training programs. Although training programs increase the management abilities of program participants, some informal entrepreneurs may not be able to fully apply the skills learned training in their own business context without mentoring. In addition, firms may not be able to fully implement development plans discussed during training without matching grants. Therefore, these complementary supports will also be provided to maximize the potential benefits of the training and tackle the relevant binding constraints.

51. Overall, training and BDS should increase the abilities of entrepreneurs in the Togolese context. Since Togo is a low-income country, the potential benefits from even relatively modest training and BDS is quite high, and an overall increase in the capacity and productivity of the targeted businesses shall be expected.

52. ***Component 3: Support to the development of a new Free Zone (US$3.0 million).*** The successfully established new Free Zone is expected to generate significant economic returns − assuming a successful PPP is established: (i) increased capital investment in the zone; (ii) accelerated expansion of investment, employment, value added and exports; and (iii) demonstration effect of the benefits of an appropriate investment climate.

53. In addition to the above expected economic impact, the project is crucial in mitigating the risk of poor performance. Actually, in the absence of strategic technical assistance the Free Zone, key performance indicators for the TFZ would remain constant and, at worst, deteriorate. The Free Zone would fail to improve its contribution to the economy.

B. Technical

54. ***Component 1: Support to investment climate reforms (US$3.0 million)***.The preparation of this component has been undertaken in close collaboration with the Doing Business Reform Team. Following technical discussions with the Togolese authorities and the private sector, it is proposed to focus on two Doing Business indicators: Starting a Business and Registering Property.

55. On the indicator "Starting a Business" (see details in table below), the Decree dated June 30, 2010, which transforms the CFE into a real one stop shop, represents a significant step forward. The Decree nominates civil servants from the different administrations to be based within the CFE with a signature authority. The effective implementation of this Decree will significantly reduce the time to start a business in Togo. In parallel, it will be important to simplify the procedures and processes of the CFE (for example, today, four various administrative cards are still requested). Finally, once the reform is implemented, it will be important to communicate to the various stakeholders (private sector and administrations) about the changes.

Table 7: Indicator "Starting a business" (169/183)

Indicator	Togo	Sub-Saharan Africa	OECD
Procedures	7	8.9	5.6
Time (days)	75	45.2	13.8
Cost (% of income per capita)	178.1	95.4	5.3
Minimum capital (% of income per capita)	486.9	145.7	15.3

56. During project preparation, support to the indicator "Paying Taxes" has been considered, as taxes are often raised as a key issue (both in term of cost and in term of administration) by the private sector. However, the tax authorities explained that a number of important reforms had already been approved and were implemented.

57. Another concern very often raised by the private sector relates to the time required to obtain a land title (which can often take up to five years). This is an important constraint for private operators, who want to establish a new business or expand an existing business. This is confirmed by the Doing Business Indicator "Registering Property", where Togo ranks at the 158th position (see table below). The Government of Togo has recognized the issue and decided to restructure the land registry (*Direction des Affaires Domaniales et Cadastrales*) – which now reports to the tax authority (*Direction Générale des Impôts*, DGI).

58. A key recommendation is to decrease the high cost to register property which acts as a deterrent to formalizing property titles. It has an impact on access to finance for entrepreneurs as unofficial property titles cannot be used to access bank credit for example. A number of countries that decreased the cost to register a property have experienced a strong increase in the number of property registration– as a result the fiscal impact can be neutral or even positive. In addition to reducing costs, it is also critical to reduce the number of procedures and the time for each procedure.

Table 8: Indicator "Registering Property" (158/183)

Indicator	Togo	Sub-Saharan Africa	OECD
Procedures (number)	5	6.5	4.8
Time (days)	295	67.9	32.7
Cost (% property value)	13.0	9.6	4.4

59. The project focuses on the "starting a business" and "registering property" indicators, considering the current opportunities to undertake significant reform on these two critical issues. However, the Project team (both on the Government and on the World Bank sides) will continue to closely work with the World Bank Group Doing Business Reform Unit to encourage reforms along all Doing Business Indicators. In addition the sub-component "Support to public private dialogue and communication" will also allow (limited) support on the Doing Business indicators, as well as on critical private sector issues that could be raised during project implementation.

60. The potential role of "Licensed Management Centers" (*Centres de Gestion Agréés*, CGAs) was also analyzed during the preparation of the project. CGAs were set up through a 1997 WAEMU directive and a number of countries in the region have established such Centers (Ivory Coast, Benin, Burkina Faso and Senegal). CGAs aim at helping micro and small businesses with their management, accounting and tax declarations. CGAs could play an important role in the formalization of the economy. The law establishing CGAs in Togo was passed in 2004 and the Togolese Chamber of Commerce has expressed an interest in creating the first CGA in Togo, once the implementing decree is approved. When establishing the CGA, it will be important to develop a business model that ensures sustainability. It will therefore be important to balance the need to generate sufficient revenues to cover costs, with the need to offer reasonably priced services – otherwise the micro and small businesses will not be able to take advantage of these services.

61. ***Component 2: Support to the development of entrepreneurial capacities (US$4.0 million).*** This component has been carefully designed to provide the most beneficial training possible, given the reasonable constraints on timeframe, budget, and number of participants. First, the micro and small registered firms will be surveyed formally to determine exactly what they perceive to be the subjects for training that would be most beneficial for them.[11] Based on this feedback, modules will be chosen from internationally-accredited business training programs. Choosing the modules from these programs that have been identified by the firms themselves as being most relevant to their needs is designed to maximize the potential benefit from the training modules. While clearly not all firms will have the same training needs, the survey will enable the project to meet the needs of the largest number of firms possible. In addition, in order to ensure that the quality of instruction is high, the curriculum will be chosen from internationally-accredited programs, using modules that have been demonstrated to be effective in environments similar to Togo.

62. The rationale for the training program rests on two key arguments. On the one hand, the usual argument of human capital spillovers and consequent sub-optimal investment in training applies to Togo as well as to other countries. On the other hand, more specific to Togo, the

[11] This will be done through a survey that will ask two questions: (1) which ones are the areas/skills considered more important for the performance of the company? (2) which ones are the area/skills where their biggest weaknesses are?

problem of a market failure de facto leads to a missing market for training services. Market failure is due to the problem of coordination and information in Togo. First, a number of entrepreneurs and the overwhelming majority of informal sector entrepreneurs are uncertain of the location of people who could either train them or assist them formally in their business. Second, entrepreneurs who locate training providers are uncertain about the quality of such training and its value to the average firm, and further uncertainty exists regarding the benefits of such training to their particular need and context. Given all this uncertainty, the price of training available is too high for them. The training program would tackle these problems by solving the coordination failure and jump-starting this missing market.

63. While, by their very definition, informal sector firms are difficult to identify, and therefore to survey, extensive consultations have already begun and will continue with leaders within the informal sector in order to determine the overall needs of these firms. Representatives of trade associations are very familiar with the training needs of their members. They have a good sense, for example, of the degree to which their members keep accounts, and how they operate their businesses. Therefore, the program plans for continued consultation with these leaders as the training programs for the informal sector are developed. In addition, modules that have been found to be most successful in other contexts that are most similar to Togo will form at least a part of the curriculum for the informal sector.

64. The logistical organization of the training has been designed according to feedback from local industry leaders to meet entrepreneur needs in a variety of ways. The timing and pacing of the training sessions have been designed for entrepreneurs who are preoccupied with their businesses[12]. Using the list of registered firms at the Chamber of Commerce ensures, provided that the correct firm addresses are on file, that all firms that might be interested will be contacted directly and encouraged to apply to the program. This will ensure a level of coverage that is rare, possibly unprecedented, when it comes to business training. In order to ensure a similar level of engagement with the informal sector, methods of publicity and advertising appropriate for the Togolese context will be used.

65. Since the amount of training provided through the program is fairly large, and since considerable interest was shown at a meeting designed to introduce the program to the professional trainers of Togo, it is anticipated that there will be competition in the tendering process for training provision, and that a high-quality set of trainers will be chosen.

66. During project preparation, the possibility to rely on existing vocational training institutions (such as the "*Fonds National d'Apprentissage, de Formation et de Perfectionnement Professionnel du Togo", FNAFPP)* was analyzed. However, considering the focus of this component – micro and small businesses and general management training in classes – collaboration with FNAPP did not appear feasible.

[12] The firms that will be recruited to undertake these training will need to review the proposed timing and pacing to ensure that entrepreneurs are able to participate to the training sessions. In addition, the firms will be asked to take into consideration the special needs of female entrepreneurs (who can have child rearing responsibilities).

67. ***Component 3: Support to the development of a new Free Zone (US$3.0 million).*** The Togo Free Zone was created in 1989[13] in order to compensate for the narrowness of the domestic market, foster the diversification of the economy and generate additional growth. Another important objective of the zone was employment creation, as the country was undergoing major reforms which were resulting in pressures on employment. The zone became operational in 1990.

68. In total, 276 licenses were issued between 1990 and 2008. Some of the companies never followed-up or made investments: their accreditation was withdrawn after some time. Others moved to the free zone but closed in the meantime. A few other companies have decided to waive their free-enterprise status because the Togolese market proved more buoyant than the export potential. By end-October 2009, 60 companies were operating in the free zone, 34 others had been approved and were in various stages of the installation process. This is comparable with the 122 companies operating in the free zone of Ghana[14].

69. Total sales in 2008 amounted to US$324 million, of which US$282 million (87.5 percent) exports. TFZ enterprises employed about 9,000 people in late 2008, for a total payroll of US$13.4 million. The cumulative investments during the 1990-2008 period (for the companies still operating in 2008) amounted US$266 million.

70. In 2008, the chemical industry (mainly plastic products, paints and glues, see table below) and construction materials (mainly clinker) accounted respectively for 36.1 percent and 20.2 percent of production in the Free Zone. The combination of these two sectors relatively capital-intensive represented more than half of the turnover in the free zone. The service sector – dominated by two companies (cargo transport and internet provider) and the textile / apparel / leather (the latter branch of production consists almost entirely of synthetic hair and wigs) accounted for 27.5 percent and 7.6 percent of total sales. The food industry (5.2 percent), the industries of wood / metal / mechanical (3.1 percent) and other industries (0.2 percent) lag behind.'

[13] Law No 89-14 of 18 September 1989.
[14] www.gfzb.com.gh

Table 9: TFZ - Distribution of sales and exports by sector in 2008

	Sales (in FCFA billions)	**% of total sales**	**% exports**	**Of which % exports to Europe-Asia-America**	**% local sales**
Chemicals	52.5	36.1%	94.6%	4.2%	5.4%
- of which Pharma/Comestics	*3.6*	*2.5%*	*88.4%*	*0.0%*	*11.6%*
- of which Plastic-Paints-Glues	*42.8*	*29.5%*	*97.7%*	*0.5%*	*2.3%*
- of which Fertilizers	*6.1*	*4.2%*	*76.7%*	*32.1%*	*23.35*
Services	39.9	27.5%	83.4%	3.0%	16.6%
Clinker	29.4	20.2%	74.4%	0.0%	25.6%
Textile / apparel / leather	11	7.6%	92.6%	5.6%	7.4%
- of which synthetic hair and wigs		*7.1%*			
Food processing	7.6	5.2%	97.8%	10.5%	2.2%
Wood-Metal-Mechanics	4.5	3.1%	96.4%	16.8%	3.6%
Other industries	0.3	0.2%	95.2%	12.6%	4.8%
Total for the Free Zone	**145.2**	**100%**	**87.5%**	**3.8%**	**12.5%**

71. With regard to the destination of TFZ sales, 70 percent are destined to other ECOWAS countries, 12 percent to other African countries, and only four percent to developed countries. The remaining 13 percent are sold on the local market.

72. The Country Economic Memorandum of April 2010 has determined that, on balance, the zone has had a positive economic impact on the country. This is particularly meaningful when the obstacles it has been presented with are considered. The TFZ is however atypical in that its investors are mostly from, and exports mostly destined to, the regional market, and it is characterized by high relative capital intensity. This dependency on the regional market is in part conditioned by a loose enforcement of regional trade rules. It thus appears to be unsustainable in the medium-term. High capital intensity makes the zone highly dependent on fiscal incentives. This is also not sustainable. Equally important, the zone's overall model, structure, governance (regime, administration and management) and financing are outdated. For instance, under the current model the free zone is not able to generate the income required, or obtain financing, to provide the levels of investment promotion, services and infrastructure needed by investors.

73. While the zone has achieved notable results over the past 20 years, and has demonstrated a remarkable capacity to adapt and survive under difficult circumstances, the challenges ahead cannot be efficaciously addressed within the current configuration. These weaknesses leave the zone exposed to changes in the global economy and to competitive pressures that will not be solved by piecemeal changes. For instance, the current redrafting of the Free Zone law, while essential to stabilize current investment levels, employment and value added, as well as to maintain the level of attractiveness of the zone observed over the past decade, will not prove sufficient to assure the zone's medium-term survival, let alone achieve the Government's objectives.

74. The World Bank has significant experience with supporting Export Processing Zones and Special Economic Zones (SEZs) around the world and in Africa – both on operational and on

strategic aspects. Over time, the concept of export processing zone has evolved into the broader concept of "Special Economic Zone" (SEZ), fueled by the success of such zones in Asia and especially in China. SEZs are generally defined as *geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which physically locate within the zone.* As opposed to "enclave zones" with few linkages to their host economies, the new emphasis is precisely on integrating the zones into the domestic economy.

75. A 2008 Foreign Investment Advisory Service (FIAS) report [15] describes the desirable features of SEZs as follows:

- Public provision of off-site infrastructure and facilities (utility connections, roads) as an incentive for private funding of on-site infrastructure and facilities.
- Assembly of land parcels with secure title and development rights by the government for lease to private zone development groups, development of better land use/ownership laws and regulations and adoption of enforceable zoning and land use plans.
- Build-operate-transfer and build-own-operate approaches of on-site and off-site zone infrastructure and facilities, with government guarantees and/or financial support. Private zones, benefits, obligations, rights and public-private partnerships for zone development are clearly defined.

76. The intention of the project is to support the development of a new Free Zone in order to support the achievement of the Government's overall objective of improving the economic role and contribution of the Free Zone. The project will contribute to a number of interconnected benefits: i) a relevant strategic development plan ensure the viability of the new Free Zone, as opposed to the existing one; ii) the Fee Zone's regime, governance, financing and economic profiles are adapted to the current and future competitive environments within which it operates; and iii) current 'grey areas' in the enforcement of regional trade agreements are effectively identified and removed – thus supporting improved regional integration initiatives.

C. Financial Management

A financial management assessment has been conducted by the World Bank, and actions to strengthen the PCU's financial management capacity have been agreed with the authorities. The assessment has concluded that with the implementation of these actions, the proposed financial management arrangements will satisfy the World Bank's minimum requirements under OP/BP10.02. Taking into account the risk mitigation measures proposed, the overall financial management risk for this financing is assessed as "moderate". An experienced Financial management (FM) specialist managing satisfactorily another International Development Association (IDA) financed project in Togo (Financial Sector and Governance Project, FSGP) has been designated to handle FM responsibility under the project preparation advance and to support the project to set up an adequate FM system. The PPA will also finance the preparation of a Project Implementation Manual (PIM, including FM and accounting procedures) before effectiveness. These procedures should provide relevant eligible criteria and appropriate

[15] FIAS. "Special Economic Zones: Performance, Lessons learned, and Implications for Zone Development." April 2008. Washington, D.C.

measures preventing fraud and other misuses of funds practices. Corruption is acknowledged as an issue in the public sector in Togo. The following measures are incorporated into the Project design to minimize the above risk: (i) a technical audit will be carried out every two years to supplement the annual financial audit and, (ii) a reasonable sample of grants will be reviewed each year by the financial auditor to ensure that activities were completed pursuant to the Matching Grant Agreement and that funds were used for the purposes intended. Annex 3 provides additional information on financial management arrangements. The detailed financial management capacity assessment and arrangements are available in the project files. The project implementing entities are compliant with the Bank's financial management requirements and there are no overdue audit reports and interim financial reports from these entities.
"Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15th, 2006 and updated January 2011, shall apply to the project.

D. Procurement

77. In Togo, the National Publics Procurement's Control Direction (*Direction Nationale de Contrôle des Marchés Publics,* DNCMP) and the Public Procurement Regulation Authority (*Autorité de Régulation des Marchés Publics,* ARMP) were established but are not operational. The selections of key staffs are ongoing. The establishment of Public Procurement Control Committees (*Commission de Contrôle des Marchés Publics,* CCMP) in the Ministries required by the new procurement law and code is ongoing, but not effective in the relevant Ministry of the Project. The new procurement code has been found acceptable to the Bank.

78. The Project Coordination Unit that will be established under the Ministry of Commerce and Private Sector Promotion will be responsible for the overall procurement activities. A procurement capacity assessment of the Ministry of Commerce and Private Sector Promotion has been carried by the Procurement Specialist of the team. The mains risks identified are the lack of procurement staff experienced with World Bank's procurement procedures and the lack of the establishment of the Ministry Procurement Control Units required by the current National Procurement Code, the lack of standard bidding documents, and the use of inappropriate bids evaluation system. The following risk mitigation measures have been discussed with the authorities and agreed: the recruitment of a Procurement Officer reporting to the Project Coordinator, the selection of a procurement consultant to strengthen the capacity of the Procurement Officer, the nomination of procurement focal points at the level of the main implementation agencies levels[16], the use of bidding document formerly approved by the World Bank, the establishment of the Ministry Procurement Control Units, and the use of internal control process that will be specified in the procurement section of the Project Operations Manual. The CCMP and the DNCMP will conduct procurement prior review in accordance with the provision of the National Procurement Code. The Government has prepared and submitted to the IDA approval a procurement plan covering the first 18 months of project implementation.

[16] The focal points in the different partner institutions could also play the role of procurement focal points.

E. Social (including safeguards)

79. The only potentially negative social issues associated with the project relate to the Free Zone component. Because of this component, the Involuntary Resettlement safeguard (OP/BP 4.12) is triggered. Note that a stock taking of involuntary resettlement issues in the existing Free Zone sites was undertaken by the Togolese authorities in the context of project preparation. During project preparation, certain issues relating to environmental and social matters and more particularly, to possible involuntary resettlement issues within the existing Togolese Free Zone were revealed. These issues, which are outside the scope of the contemplated project, are further discussed in Annex 5 and addressed here for information purposes only.

80. The project will finance technical assistance to develop a new Free Zone. The output of this technical assistance would be to have a Free Zone development plan, validated by the Government of Togo, which would be presented to private investors. The PDO level indicator is to have established a Public Private Partnership (PPP) Framework, which will provide guidance for private investors in the development of the new Free Zone. The future geographical area of the new Free Zone is not yet known (and will depend on the various studies). During project preparation, a Resettlement Policy Framework (RPF) and an Environment and Social Management Framework (ESMF) were therefore developed by the authorities.

81. The Free Zone currently has four sites: two in Lomé, within the port area ("*zone portuaire*"), one undeveloped site near Kara (in the North of Togo) and one recently acquired site (not yet developed), 20 km, North of Lomé.

82. The Free Zone component will focus on a new site, which is not yet known (it could potentially be the recently acquired site 20km North of Lomé, however diagnostic and feasibility studies will indicate the best possible location of the new site). The ESMF and RPF, elaborated during project preparation, will provide guidance to the Togolese authorities on how to tackle certain environmental and social issues (including potential resettlement issues) for the new site.

83. SAZOF (the Free Zone management company) and the Togolese authorities will follow the RPF if they ever intend to resettle farmers or inhabitants in the new site. In addition, SAZOF and the Togolese authorities will follow the ESMF for the future development of the new Free Zone. The project will provide technical assistance to the relevant Togolese authorities on how to address potential environmental and social issues affecting the new Free Zone site. Technical assistance will also be provided to the relevant Togolese authorities to better enforce compliance with environmental regulations (including health and safety issues) of the Free Zone enterprises, based on the conclusions of the Environmental Audit (see detailed budget below).

84. Under this proposed approach, the World Bank cannot provide any assurances that social safeguard issues (including, in connection with any legacy issue in the existing Free Zone sites) will be properly addressed by the Togolese authorities if and when a non-World Bank financed project related to any Free Zone site is implemented by the Togolese authorities.

F. Environment (including safeguards)

85. The main environmental issues relate to the "Support to the Development of a new Free Zone" Component. Because of this component, the Environmental Assessment safeguard (OP/BP 4.01) is triggered. The Togolese Free Zone counts around 60 enterprises operating in various sectors, i.e. agribusiness, wood and construction materials, textiles, medicines and cosmetics, services, plastic and wrapping and metal works. The operations of these businesses can have negative environmental and social impacts.

86. The environmental audit concluded that the existing legal, regulatory and institutional framework is satisfactory. In addition, the audit notes that, overall, Free Zone enterprises are operating in an adequate environmental situation. In particular, these enterprises have implemented relatively sound waste management and have applied environmental good practices. The audit also highlighted a number of areas where there is limited compliance of Free Zone enterprises with environmental good practices (such as the necessity to check the quality of wastewater once a month, the necessity to have wastewater treatment systems or the necessity to clearly identify containers for used oils). The audit also provided detailed recommendations to improve compliance with environmental good practices. Finally, the audit recommends the development of an environmental management system as well as capacity strengthening in environmental good practices for key stakeholders.

87. In addition, during project preparation, the Togolese authorities prepared an Environmental and Social Management Framework (ESMF) to provide guidance on social and environmental issues, once the strategy of the new Free Zone is agreed upon, the feasibility study completed and the location of the site confirmed.

88. With regard to the other components, the project will fund the rehabilitation (very minor rehabilitation such as painting, small electrical works and partitioning) of a building housing the one-stop shop for enterprise creation. The Project Coordination Unit will ensure that the firm handling the rehabilitation works has – as an annex to its contract – the environmental and social management clauses for construction works.

89. The proposed matching grant under component 2 should not trigger any safeguards issues. The maximum matching grant amount is US$10,000. The matching grants can finance services for enterprises (for up to 50 percent), such as market research, business planning, accounting, etc. The MSEs that can benefit from the matching grant will be based in and around Lomé. A negative list of activities that cannot be financed will be included in the Operational Manual. This negative list will include activities such as alcohol production, weapons production, fur production, timber exploitation and any activity that is harmful to the environment.

G. Other Safeguards Policies triggered (if required)

90. Not applicable.

Annex 1: Results Framework and Monitoring

TOGO: Private Sector Development Support Project

Results Framework

Project Development Objective (PDO):
The proposed project development objective is to contribute to an improved investment climate in Togo, including in a New Free Zone, and to an improved performance of targeted micro and small businesses.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3	YR 4	YR5				
Indicator One: The number of days required to create an enterprise has been reduced	☐	Number of days	75	75	40	20	15	5	Annually	Doing Business Report	PCU	
Indicator Two: The performance of MSEs supported by the project has been improved compared to the firms in control group (as measured by increased turnover)	☐	Percentage of improvement relative to the control group	n/a	-	-	10%	10%	10%	MTR	Survey of MSEs	PCU	
Indicator Three: A Public Private Partnership (PPP) legal, regulatory and institutional framework applicable to the Free Zone and to Special Economic Zones is established	☐	Yes / No	No	No	No	Yes	Yes	Yes	Annually	SAZOF	PCU	
INTERMEDIATE RESULTS												
Intermediate Result (Component One): Support to investment climate reforms												
Intermediate Result indicator One: Number of procedures to start a business	☐	Number of procedures	7	7	6	5	4	4	Annually	Doing Business Report	PCU	
Intermediate Result indicator Two: The first CGA is providing services to an increasing number of micro and small businesses	☐	Number of businesses	0	0	50	100	200	250	Annually	CGA	PCU	

Intermediate Result indicator Three: Number of land titles issued	☐	Number of land titles	1041	1100	1320	2000	3000	4000	Annually	Land registry	PCU	
Intermediate Result indicator Two: The procedures to register a property have been significantly simplified	☐	Number of days	295	295	295	200	150	100	Annually	Doing Business report	PCU	
Intermediate Result (Component Two): Support to the development of entrepreneurial capacities												
Intermediate Result indicator One: 3,000 micro and small entrepreneurs have benefited from training (including at least 15% of female)	X	Number	0	0	1,500 (15%)	3,000 (15%)	3,000 (15%)	3,000 (15%)	Annually	PCU	PCU	
Intermediate Result indicator Two: Improvement in the organization of production (i.e. control of stocks, keeping organized accounts) of the MSEs compared to the firms in control group	☐	Additional percentage of companies introducing improvement in the organization of the firm relative to the control group	n/a	-	-	10%	-	-	MTR	Survey	PCU	
Intermediate Result indicator Three: The performance of MSEs that received a matching grant has significantly improved (by 10%) compared to the firms in control group (as measured by profitability)	☐	Percentage of increased profitability	n/a	-	-	10%	-	-	MTR	Survey	PCU	
Intermediate Result (Component Three): Support to the development of a new Free Zone												
Intermediate Result indicator One: SAZOF has been restructured and Free Zone Management is separated from Fee Zone regulation	☐	Yes / No	No	No	No	Yes	Yes	Yes	Annually	SAZOF	PCU	

***Please indicate whether the indicator is a Core Sector Indicator (see further http://coreindicators)**
****Target values should be entered for the years data will be available, not necessarily annually.**

Annex 2: Detailed Project Description

Component 1: Support to investment climate reforms (US$3 million)

1. This component will focus on two Doing Business indicators (starting a business and registering property). This component will be undertaken with the support of the Doing Business Reform Team, which will also continue to provide technical assistance across all Doing Business indicators. This component will thus focus on the following activities (as summarized by table1 below).

(i) Support to the implementation and operation of the one-stop shop to register a company. The one-stop-shop (*Centre de Formalité des Entreprises*, CFE) has already been established and is receiving support from the Private Sector Revitalization State and Peace Building Fund (US$160,000 for its initial establishment). This sub-component will finance technical assistance and IT equipment to ensure that the CFE software performance is fully satisfactory and helps reduce the time required to start a business. In addition, this sub-component will finance technical assistance to review all the procedures and processes needed to start a business to attempt to reduce them as much as possible and to develop a business plan for the one-stop-shop. This component will finance the initial operating costs of the one-stop-shop, with the clear understanding that such a support is time-bound. This component will also finance visits to successful one-stop-shops in the region.

(ii) Support to the establishment of the first Licensed Management Center (*Centre de Gestion Agréé*, CGA) in Togo. Such Centers aim at helping small businesses with their accounting and need to be established in each WAEMU country (as per a WAEMU regulation). The Chamber of Commerce is committed to support the establishment of the first CGA in Togo, however it has not yet developed a business plan for the CGA. This sub-component will therefore finance technical assistance to elaborate a realistic business plan for the establishment of the first CGA in Togo and to support (capacity building) the establishment of the CGA.

(iii) Support to the Land Registry (*Direction des Affaires Domaniales et Cadastrales, DADC*), which has been recently put under the oversight of the Ministry of Economy and Finance to improve its performance. This subcomponent will provide technical assistance to the strengthening of this direction to help simplify and shorten the time required to register property. In particular it will finance the following activities:

- Organizational diagnostic of the *Direction des Affaires Domaniales et Cadastrales,*
- Support to the implementation of the recommendations of the organizational diagnostic (technical assistance, capacity building, equipments),
- Review of laws and regulations governing the registration of property.

(iv) Support to (a) public-private dialogue to help identify, prioritize and implement key reforms to improve the Togolese investment climate and to (b) the development and implementation of a communication strategy on investment climate reforms. This sub-

component will also finance technical assistance on private sector development issues to relevant ministries (for example to ensure that private sector development issues are well reflected in Government's strategic documents, such as the visioning document under preparation). This component will also complement efforts to promote public / private sector dialogue initiated under the SPF.

Table 1: Summary of component 1 "Support to investment climate reforms"

Support to investment climate reforms	**(US$ m.)**	**3.00**
Support to one stop shop to start a business (Centre de Formalité des Entreprises, CFE)		***0.70***
- Support to CFE IT infrastructure		
Technical assistance to improve CFE software		0.15
Equipments for CFE (including IT equipments)		0.15
- Support to simplification of CFE procedures and processes		
Technical assistance and capacity strengthening		0.25
Initial operating costs of CFE		0.15
Support to the establishment of the first Licenses Management Center (Centre de Gestion Agréé, CGA)		***0.50***
- Support to establishment of first CGA		
Technical assistance for the establishment of the CGA		0.15
Capacity strengthening of CGA and equipments (including initial operating costs)		0.35
Support to the simplification of procedures to register property		***0.90***
- Organizational diagnostic of the land registry (Direction des Affaires Domaniales et Cadastrales)		0.20
- Support to the implementation of the recommendations of the organizational diagnostic (technical assistance, capacity building, equipments)		0.50
- Review of laws and regulations governing the registration of property		0.20
Support to public private dialogue and communication		***0.90***
- Support to the development and implementation of a communication program on investment climate reforms		0.60
- Support to public / private sector roundtables on investment climate reforms and to related ministries		0.30

Component 2: Support to the development of entrepreneurial capacities (US$4 million)

2. This component is designed to target the micro and small enterprises (MSEs) that are the primary source of employment in the Togolese setting. As shown by recent analytical work (i.e. CEM and ICPN) and field-visit during the pre-appraisal and appraisal missions, Togolese MSEs are constrained in their growth by a number of factors. In addition to the general constraints, that also influence medium and large companies, due to do a difficult business environment, a crucial set of these constraints, specific to these types of companies, is in the area of general management skills. For this reason, the goal of this component will be to develop entrepreneurial capacities of MSEs through targeted and practical business training, coupled with other supports: matching grants, as well as mentoring for informal / traditional businesses. The business training will focus, among others, on accounting, general management, calculating costs, marketing, and customer relations. Since MSEs in the formal sector differ substantially, in term of capacity, from those in the informal sector, particularly in the Togolese context, separate training programs will be offered for these two types of firms.

3. Table 2 provides a summary of the activities (with the associated budget) proposed under this component:

(i) Training for formal MSEs. This sub-component will provide business training to 1,000 formal MSEs based on a need assessment.

(ii) Training and mentoring for informal / traditional MSEs. This subcomponent will provide basic training to 2,000 informal / traditional MSEs. The training will be complemented with a mentoring service for 1,000 informal MSEs.

(iii) It is expected that 30 percent of the informal MSEs and 10 percent of the formal MSEs will be owned and/or managed by women.

(iv) The training programs will be complemented by a matching grant program, which will provide matching grant up to US$10,000 to an estimated 500 MSEs[17] (both formal and traditional) to help them develop a viable upgrading project.

4. It should be noticed that – while companies participating to the training program will receive specific assistance and training to prepare their application for the matching grant program – the matching grant will be open to all Togolese companies operating and paying taxes in Togo with less than 50 employees. In addition, the matching grant will also be open to legally established business associations.

5. The matching grants can be used to purchase Business Development Services (BDS) with the view to increase the turnover of the company. The matching grants cannot be used for purchasing building, land or capital equipments.

6. Take up for both matching grant and training programs is often an issue. Aware of this challenge, the component will be implemented in a staggered manner, with several rounds of training and of matching grant application. Additionally, specific resources are budgeted for outreach activities that will target especially women and youth entrepreneurs. This outreach will be done in partnership with a set of local partners and stakeholders that will include, among

[17] Under the assumption that the average grant requested is US$3,500 US.

others, AFCET, CCIT, IIFEG, GTPE, AGET, DOSI, APROMA as well as microfinance institutions such as WAGES.

7. The implementation arrangements for this component are relatively complex and are detailed in Annex 3. The detailed operational mechanisms for the matching grant will be developed in the Project Operations Manual.

Table 2: Summary of component 2 "Support to the development of entrepreneurial capacities"

	# firms	Unit cost (US$)	Total cost (US$ m.)	Comments
Support to formal firms			**0.75**	
Training	1,000	720	0.72	Training cost is estimated at US$800, with each firm paying 10%. The net cost is US$720
Outreach activities			0.03	Targeting in particular women and youth
Support to informal (traditional) firms			**1.21**	
Training	2,000	390	0.78	Training cost is estimated at US$400 (the trainees will pay a nominal fee of US$10).
Mentoring	1,000	400	0.40	2 mentoring visits per company with a unit cost of US$200.
Outreach activities			0.03	Targeting in particular women and youth
Matching grant			**1.87**	
Matching grant funding	500	3,500	1.75	The maximum subsidy available is US$10,000. The hypothesis is that the average matching grant amount is US$3,500.
Technical audits			0.10	
Consultants to screen and evaluate matching grants applications			0.02	Based on the needs of the Project Coordination Unit
Impact assessment			**0.10**	
Support to the development of a pool of business consultants for micro-enterprises			**0.07**	In partnership with CGA
Total			**4.00**	

Component 3: Support to the development of a new Free Zone

8. The component aim at supporting the development of a new Free Zone. Accordingly, the project would be structured around achieving three main goals:

(i) The economic configuration of the Zone, originally conceived over 20 years ago, should be adapted in order to better provide to the economic needs of the country, changes in regional trade, investment and competitive patterns, and in international best practice – ideally, the Free Zone should evolve toward the special economic zone, or related, configuration;

(ii) Institutional arrangements which were developed in the early and mid-1990s should be adapted to fit the future economic configuration of the Zone;

(iii) Past efforts to establish public-private partnerships, and notably to secure private sector participation in capital investments, promotion and management should be renewed, notably once all prerequisites have been completed, and the international attractiveness of the Zone has been improved.

9. The project would establish the foundation required for renewed capital investment, but would not undertake such investments. Significant numbers of prerequisites need to be addressed, notably:

(i) the creation of an empirical and analytic foundation, notably to generate an in-depth knowledge and understanding of critical aspects of the zone's functioning, impact and issues;
(ii) the formulation of a long-term vision, notably on the economic goal of the zone, and its integration within the 20-30 year national vision currently under formulation;
(iii) the preparation of a strategy encompassing key structural components, and which must be validated through a proper feasibility study; and,
(iv) the implementation of the strategy itself.

10. The Free Zone component seeks to deliver these activities, with both medium- and long-term deliverables. Activities therefore include:

- Phase 1 (one to two years) represents the "Preparatory Phase to the development of a new Free Zone";
- Phase 2 (one year) represents the "Formulation and Validation Phase of the development of the new Free Zone". It is proposed that this phase include measures to consolidate institutional capacity of SAZOF.
- Phase 3 would see the "Implementation of the Strategy of the new Free Zone".

11. Phase 1 – Preparatory Phase to the development of a new Free Zone It is proposed that Phase 1 would consist of three principal components:

(i) Essential diagnostics and impact assessments dedicated to complementing existing yet critically insufficient knowledge on economic, regulatory, institutional and organizational aspects of the Free Zone. These assessments would more comprehensively: document the contribution of the Free Zone to the economy; provide an evaluation of the current legislation, its implementation, and its implication on investment, trade, domestic and regional competition; study institutional arrangements, and diagnose organizational elements. The diagnostics and impact assessments would fill the current wide knowledge gap which precludes informed strategic formulation. The timing of the constituent studies would be arranged so as to feed, firstly, the preparation of the vision, and, secondly, the formulation of the strategy.

(ii) Insofar as institutional questions are concerned, Phase 1 would include a focus on SAZOF, with the objective to identify quickly implementable measures that may deliver rapid gains. It is anticipated that these measures would affect governance and decision-making, financial management and budgeting, human resources and organizational structure, and performance management.

(iii) Formulation of a vision to be integrated within the broader governmental national visioning process. This would ensure that the Free Zone, or its evolution, is fully integrated in a national socio-economic framework, rather than being the current enclave. The importance of linkages with the national economy will also be stressed.

12. Phase 2 – Formulation and Validation Phase of the development of a new Free Zone. It is proposed that Phase 2 is comprised of the four following components:

(i) The drafting and implementation of a Medium-Term Action Plan derived from the conclusions and recommendations of Phase 1, and aligned with the Vision. It could be expected that the Action Plan would focus on improving SAZOF's immediate performance, and would thus be implemented during Phase 2. The active participation of SAZOF in both the diagnostics and its implementation would be expected;

(ii) In parallel, broad, Long-Term Strategic Scenarios would be identified and set out, based on the diagnostics, impact assessments and the Vision. These would then be presented to a specifically set up Steering Committee for validation. Two Long-Term Strategic Scenarios would be selected by the Committee;

(iii) Following this, the two selected scenarios would be tested during a Prefeasibility Stage, which would produce a range of options for each, notably on key aspects such as economic configuration, regulatory regime, governance and institutional structures, sites, demand previsions, socioeconomic impact, and financials (capex, revenues, resource allocations, etc.). The output would be presented in a format allowing comparison of each scenario for effective decision – i.e.; with a view to select. The Steering Committee would then select the most welfare-positive scenario;

(iv) In the last stage of Phase 2 the chosen scenario would undergo final preparation through a feasibility study, which would prepare the necessary project outputs, building on the prefeasibility: new regulatory framework, new institutional structure, designs and master plans for proposed sites and associated infrastructure, detailed financial models and so on. The feasibility study would be a critical document in the eventual opening of the resulting zone to private partners. Upon completion, the study would be validated by the Steering Committee.

13. Phase 3: Implementation of the Strategy of the new Free Zone. Phase 3 will depend upon the findings of Phase 1 and 2, and would include technical assistance for identification and negotiations with potential investors (establishment of PPP framework, please see text box below for examples of PPPs in Special Economic Zones), including marketing and promotion of the new Free Zone.

Text box 1 Public-private partnerships (PPPs) in SEZs

PPPs seek to capitalize on the mutual strengths of each sector. Cooperation and division of labor rather than competition:

- Government: strategy and policy formulation, legislation, regulation and enforcement, and the provision of key public goods that the private sector cannot provide. A large number of SEZ projects developed on the basis of PPPs require significant public funding. Typically this includes discounted land prices or free land, external infrastructure, and often internal basic infrastructure – notably for more developmental projects.
- Private sector: development and operation of the SEZ project: master planning, investment into core real estate and services infrastructure, construction, management, promotion, etc.

There are currently six main forms of PPP, each representing an increase in private participation and thus the shifting of financial risk away from the state:

1. *Service contracts*: Government owns the zone and has responsibility for overall management, operations, maintenance and capital investment. However, aspects of management or services are subcontracted to specialist firms, for a fee.
2. *Performance contracts*: operations and maintenance of the zone are transferred to the service provider on a three to five year basis, with specific performance clauses, such as financial performance and attracting a set number of investors.
3. *Leases*: the financial relationship is reversed as Government is paid by a private concern for control of the zone's revenue stream. Government still owns the asset and remains responsible for capital expenditures.
4. *Concessions*: government retains ownership of the zone but privatizes management, maintenance and capital investment. The objective is to bring private capital to expand on existing infrastructure and turn the zone into a high value asset. Concessions run for twenty to fifty years.
5. *BOT (Build – Operate – Transfer) structures*: they start with private sector participation from inception (concept, studies and in the financing of construction). They are not fully private initiatives because they remain incepted by Government and seek to achieve public good returns, and in some cases revert to public ownership.
6. *Divesture* or *privatization*: government sells the ownership of the zone to the private sector, either as a going concern or as non operating asset. Divesture involves complete disinvestment by government.

Source: "Special Economic Zones: performance, policy, and practice – with a focus on Sub-Saharan Africa", T. Farole, Draft

14. The budget for the Free Zone Component of the project is US$3.0 million, allocated as follows (please see in table 3 below the detailed budget):

- Phase 1: US$0.65 million (in addition to US$0.57 financed under the Project Preparation Advance)
- Phase 2: US$ 1.75 million
- Phase 3 : US$0.60 million in the form of technical assistance for implementation

15. The budget includes an estimated US$500,000 (across the three phases) to tackle social and environmental issues related to the Free Zone. This budget will allow to cover the following activities:

- Technical assistance to SAZOF to improve environmental and social compliance of TFZ enterprises – based on the conclusions of the environmental audit.
- Once the new TFZ strategy has been approved and once a site has been identified for the new TFZ, technical assistance to undertake an Environmental and Social Impact Assessment of the identified site and a Resettlement Action Plan, as per the ESMF and RPF.

Table 3 – Summary of Component 3 *"Support to the development of a new Free Zone"*

Phase 1 - Preparatory Phase to the Repositioning of the Togo Free Zone	**0.65**
- Economic cost-benefit analysis *Financed under the Project Preparation Advance*	PPA
Fiscal impact analysis	
Economic impact analysis	
- Competitiveness analysis *Financed under the Project Preparation Advance*	PPA
Regional and international comparative benchmarking	
Diagnostics of zone enterprises competitiveness	
Labor productivity and working conditions analysis	
- Customs and trade regulation and implementation diagnostics	**0.05**
Inventory of national and regional applicable legislations and regulations	
Field analysis of legislative and regulatory implementation (visits to Cote d'Ivoire, Ghana, Burkina Faso)	
Report and recommendations	
- Institutional and organizational diagnostics *Financed under the Project Preparation Advance*	PPA
Analysis of statutes and missions of institutions directly associated with the zone	
Diagnostics of resources, activities and performance of these institutions	
Recommendations for short-term performance improvements	
- Analysis of the national PPP framework	**0.10**
Analysis of existing legislation, regulations and institutional structures	
Analysis of the current performance of the PPP framework	
- Technical assistance on social and environment issues affecting the Free Zone	**0.20**
- Formulation of the Vision 2030	**0.30**
Establishment of a Vision 2030 Working Group	
Preparatory stage: workshops, case studies, etc.	
Overseas mission to 2 relevant zone cases	
Formulation of Vision 2030	

Phase 2 - Formulation and Validation Phase of the Repositioning of the Togo Free Zone	**1.75**
- Action plan and budget for the implementation of the short-term performance improvement	**0.05**
Synthesis of recommendations	
Action plan and budget	
Presentation to Steering Committee for approval	
- Implementations of recommendations to strengthen the Free Zone institutional framework	**0.60**
To be defined by institutional diagnostics (Phase 1)	
Including technical assistance to tackle social and environment issues	
- Identification and definition of the 3-4 scenarios for the repositioning of the zone	**0.15**
Synthesis of Phase 1 diagnostics	
Identification and formulation of scenarios	
Submission to Steering Committee for selection of 2 options	
- Prefeasibility study	**0.60**
Strategic proposal	
Legislative and regulatory proposals	
Institutional and PPP proposals	
Site and infrastructure development proposals	
Demand assessment	
Economic and fiscal impact assessment	
Financial modeling	
- Submission to Steering Committee for selection of final Project	**0.03**
- Feasibility study	**0.30**
Strategy	
Legislative and regulatory framework	
Institutional design and PPP framework	
Final master plan	
Fine-tuning of demand assessment	
Fine-tuning of economic and fiscal impact analysis	
Final financial model	
- final Submission to the Steering Committee	**0.03**
Phase 3 - Implementation of the Repositioning Strategy of the Togo Free Zone	**0.60**
Technical assistance to support implementation of repositioning strategy, including: Technical assistance for identification and negotiations with potential investors (establishment of PPP) and technical assistance on social and environment issues	
Grand total	**3.00**

16. A **Project Preparation Advance** (US$1 million) was approved in October 2010 and to finance the following activities:

(i) establishment of the Project Coordination Unit (recruitment of the Unit staff, elaboration of the operational manual, IT equipment and software, operating costs and audits);
(ii) elaboration of safeguards documents for the project;
(iii) diagnostic studies for the development of new Free Zone (*inter alia*: cost benefit analysis, competitiveness analysis, institutional and organization diagnostic);
(iv) technical assistance and studies to prepare the investment climate and entrepreneurship components (*inter alia*: technical assistance for the Doing Business road map, analysis of training needs of registered micro and small businesses);
(v) training and workshops to support the preparation of the project.

Annex 3: Implementation Arrangements

Project institutional and implementation arrangements

Project administration mechanisms

1. The implementation of this project will require the involvement of several ministries, notably, the Ministry of Commerce and Private Sector Promotion, the Ministry of Economy and Finance, the Ministry of Industry, Free Zone and Technological Innovation and the Ministry of Planning, Development and Land Administration. The Togolese authorities have proposed that the Ministry of Commerce and Private Sector Promotion should take the lead in the oversight of the project.

2. Project Coordination Unit. It has been agreed that the project would be implemented by a dedicated team competitively recruited. The Project Coordination Unit (PCU) would be composed of the following staff: one Coordinator, one expert per component (investment climate reform, entrepreneurship and Togolese Free Zone), one matching grant officer, one procurement specialist, one financial management specialist and support staff.

3. The Project Coordination Unit of the Financial Sector and Governance Project will help implement the Project Preparation Advance (approved in October 2010) and will focus in particular on the establishment of the new PCU. The recruitment of the staff of the PCU is currently undertaken by a firm (competitively recruited) specializing in human resources management. The Project Preparation Advance will also finance training for the procurement specialist and the financial management specialist to ensure they are fully capable to undertake their respective tasks by Board presentation.

4. The budget for the PCU for 5 years is US$1.5 million. It is expected that the staffing costs of the PCU (7 technical staff and support staff) will amount to around US$1 million. The remaining budget (US$0.5 million) will cover equipments and operating costs (including training, workshops and audits).

5. The PCU would work in close collaboration with the different ministries involved in the project, as well as with private sector representative bodies (*Patronat*, Association of Females Owners of Businesses, Network of Young Entrepreneurs), through designated *focal points*. The PCU will be in close contact with the focal points in the day to day implementation of the project. Indeed, the focal points will play a critical role in project implementation: review of Terms of References, review of reports from consultants, participation to evaluation committees (with regard to Procurement), etc. As such, the focal points will be offered training opportunities through the Project.

6. Focal points will be identified within the following institutions:

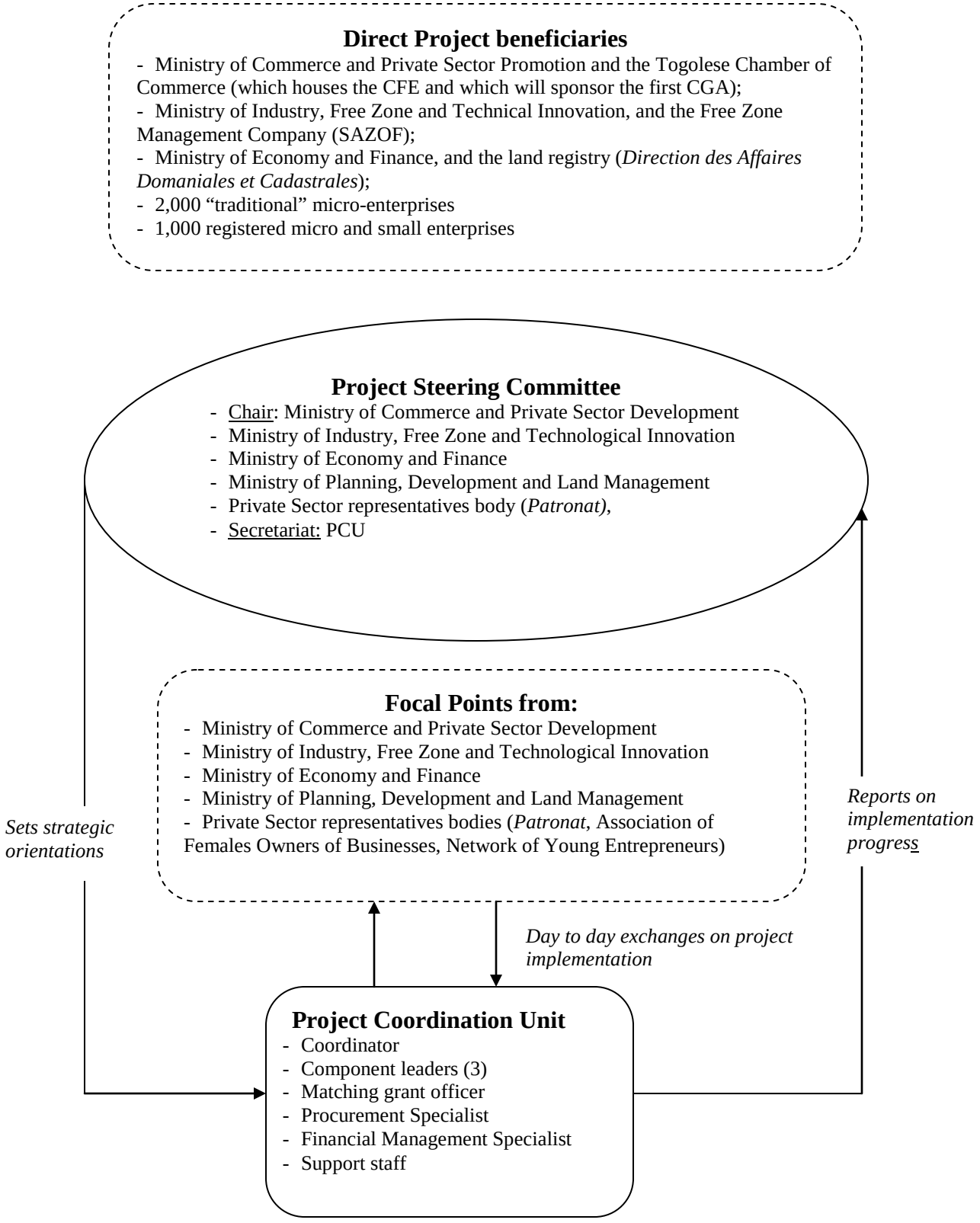
- Ministry of Commerce and Private Sector Promotion
- Ministry of Industry, Free Zone and Technical Innovation
- Ministry of Planning, Development and Land Administration
- Ministry of Economy and Finance
- Chamber of Commerce (with regard to the CFE and the CGA)
- *Direction des Affaires Domaniales et Cadastrales* (land registry)
- Free Zone Management Company (SAZOF)
- *Patronat*
- Association of Females Owners of Businesses
- Network of Young Entrepreneurs.

7. Project Steering Committee. The Project Steering Committee will gather high level representatives of the various institutions and will be responsible to set the strategic direction of the project. The Project Steering Committee will be chaired by the Ministry of Commerce and Private Sector Development. The PCU will act as the Secretariat of the Project Steering Committee (preparing the meetings, elaborating the documents for the meeting, recording the minutes of the meeting, etc.). The Project Steering Committee will meet at least twice a year.

8. Project Implementation Manual (PIM)*:* The PIM gathers the following three manuals: (i) the administrative, accounting and financial procedures manual, (ii) the project implementation manual and (iii) the matching grant procedures manual. The project implementation manual will describe the implementation mechanism of the project, including the role of the Project Steering Committee and of the Project Coordination Unit. It will include the Terms of Reference for the staff of the Project Coordination Unit.

9. Implementation of components. The implementation of Component 1 "Support to investment climate reforms" and Component 3 "Support to the development of a new Free Zone" is relatively straightforward as these two components focus on technical assistance. The implementation of Component 2 "Support to the development of entrepreneurial capacities" is more complex and further details are provided in the appendix to this annex.

Figure 1: Project implementation arrangements



Financial Management and Disbursements

Disbursement arrangements and flow of funds

10. The Project Coordination Unit will handle the overall responsibility of FM aspects of the project including (i) managing the designated account, (ii) preparing withdrawal applications and reporting to be submitted to the World Bank.

11. One segregated Designated Account will be opened at a commercial bank acceptable to IDA. A fixed ceiling of CFAF 370 million has been set based on the disbursement forecast for the first four months. The project coordinator and the FM specialist will be the signatories of the designated account.

12. Disbursements under the project would be transaction based. Various other disbursement methods will be available for use under the project, i.e. direct, reimbursement and special commitment methods. Further instructions on disbursement and details on the operation of the DA will be outlined in the disbursement letter.

13. The table below sets out the expenditure categories to be financed out of the loan proceeds.

Table 1: Disbursement table

Category	Amount of grant allocated (US$ m.)	Percentage of expenditures to be financed (inclusive of tax)
Goods, Consultant services, Training and Operating Costs under component 1, 2.1 and 3	10.25	100%
Sub-grants for Training and consultant services under component 2.2	1.75	100%
Refund of PPA	1.00	
Total	**13.00**	

14. Funds will flow from the Grant Account to the Designated Account. An initial advance, up to the ceiling amount, will be made to the DA upon effectiveness and receipt of withdrawal application. Subsequent advances will be made upon receipt of supporting documentation (Statements of Expenditures, Records) specified in the disbursement letter reporting on the use of the initial advance. The *Direction du Financement, du Contrôle de l'Exécution et du Plan (DFCEP)* would be the assigned representative of the Recipient for the mobilization of IDA funds. Withdrawal Application requests will be prepared by the FM specialist, signed by a designated signatory or signatories (the signature authorization letter is signed by the Minister of Finance), and sent to the Bank for processing.

15. Regarding the matching grant operations, it will be stipulated in the agreement between the beneficiary and the PCU that no fund will flow from the DA to the beneficiary account. The project will provide the required contribution directly to the beneficiary BDS providers' bank accounts.

Reporting arrangements

16. Quarterly Interim Un-audited Financial Reports (IFRs) will be prepared by the FM specialist. The IFRs will include sources and uses of funds classified by project expenditure. They will also include a comparison of budgeted and actual project expenditures (commitment and disbursement) for the quarter and should be submitted to the Bank within 45 days following the end of the quarter.

17. The PCU will produce Annual Financial Statements for the Project which will comply with the accounting standards (SYSCOHADA). SYSCOHADA is the assigned accounting system in West African Francophone countries. Project accounts will be maintained on a cash basis, supported with appropriate records and procedures to track commitments and to safeguard assets. Annual financial statements will be prepared by the PCU in accordance with the SYSCOHADA. The ROSC (Review of Standards and Codes) Accounting and Auditing identified some differences with the International Accounting Standards but they are not expected to impact the project. Accounting and control procedures will be documented in the Administrative, Accounting and Financial Manual.

Audit arrangements

18. The supreme audit institution (*Cour des Comptes*) which is supposed to audit all public funds is being established and has a limited capacity in terms of staffing and experience of auditing project financial statements. In view of this, an external independent and qualified private sector auditor acceptable to the World Bank will be recruited under the supervision of the steering committee put in place by Togo ministry of finance for public company external audit.

19. The Auditor will express an opinion on the Annual Financial Statements, and perform his audit in compliance with International Standards on Auditing (ISAs). He will be required to prepare a Management Letter detailing his observations and comments, providing recommendations for improvements in the accounting system and the internal control environment. The audit report on the annual project financial statements and activities of the DA will be submitted to IDA within six months after the end of each project fiscal year.

20. The matching grant will be subject to a technical audit each year of its implementation and it will be stipulated in the TOR of the financial auditor that a reasonable sample of such grants will be reviewed each year to ensure that activities were completed pursuant to the Matching Grant Agreement and that funds were used for the purposes intended. Both technical and annual financial audits will include reviews of randomly selected beneficiaries, applications received and financed, and applications received and rejected.

Financial Management Actions Plan

21. The following actions plan was agreed with the ministry to strengthen the project financial management system:

Table 2: Financial Management Actions Plan

No.	Activity/Action	Target Completion	Responsibility
1.	Appointment of a FM specialist with experience and qualifications satisfactory to the Bank	Prior to effectiveness	Project preparation team
2	Prepare a draft of Project Implementation Manual including acceptable Financial and Accounting procedures	Prior to effectiveness	Project preparation team
3	Appointment of the external auditor acceptable to IDA	Not later than 4 months after effectiveness	Project Coordination Unit

Procurement

Guidelines

22. Procurement for the proposed project would be carried out in accordance with the World Bank's *"Guidelines: Procurement under IBRD Loans and IDA Credits"* dated May 2004, revised in October 2006 and May 2010; and *"Guidelines: Selection and Employment of Consultants by World Bank Borrowers"* dated May 2004 revised in October 2006 and May 2010, and the provisions of the Financial Agreement.

Procurement Documents

23. The procurement will be carried out using the Bank's Standard Bidding Documents or Standard Request for Proposal (RFP) respectively for all ICB for goods and selection of consultants. For National Competition Bidding (NCB), the Borrower could submit a sample form of bidding documents to the Bank prior review and will use this type of document throughout the project once agreed upon. The Sample Form of Evaluation Reports published by the Bank, will be used.

Procurement methods

24. *Procurement of Works*: Works should be grouped in bid packages and procured through International Competitive Bidding (ICB). Contracts estimated to cost less than US$3,000,000 equivalent may be procured through National Competitive Bidding (NCB). Contracts estimated to cost less than US$50,000 equivalent per contract may be procured through shopping procedures. The contract should be awarded to the company with the lowest price provided it has the technical capacity to execute the contract successfully. For shopping, all project implementation agencies will keep a register of suppliers updated at least six monthly.

25. *Procurement of Goods:* Goods should be grouped in bid packages and should be procured through International Competitive Bidding (ICB). Contracts estimated to cost less than US$300,000 equivalent may be procured through National Competitive Bidding (NCB). Contracts estimated to cost less than US$50,000 equivalent per contract may be procured through shopping procedures. The contract should be awarded to the company with the lowest price provided it has the technical capacity to execute the contract successfully. For shopping, all project implementation agencies will keep a register of suppliers updated at least six monthly.

26. *Selection of Consultants*: Consultant firms will be selected through the following methods: (a) Quality and Cost Based Selection (QCBS); (b) selection based on the Consultant's Qualification (CQS) for contracts which amount are less than US$100,000 equivalent; (c) Least Cost Selection (LCS); (d) Commercial Practices and (e) Single Source Selection (SSS). Individual Consultant (IC) will be hired in accordance with section V of Guidelines. Short lists of consultants for services estimated to cost less than US$200,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

27. *Training, Seminars, Workshops, Study Tours, and Conferences*: These activities will be carried out based on the approved annual work plans and budgets. Prior to initiating the process, the project shall provided for IDA review and approval, a detailed plan with nature of activities, number of participants, duration, staff months, timing, estimated cost and selection. After the training, the beneficiaries will be requested to submit a brief report indicating what skills have been acquired and how these skills will contribute to enhanced performance and contribute to the attainment of the project objective. Training costs will be attributable to seminars, workshops, and study tours, along with travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.

28. *Operational Costs*: Operating costs financed by the Project are incremental expenses, including office equipment and supplies, vehicles operation and maintenance, maintenance of equipment, communication costs, rental expenses, utilities expenses, bank charges, consumables, transport and accommodation, per diem, supervision costs, and additional staff costs. The operational physical services (such as equipment maintenance) and non-consultant services will be procured using the procurement procedures specified in the Project Operations Manual accepted by the Bank, but excluding the salaries and indemnities of officials and public servants of the Recipient's civil service.

Procurement implementation arrangements

29. The project will be implemented by the Project Coordination Unit (PCU) who will be established under the supervision of the Ministry of Commerce and Private Sector Promotion. The PCU will be the project overall implementation agency, and thus, will carry out all procurement activities under the project. The PCU through a Procurement Officer, to be recruited, will be responsible for the coordination and the compliance of procurement activities and procedures under the project. The recruitment of a Procurement Officer is recommended for smooth project implementation. The Procurement Officer will oversee and manage the project's procurement activities. S/he will ensure these activities are proceeding in a timely manner and according to project objectives. The Procurement Officer will be responsible for the preparation of six monthly procurement progress reports and for the filing of procurement documents. A Procurement Consultant will be selected to support and strengthen the capacity of the PCU Procurement Officer for at least six months at the beginning of the project implementation.

Frequency of procurement reviews and supervision

30. Bank's prior and post reviews will be carried out on basis of review thresholds indicated in the following table. The Bank will conduct six-monthly supervision mission and annual Post Procurement Review (PPR); the ratio of post review is at least 1 to 5 contracts. The Bank could also conduct an Independent Procurement Review (IPR) at any time until two years before the closing date of the project.

Table 3: Procurement and selection review thresholds

Procurement/Selection methods	Prior Review Threshold (US$)	Comments
1. Works and Goods		
ICB • Works • Goods	 ≥ 3,000,000 ≥ 300,000	Method can be applied for any amount, but is mandatory above these amounts
NCB	N/A	Review of the first two contracts independently of amount
Shopping	N/A	Review of the first two contracts independently of amount
Direct Contracting	All contracts	All contracts
2. Consulting services		
QCBS	≥ 200,000	With review of the first two contracts independently of amount
LCS	≥ 200,000	With review of the first two contracts independently of amount
CQS *(for contracts ≤$US100,000)*	≥ 50,000	With review of the first two contracts independently of amount
Commercial Practices	N/A	Method to be applied for the matching grant program
Individual Consultants (IC)	≥ 100,000	With review of the first two contracts and other contracts on case by case basis independently of amount
Single Source Selection (SSS)	All contracts	Review of all contracts
3. Trainings and workshops		
Training and workshops	≥ 5,000	On basis of detailed and approved annual plan (with indication of venue, number of participants, duration and exhaustive budget, etc.)

31. All trainings, terms of reference of contracts estimated to more than US$10,000, and all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA prior review. All contracts not submitted to the prior review, will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the Bank's Consultant Selection Guidelines and Bank's procurement Guidelines.

Risks and Mitigation measures

32. In view of experience of the procurement unit of the Ministry, the overall project procurement risk has been rated **moderate**. The following keys measures were agreed to mitigate the remaining risks.

Table 4: Project Preparation Action Plan

Task	Completion	Intermediate milestones	Responsibility
1. Recruit a Procurement Officer	Before effectiveness	Term of Reference before Negotiations *[TOR sent for World Bank No Objection on February 11, 2011]*	Project preparation team
2. Recruit a Procurement Consultant for six month	Less than two (2) months after Effectiveness	Terms of Reference approved before Effectiveness	PCU
3. Prepare the procurement section of operational manual	Before effectiveness	Selection of consultant by mid April 2011	Project preparation team

Procurement Plan

33. All procurement activities will be carrying out in accordance with the original or formally updated agreed procurement plan. The PCU will be responsible for the preparation and updating of procurement plan. The Procurement Plans will be updated at least annually or as required to reflect the actual project implementation needs and capacity improvements.

(a) ***Works and goods contract Packages which will be procured following ICB and Direct contracting:***

1	2	3	4	5	6	7	8	9	10
Ref. No.	**Description**	**Estimated Amount (US$ 000)**	**Procure-ment Method**	**Pre quali-fication (yes/no)**	**Domestic preference (yes/no)**	**Prior Review (yes/no)**	**Estimated Bids opening Date**	**Expected Contract Signature Date**	**Comments**
1	*Not applicable*								
2									
3									

(b) ***Consulting Assignments contracts with short-list of international firms.***

1	2	3	4	5	6	7	8
Ref. No.	**Description of Assignment**	**Estimated Cost**	**Selection Method**	**Review by Bank (Prior/Post)**	**Estimated Bid Opening Date**	**Estimated contract signing date**	**Comments**
1	Technical assistance to improve the CFE IT infrastructure	80,000	CQ	Yes	05/2011	06/2011	
	Technical assistance to increase the efficiency and effectiveness of the CFE	80,000	CQ	Yes	05/2011	06/2011	
3	Technical assistance to develop the business plan of the first CGA and support its establishment	60,000	CQ	Yes	06/2011	07/2011	
4	Technical assistance to reorganization of land registry (*Direction des Affaires Domaniales et Cadastrales*)	400,000	QCBS	Yes	06/2011	08/2011	
5	Review of laws and regulations concerning the registration and transfer of property	50,000	QC	No	06/2011	07/2011	
6	Technical assistance to the development of a communication campaign on reforms to improve the investment climate in Togo	200,000	QCBS	Yes	08/2011	10/2011	
7	Organization and delivery of training program for 1,000 formal MSEs	720,000	QCBS	Yes	06/2011	08/2011	
8	Organization and delivery of training program for 2,000 informal MSEs	780,000	QCBS	Yes	08/2011	10/2011	
9	Technical audit of matching grants	50,000	LCS	Yes	09/2011	11/2011	
10	Impact assessment for component 2	100,000	QCBS	Yes	06/2011	08/2011	
11	Consultant to support SAZOF during the development of a new Free Zone	100,000	IC	Yes	06/2011	08/2011	
12	Review of PPP framework	80,000	CQ	No	06/2011	07/2011	
13	Prefeasibility study for the Togolese Free Zone	500,000	QCBS	Yes	09/2011	11/2011	

Monitoring & Evaluation

34. Under the proposed implementation arrangements, each component will be managed by a dedicated staff from the PCU. Each "component leader" will be responsible for Monitoring and Evaluation for his/her respective component (this will be specified in their Terms of Reference). The Coordinator will ensure that each "component leader" fulfils his / her responsibilities.

35. Most M&E data will be readily available (for example, two indicators are from the annual Doing Business report published by the World Bank Group). The M&E data for Component 2 will require specific surveys of MSEs supported by the project, as well as MSEs not supported as control group. As such Component 2 includes an impact evaluation sub-component to generate the required data (see appendix in this annex).

36. M&E indicators will be closely reviewed by the Project Steering Committee and by the World Bank team in charge of the supervision of the project to ensure that the required results are achieved. If ever the planned results are not reached, the supervision team will need to closely analyze the reasons and – based on the reasons – develop a strategy (possibly to review the approach to the component or sub-component if results are disappointing).

Appendix: Implementation mechanism for Component 2: "Support to the development of entrepreneurial capacities"

1. This appendix describes in further details how Component 2 will be implemented, as this component is relatively innovative and is more complex to implement than "traditional" technical assistance.

Support to development of entrepreneurial capacities of formal companies: tailored training (US$0.75 million)

Training program

2. The first stage to implement this component will be a quick demand survey financed by the project preparation advance that will serve to assess precisely the business training needs of this group of firms. A one page questionnaire (already designed) will elicit the components of the training that would be most helpful in meeting their business needs.[18] Based on the responses to the survey, key module components for the training program will be chosen.

3. Training providers. Business training firms will be invited, through the publication of an Expression of Interest, to register their interest for the organization of this training program. The procurement method will be Quality and Cost Based Selection (QCBS, see previous section).

4. For the training, two potential training tools have already been identified; both include various modules and have been tested internationally. First, the training tool developed by IFC (Business Edge). Second, the training tool developed by ILO (Germe). Both tools function accordingly to a system where first a set of trainers are trained and certified by master trainers, second these trainers provide the training modules to the final beneficiaries of the program. However, it is expected that the mere presence of the program will create an important incentive for local trainers to become internationally certified in order to provide the training.[19] A sub-product of this intervention, which primary aim is to improve the capacities of Togolese MSEs, will be therefore to create a local pool of trainers and develop a market for these services.

5. Outreach. A key component of the program will be the outreach activity through the Chamber of Commerce, private sector associations, as well as financial institutions (both banks and microfinance institutions) in order to achieve the maximum number of interested candidates, and in particular develop awareness among two key groups: females and youth entrepreneurs.

6. Eligibility. The conditions of eligibility to the program will be: (1) being registered at the Chamber of Commerce, (2) the business having been in operation for at least 1 year, (3) having maximum 50 employees, (4) willing to pay a nominal fee to participate to the program. The

[18] The survey will be mailed to all micro and small, registered firms at the Chamber of Commerce and localized around Lomé, along with a stamped, return envelope. The results will be compiled quickly to assist with further planning of the training program. This letter will also serve to notify the registered firms of the overall nature of the proposed project and make them aware of this program.

[19] Accordingly, during the pre-appraisal mission a meeting with all local consultancy companies was organized to inform them of the program and the requirements to become a certified "trainer".

application form will mention that there will be a random check (with site visit) of the information provided by the PCU.

7. Training program roll-out. The current plan involves training 1,000 registered firms. This training component will be staggered over two phases – during the first year, the target is to offer the training program to around 500 companies. The learning and results from the first phase (with regard to take up and structure of the training) will be incorporated in the second training session. The second training session will be offered 6-12 months after the completion of the first one. It is proposed that this training would be carried out through classes of 20 individuals (per class), resulting in 50 classes undergoing training. Each class will meet for 4 weeks, meeting 3 half-days each week. Therefore up to 2 classes can be taught by an individual trainer per month. To complete the training in 2 months will therefore require about 7-10 trainers. However, the training providers will further detail how they intend to roll out the training program in their technical proposal, during the procurement process (QCBS).

Support to development of entrepreneurial capacities of informal / traditional businesses: training and mentoring program (US$1.21 million)

8. The objective of this sub-component is to train 2,000 micro and small informal companies and will staggered over several phases (each one aiming at training about 500 companies). The target group of this sub-component is represented by micro and small traditional companies in various sectors: auto-mechanics, construction materials, jewelry, tailors, retailers, hair dressers, restaurants, etc.

9. The business training for the informal sector firms will be more basic than the formal sector firms. Here, the focus will be on helping firms to keep basic accounts, calculate costs, manage and negotiate with suppliers, improve marketing and customer relations. Additionally, one component of this training will include a section on how to approach a bank or microfinance institution for financing.

10. Training providers. In terms of provision of the training program, similarly to the component targeted to the formal sector, the selection of the training provider will be undertaken through QCBS. Using an internationally-certified business training program will be an important factor for the selection process. Given the lower capacities and more basic needs, the most appropriate training tool for this component appears to be the entrepreneurship tool developed by ILO (Germe).

11. Outreach. While the informal sector is much larger than the formal sector, it is also more difficult to reach, since, by essence, there is no list of informal sector firms. Therefore, advertising and publicity efforts will be required to ensure that firms are aware of this training program, so that all firms potentially interested will be reached and given the opportunity to apply. The first prong will include targeted efforts through:

- Chamber of Crafts (*Chambre des Métiers)* – and artisanal associations that belong to the Chamber,

- non-governmental organizations such as APROMA that works with informal sector firms,
- Delegation to the Informal Sector office of the Government,
- business associations such as AFCET (Association of Females Owners of Businesses) to reach females business owners, RIJEF (Network of Young Entrepreneurs) to reach youth,
- microfinance institutions such as WAGES that are already serving these types of businesses,
- broad general publicity through traditional media such as newspapers, radio, etc.

12. Eligibility criteria. The eligibility criteria to be admitted to the training are:

- The firm should not be registered at the Chamber of Commerce;
- The firm needs to have fewer than 50 employees;
- The firm should not be engaged in agriculture production (since this is not a program targeted toward the agricultural sector, the program would run the risk of being swamped with applications from farmers);[20]
- The firm needs to have been in business for at least 1 year;
- The firm needs to demonstrate interest in the training through the contribution of a nominal application fee.[21]

13. Mentoring services. In addition to the training, all firms will be offered a mentoring service, however because of resources availability only 1,000 will be admitted to this additional support program. A key reason for offering the mentoring is that it is possible that the impact of the training ("classroom style") may be greatly amplified by a follow-up "on-the-job" training. This mentoring will involve 2 one-day visits by a specialized management consultant that will undertake a diagnostic of the firm, involving an evaluation of the way the company is managed (e.g. are the accounts appropriately kept, is the entrepreneur correctly calculating costs and fixing prices, is the entrepreneur adopting an appropriate marketing strategy, is the entrepreneur considering improvement to its products and services, etc.). The mentor/consultant will provide key advices to the firm at the first meeting, and then will meet the firm a month later to provide follow-up advice based on the experiences of the firm in implementing these key actions. The mentoring should enable more tailored advice to the specific needs and goals of the entrepreneur.

Matching grant program

14. Use of proceeds. Similarly to the training program, the matching grant program will be staggered over several phases. Following each training session, a call for application will be launched and up to 150 matching grants[22] will be offered to Togolese companies operating and paying taxes in Togo, that have been in operation for at least 12 months (as proven by tax receipts). In addition to companies, legally established business associations (where all the members comply with the criteria established for companies) would be eligible. In order to participate the companies will have to prepare a short business plan and complete the application

[20] It should be noticed that firms engaged in agro-processing and food production are eligible.
[21] The request fee amount is expected to be low (lower than for formal MSEs). The (small) fee income will feed into the overall training program.
[22] Under the assumption that average size of the grants in $3,500 US.

form. The firms participating to the training program will be especially encouraged to apply for a matching grant and assisted in the identification and preparation of a business plan for a viable project within their enterprise. This project may involve the purchase of additional training, consulting services, quality certification, purchase of software, or participation to trade fairs. The matching grants cannot be used to purchase land, building or equipment for the enterprise, or works. The maximum subsidy amount is set at 50 percent of the project cost, with a maximum lifetime subsidy amount of US$10,000.

15. Eligibility. In order to be eligible for the matching grant program, firms must (1) have been in business for at least 12 months (as proven by a tax receipt), (2) submit a complete application for a viable project. The definition of "viable project" should be interpreted broadly as a project whose purpose is to increase the profitability of the enterprise, and whose success is likely given the scale of the grant. As mentioned above, legally established business associations (where all the members comply with the criteria established for companies) are also eligible. The maximum allowed amount for the grant is US$10,000.

16. Negative list. A negative list of activities that cannot be financed will be included in the Operational Manual. This negative list will include activities such as alcohol production, weapons production, fur production, timber exploitation and any activity that is harmful to the environment.

17. ***Governance structure.*** The matching grant program includes three main structures: (i) the Project Steering Committee; (ii) the PCU; and (iii) the Review Committee. The Steering Committee is responsible for the strategic direction of the matching grant program, it reviews the performance of the program, ensure that resources are used as intended in the Project Implementation manual (PIM).

18. The PCU is responsible for the management of the matching grant program. The PCU is therefore responsible for: the logistical and technical organization of the program; the management of applications; the management of the external consultants that can provide support to applicants (see “Application process” below) and for the screening of application against objective criteria set in the procedures manual (and “Screening criteria” below).

19. Consistently with the guidelines and rules of the Implementation Manual, the Review Committee will meet to approve the applications submitted by the PCU and to conduct a spot checking on rejected applications. It is composed of 5 members: (i) the Coordinator of the PCU; (ii) the focal point from the Ministry of Commerce and Private Sector Development; (iii) the focal point from *Patronat*, (iv) the focal point from the Association of Females Owners of Businesses and (v) the focal point from the Network of Young Entrepreneurs.

20. Application process. In order to maximize the participation to the matching grant of those companies that also participate to the training, the program and the application process will form the curriculum for one day of the training program. The application to the matching grant will need to be submitted within a limited time (i.e. two or three months) after the call for application. The call for application will follow the completion of the training program. Table 1 below summarizes the selection process, highlighting the role of the PCU (responsible in particular for

the screening of applications) and of the Review Committee (responsible for the final validation of the list of screened and accepted applications).

21. Screening criteria. The PCU will assess the applications based on the following *objective* criteria:

- The business has been in operation for at least 12 months (as proven by a tax receipt);
- The proposed project does not finance an activity included in the negative list;
- The proposed project does not finance land, building, renovation works, equipments or vehicles;
- The application is fully and correctly completed;
- The proposed use of the matching grant proceed is for business development services (with a 50 percent subsidy). Potential BDS suppliers are identified (the BDS supplier must have a bank account) and the price quoted is in line with market prices;
- The proposed project is profitable (as per the business plan submitted in the application form).

Table 1: Matching grant application process (for each phase)

Timing	**Activity**
After the completion of the training program During 2-3 months [n ➔ n+2/3]	Call for applications to the matching grants is made public Applications are submitted to the Coordinator of the PCU
Screening of applications during one month [n+2 ➔ n+3]	The PCU, supported by consultants if needed, screens all the received applications against the established objective criteria Rejected applicants are informed by the PCU The PCU transmits the list of screened and accepted applications (on a first come, first serve) to the Review Committee
[n+3 ➔ n+4]	The Review Committee checks the list of screened and accepted applications against the established criteria and undertakes a random check of rejected applications The Review Committee validates the screened and accepted applications list. This list is made publicly available at the PCU

22. Fund Disbursement. Once the application is selected, a Matching Grant Agreement is established between the beneficiary and the PCU; the Matching Grant Agreement describes the different funding conditions. The funds can be provided in several tranches, once the service requested is partially completed and once the service requested is fully completed. The funds are

disbursed from the Project Designated Account to the suppliers of services' bank accounts.[23] Additional details about disbursement will be set in the Project Implementation Manual.

23. Procurement of BDS services. The Project Implementation Manual will describe how BDS services will be procured under the matching grant program: it is proposed to follow the "commercial practices" procurement method (well-established private sector procurement methods or commercial practices that shall be acceptable to the Bank).

24. Fraud mitigation. The establishment of *objective* screening criteria and the two steps review process (PCU level and Review Committee level) should mitigate the risk of fraud. In addition, applications will only be accepted from firms that have been in business for at least 12 months (i.e. start-ups will not be eligible). The Review Committee will also undertake a spot checking of rejected applications by the PCU – to ensure that rejected applications "deserved" to be rejected. Finally, the matching grant will be provided directly to the supplier only once the services have been delivered (or in several tranches after part of the services or the training has been provided).

25. Audits and controls. The matching grant program will be audited in the context of the wider financial audit of the Project. In addition a technical audit of the matching grant will be undertaken. This audit will review randomly selected beneficiaries and will also randomly review the applications received and the applications rejected. Furthermore, this technical audit will ensure that activities were completed pursuant to the Matching Grant Agreement and that funds were used for the purposes intended by the operations manual. All relevant documentation must be retained by the project and made available to technical auditors and financial auditors.

Impact Evaluation

26. This component represents a novel approach to MSEs training. While there is evidence about the impact of business training from other countries (e.g. Peru, Mexico, Sri Lanka) there is no clear evidence about the importance to complement the training with other interventions such as matching grant or mentoring.

27. In order to maximize the learning from this initial, pilot, experience, this sub-component will undergo a rigorous impact evaluation that will allow to:

- Clearly identify the returns from each one of these interventions in terms of increase in employment, sales and profits,
- Quantify the rate of returns of each one of the different interventions in order to allow the Government of Togo and development partners, to make appropriate decisions about future investments and trade-offs,
- Allow to understand the role, and impact, of complementarities between training and matching grants as well as between training and mentoring.

[23] In case of participation to the trade fairs the reimbursement of expenses is disbursed to the beneficiaries' bank accounts upon submission of detailed expenses receipts and evidence of the participation to the fair.

28. The impact assessment will be based on a baseline survey (at the time of the application to the program) and a follow up survey 12 months after the completion of the program. Conditional to resources availability, another follow up survey will be undertaken after 24 months.

29. This knowledge will be used at the Mid-Term Review and will be a key input into the Implementation Completion and Results Report. Even more crucially, this knowledge will be disseminated and discussed with the Government of Togo and with other partners interested in intervening and investing in the promotion of private sector development in Togo and beyond.

Annex 4
Operational Risk Assessment Framework (ORAF)

Project Development Objective(s)

The proposed project development objective is to contribute to an improved investment climate in Togo, including in a New Free Zone, and to an improved performance of targeted micro and small businesses.

PDO Level Results Indicators:	1. The number of days required to create an enterprise has been reduced
	2. The performance of MSEs supported by the project has been improved (as measured by increased profitability)
	3. Establishment of a Public Private Partnership (PPP) legal, regulatory and institutional framework applicable to the Free Zone and to Special Economic Zones
	4.
	5.

Risk Category	Risk Rating	Risk Description	Proposed Mitigation Measure
1. Project Stakeholder Risks			
1.1 Stakeholder	Med I	The risk would be that the Government's commitment to undertake the necessary reforms to allow for a recovery of the Togolese economy weakens. However, this currently appears unlikely, as the World Bank and IMF re-engagement in Togo are recent (2008) and there is still a strong momentum for reform. The Prime Minister and the Minister of Economy and Finance have been maintained in their positions. The Minister of Commerce and Private Sector Development has expressed its commitment to undertake the required reforms to significantly improve Togo's ranking in the Doing Business report. The project does not include highly	To continue a close dialogue with the authorities on the key reforms to be undertaken. As happened in the financial sector, the team will strive to have a deep constructive dialogue, where no reform is imposed, but where both parties fully support the proposed reforms.

		controversial issues such as privatization and / or retrenchment. The project does not involve any controversial issues for the general public	
2. Implementing Agency Risks (including FM & PR Risks)			
	Med. I	Capacity (in procurement, financial management and project management) is limited in Togo after an interruption of World Bank and development partners engagement in Togo.	The Project Coordination Unit staff will be competitively and externally recruited. During project implementation, specific efforts will be deployed to strengthen the capacity of the civil servants staff working for the project (focal points). Stringent and clear procurement and financial management procedures have been put in place.
3. Project Risks			
3.1. Design	Med. I	A badly designed project would not yield to any real results (for example, many studies could be financed, but with no impact). Weak implementation capacity (including Financial Management and Procurement) and lack of availability of focal points	There were questions on the design of the component targeting on the Free Zone, but these questions were addressed during the pre-appraisal mission. There is now a consensus on this component. The component focusing on entrepreneurship is relatively complex and has benefited from a thorough analysis. The component on investment climate reforms has been kept focused and narrow to ensure targeted results. PIM to be developed and to clearly set the roles and responsibilities of the various stakeholders with appropriate trainings.
3.2. Social & Environmental	High	The main risk relates to land acquisition/involuntary resettlement in the new Free Zone sites. There may be an ancillary risk arising from activities outside the scope of the contemplated	Following guidance from Safeguards, the following documents were elaborated during project preparation: an environment audit of the firms currently operating under the Free Zone regime, a stock taking on resettlement issues in the four Free Zone sites, a Resettlement Policy Framework and an

		project and relating to the occupants in the existing Free Zone sites who do not have title to the land; in addition, former occupants with title are seeking compensation for land that was expropriated for the Free Zone sites over 40 years ago. The Port of Lomé has started tackling these issues, while SAZOF has conducted negotiations with some of the farmers of the "occupied" site.	Environment and Social Management Framework. Following several discussions on the potential involuntary resettlement issues, an approach has been agreed between the CMU, the SMU, the Regional Safeguards Coordinator, LEGAF and LEGEN (see par. 44).
3.3. Program & Donor	Med. I	Conflicting advice to the authorities from development partners and overlapping programs could create confusion and undermines the reform efforts. There are however, so far, few development partners involved in private sector developments in Togo. The project teams works in close collaboration with the IFC (which took part in the pre-appraisal mission).	Close collaboration with the IFC will be pursed during project preparation and project implementation. The project will be design as a self standing project, to avoid dependence on additional sources of financing from development partners. However the design of the project will also allow for a "building blocks" approach, where development partners can decide to focus on a specific "building block", therefore complementing the proposed project. Close coordination with the State and Peace Building Trust Fund will also be ensured (the proposed project builds on this recently approved Trust Fund).
3.4. Delivery Quality	Med. I	Business plan competition / matching grant components need to be carefully designed to avoid implementation issues (in particular, fraud, corruption and / or capture).	During project preparation, this component will be carefully designed, building on best practices. The design will focus on ensuring effectiveness of the component, with a strong M&E mechanism, as well on minimizing the risk of fraud or capture.

Overall Risk Rating at Preparation	Overall Risk Rating During Implementation	Comments
High impact / low likelihood	High impact / low likelihood	The risk rating for both preparation and implementation is considered "high impact / low likelihood". A risk involves the potential involuntary resettlement issues with regard to the new Free Zone site. Involuntary resettlement issues arising from this project will need to be closely monitored during project implementation. SAZOF will have to follow the Resettlement Policy Framework should it undertake any involuntary resettlement during the life of the Project. Note that a reputational risk may also arise in connection with the existing FTZ sites, even though activities linked to the existing FTZ sites are excluded from the project (see par. 44).

Annex 5: Safeguard Policy Issues

Introduction

1. The project development objective is to contribute to an improved investment climate in Togo, including in a New Free Zone, and to an improved performance of targeted micro and small businesses. The project consists of the following three components: i) Support to investment climate reforms; ii) Support to the development of entrepreneurial capacities; and iii) Support to the development of a new Free Zone.

2. This annex summarizes the information and conclusions of the Integrated Safeguards Data Sheet (ISDS) and of the various safeguards documents prepared by the Government of Togo in the context of the preparation of this project. A brief summary of these documents is provided in the appendix to this annex.

- Environmental Audit of the enterprises of the Free Zone (EA)
- Resettlement Policy Framework (RPF)
- Environment and Social Management Framework (ESMF)

3. The EA assesses the environmental and social impact of the enterprises (in operation) belonging to the TZF and provides recommendations for mitigating environmental and social impacts. The ESMF provides guidance to SAFOZ if it decides to develop new sites (the recently acquired 140 ha. or other potential new sites). This framework would apply in particular once the strategy for the development of a new Free Zone has been approved and during the implementation of the strategy. The Resettlement framework provides guidance to the Togolese Free Zone Management Authority (SAZOF) if it decides to undertake involuntary resettlement at the new Free Zone site. This framework would apply in particular once the strategy for the new Free Zone has been approved and during the implementation of the strategy.

4. The proposed project is forward-looking: it is explicitly meant to deal solely with new Free Trade Zone site. However, during project preparation, certain issues relating to environmental and social matters and more particularly, to potential involuntary resettlement issues within the existing Togolese Free Zone sites were revealed. These issues, which are outside the scope of the contemplated project, are discussed in this annex for information purposes only. Accordingly nothing in this annex should be interpreted as implying an undertaking by the Bank to supervise, monitor or otherwise ensure that the Togolese authorities will undertake actions in the existing Free Zone sites in accordance with environmental and socially sustainable best practice principles. That said, a remedy has been introduced to the financing agreement so that the World Bank can mitigate the risk of being associated with environmental or social misconduct regarding the existing Free Zone sites, contemporaneous with our engagement in supervising technical assistance for the new Free Zone site.

Key safeguard policy issues relating to the Existing Free Trade Zone

5. The situation of the Togolese Free Zone (TFZ) is unusual. On one side, the TFZ counts around 60 enterprises. On the other side, the TFZ has two plots of land (72 hectares and 35 hectares) in the port zone, it recently acquired around 140 hectares (undeveloped), 20 km North

of Lomé, and it also has a 30 ha. plot near Kara, in the north of the country. However, most of the TFZ enterprises are *not* located within the plots of the Free Zone.

6. The 35 ha. plot in the port area is used for storing imported cars (MAD, *Magasins et Aires de Dédouanement*, Shops and Customs Clearance). No Free Zone enterprises are located in this plot. The 72 ha. plot in the port area counts four Free Zone enterprises. The 30 ha. plot near Kara counts one Free Zone enterprise. The fourth plot (recently acquired) is undeveloped and no enterprise is located on the plot. The vast majority of the enterprises are therefore located outside of the physical Free Zones, but operate under the Free Zone regime ("*point franc*").

7. Following the analyses undertaken for the CEM and during project preparation, there is a consensus on the need to develop a new Free Zone to replace the current Free Zone model which is unsustainable. However, in the present situation, it is not possible to make any concrete propositions on what will be the future strategic orientation of the new Free Zone, as there is first a need to undertake a number of diagnostics and feasibility studies.

8. Based on this diagnostic, a strategy to develop a new Free Zone will be developed. In addition, the concept of Free Zone is relatively narrow and is becoming outdated (a free zone – *zone franche* – is a zone in which enterprises do not pay customs for their imported inputs, as these enterprises focus on export markets), so there might be a need to move to the wider concept of Special Economic Zone. There is also the need to identify market segments where Togo would have a competitive advantage.

9. This preliminary analysis would therefore allow the Government to identify the new strategic focus of the Free Zone (or Special Economic Zone). The focus of the new Free Zone would then allow to identify the most appropriate geographical location. As a result, the future geographical zone of the new Free Zone is not yet known.

Potential resettlement issues

10. This section will discuss the potential resettlements issues in the different "geographical" sites of the Free Zone. It should be underlined again that most enterprises of the Free Zone are not located in any of the "geographical" sites of the Free Zone but operate under the Free Zone regime as "*point franc*". In addition, the 35 ha. and 72 ha. sites within the port area were "given" by the Autonomous Port of Lomé (*Port Autonome de Lomé*, PAL) to SAZOF. However the legal process through which these sites were "given" is still unclear.

11. <u>35 hectares site in the port area</u>. No resettlement issues are expected on this site, which is has been "given" by the Port of Lomé to SAZOF. This site has been rented out and is being used to store cars for re-exportation. As a result, there is no agricultural activity or inhabitants. No Free Zone enterprise is located on this site. There is however an outstanding issue regarding compensation to previous owners of the site, as there is all over the port area (see paragraph below).

12. <u>72 hectares site in the port area.</u> The compensation and occupancy issues for this site are complex. There are four Free Zone enterprises on site. The rest of the site is occupied by crops and houses. During the 1960s, the Government expropriated the land for the Free Zone, without paying the landowners compensation. This issue has not been resolved to date. The Port of Lomé (which owns the port area, including the Free Zone sites) has now decided to tackle the problem and undertake negotiations with the previous owners of the land at the site. The people

undertaking agricultural activities and living on this site are not the former owners but occupants without title to the site. It is estimated that there are around 2,000 inhabitants.

13. In addition, the West African Gas Pipeline (financed by the World Bank) has been built along this site. The SAZOF agreed to provide 9 ha. to the West African Pipeline Company (WAPCo). The occupants were provided with compensatory measures by WAPCo: a school, a health care center, a refrigeration unit and a market infrastructure, which have been built on the site (with World Bank financing). The landowners with title have also been compensated. The compensation payment was established at CFAF 1,400 per square meter, which have settled their grievance.

14. Because of the above issues, the SAZOF considers that there is no more space available in this site – as the SAZOF is aware of the difficulties (and costs) involved in resettling populations. The SAZOF therefore decided to buy a new plot of land for a potential extension of the Free Zone.

15. Newly acquired 140 hectare site. The SAZOF purchased a 140 hectare site, 20 km North of Lomé. This land used to belong to an enterprise that was part of the Free Zone but had to close down (Darégal Equatorial). As a result, it would appear that there is no controversy around the ownership of the land. SAZOF has the land title for this plot. To ensure that nobody occupies the site illegally, the SAZOF has installed guards within the site. There are currently a few crops within the site as the SAZOF has allowed nearby villagers to use part of the site for crops. A soccer field has also been set up. No complex resettlement issues are expected in this site. However, it should be stressed that this site is currently undeveloped and the SAZOF has not yet undertaken a feasibility study for the development of this site.

16. Site near Kara. The Free Zone has a site near Kara (a city in the North of the country) which has not been developed. There is one enterprise located on this site. The future of this site is also unclear (the SAZOF does not appear to have a clear strategy for this site). The legal standing of this site also appears complex as there is litigation by the owners of the broader site (395 ha), which includes the 30 ha. section of the Free Zone. Two families (*cantons*) claim ownership of this land. In addition, it would appear that the attribution of 30 ha. to the SAZOF by the former President was done without a legal expropriation process. A recent judgment concluded that the 395 ha. site belongs to one of the two families claiming the land. However this judgment has not been accepted by all stakeholders.

Relationship between the project and potential resettlement issues

17. The project will finance technical assistance to develop a strategy for a new Free Zone (repositioning the existing one). The output of this technical assistance – at the end of the project – would be to have a Free Zone development plan, validated by the Government of Togo, which would be presented to private investors. As a result, the project activities should not involve resettlement.

18. However, through this project, the World Bank will be associated with the Free Zone. The Free Zone Management Company (SAZOF) could undertake resettlement activities and the World Bank could be associated to these resettlement activities.

19. The SAZOF authorities indicated during a technical mission undertaken in December 2010 that it does not intend to resettle the fishermen village in the 72 ha. site. The authorities

recognized that such a resettlement would be extremely complicated and costly and they do not have the required resources.

20. However, in the past, the SAZOF has negotiated with some of the farmers to free space for the enterprises now operating in the 72 ha. site. It is not known whether the SAZOF plans to undertake additional similar negotiations (with farmers). Discussions with the SAZOF have indicated that they are aware of the issues linked with resettlement and they are currently looking for alternatives to resettlements. They have used so far two alternatives: (i) locating Free Zone enterprises outside of the sites as "point franc" – under the Free Zone regime; (ii) purchasing a new site with no resettlement issues for a potential development of the Free Zone.

Potential environmental issues

21. The Togolese Free Zone counts around 60 enterprises operating in various sectors, notably: agribusiness, wood and construction materials, textiles, medicines and cosmetics, services, plastic and wrapping and metal works. These operations of these enterprises can have negative environmental and social impacts.

22. The environmental audit concluded that the existing legal, regulatory and institutional framework is satisfactory. In addition, the audit notes that, overall, Free Zone enterprises are operating in an adequate environmental situation. In particular, these enterprises have implemented relatively sound waste management and have applied environmental good practices. The audit also highlighted a number of areas where there is limited compliance (on the side of Free Zone enterprises) with environmental good practices (such as the necessity to check the quality of wastewater once a month, the necessity to have wastewater treatment systems or the necessity to clearly identify recipients which contain used oils). The audit also provided detailed recommendations to improve compliance with environmental good practices. Finally, the audit recommends the development of an environmental management system as well as capacity strengthening in environmental good practices for key stakeholders.

23. The project will fund the rehabilitation (very minor rehabilitation: painting, small electrical works and partitioning) of a building housing the one-stop shop for enterprise creation, the Project Coordination Unit will ensure that the firm handling the rehabilitation works has – as an annex to its contract – the environmental and social management clauses for construction works.

24. The proposed matching grant under component 2 should not trigger any safeguards issues. The maximum matching grant amount is US$10,000. The matching grants can finance services for enterprises (for up to 50 percent), such as market research, business planning, accounting, etc. The MSEs that can benefit from the matching grant will be based in and around Lomé. A negative list of activities that cannot be financed will be included in the Operational Manual. This negative list will include activities such as alcohol production, weapons production, fur production, timber exploitation and any activity that is harmful to the environment.

Proposed approach

25. The Free Zone component will focus on the new site of the Free Zone, which is not yet known (it could potentially be the recently acquired site 20km North of Lomé, however diagnostic and feasibility studies will indicate the best possible location of the new site). The ESMF and RPF, elaborated during project preparation, will provide guidance to the Togolese authorities on how to tackle certain environmental and social issues (including potential resettlement issues) for the new site.

26. SAZOF (the Free Zone management company) and the Togolese authorities will follow the RPF if ever it intends to resettle farmers or inhabitants in the existing sites. It should be underlined that SAZOF does not intend to resettle the fishermen village considering the complexity of undertaking such a resettlement. In addition, SAZOF and the Togolese authorities will follow the ESMF for the future development of the new Free Zone. The project will provide technical assistance to the relevant Togolese authorities on how to address potential environmental and social issues affecting the future Free Zone. Technical assistance will also be provided to the relevant Togolese authorities to better enforce compliance with environmental regulations (including health and safety issues) of the Free Zone enterprises, based on the conclusions of the Environmental Audit. Please see detailed budget below.

27. More specifically, once the new strategy has been approved and once a site has been identified for the new Free Zone, technical assistance will be provided to undertake an Environmental and Social Impact Assessment of the identified site and Resettlement Action Plan.

28. Under this proposed approach, the Bank cannot provide any assurances that environmental and social safeguard issues (including in connection with the legacy issue) will be properly addressed by the Togolese authorities if and when a non-Bank financed project related to the Free Zone is implemented by the Togolese authorities further to this project.

Table 1: Budget to address social and environment issues

		Cost (US$)
RPF	Resettlement Action Plan	100,000
	Awareness-raising and training of stakeholders on the different phases of the resettlement	40,000
	Monitoring and Evaluation	40,000
	Final audit	20,000
	Total	*200,000*
ESMF	Short term environmental specialist for SAZOF	20,000
	Environmental and Social Impact Assessment	100,000
	Training	60,000
	Information and awareness-raising	40,000
	Total	*220,000*
EA	Consultant to provide technical assistance to SAZOF to implement the recommendations of the Environmental Audit	80,000
	Total	**500,000**

Appendix: Summary of Environmental Audit, Environment and Social Management Framework and Resettlement Policy Framework

Summary of the Environment and Social Management Framework

1. As the Free Zone Management Company already acquired a site which could potentially accommodate the new Free Zone, an Environmental and Social Management Framework was developed to ensure environmental sustainability of potential industrial activities. This ESMF is both specific and general. It is indeed based on the Adétikopé site, but it should apply to any other potential future Free Zone site (not yet known).

2. This ESMF acts as a reference, when considering likely environmental and social impacts of future interventions. It incorporates requirements of the Togolese legislation, as well as requirements of the social and environment safeguards policies of the World Bank. The main findings are:

- Togo has a legal and institutional framework – composed of international conventions and national laws on environment and environmental assessment procedures that meet the operational requirements of development partners.
- The project could potentially intervene (if the Adétikopé site is selected) in a natural environment, with localized problems. Ecosystems are made up of low formations. Various fields (set up by around forty producers) and fallow land can be noted, as well as some agro-forestry species. There is also a natural pond serving as a source of water for vegetable crops grown on the site. On the social front, the village of Akplomè (in which the Adétikopé site of the free zone is located), has a population estimated at 277,000 inhabitants in 2007 with a poverty incidence of 65, 1 percent.
- During the consultation, issues raised involved the lack of electricity, health and education facilities, and basic services in the village. Young people and women expect to be employed by enterprises that would locate in the zone, or be able to create income-generating activities.
- Potential negative environmental and social impacts during the establishment and operation of a Free Zone have been identified during public consultations and include: i) damage to the harmony of the landscape; ii) soil, air, surface water and groundwater pollution; iii) loss of income for the forty agricultural producers; iv) risk of impaired quality and availability of water resources; v) risk of deterioration of hygiene and sanitation practices.

3. Thus, before the installation of an enterprise in the selected site, the following must be undertaken:

- thorough analysis of the project;
- conduct an Environment Impact Assessment (thorough or simplified);
- develop and implement an environmental and social management plan;
- inform and educate local residents.

4. A capacity-building and human resource development program for stakeholders has also been proposed. Mitigation measures will seek to protect and / or restore the various components of physical and social environment (soil, water, air, biodiversity, health and human safety). To monitor implementation of mitigation measures, the responsibilities will be shared between the different actors involved in the free zone: the Ministry of Environment and Forest Resources

(MERF, DE/ANGE), the Management Company of the Free Zone (SAZOF), the villages near the selected site, private enterprises, consulting firms and consultants.

Summary of the Resettlement Policy Framework

5. The current Togo Free Zone (TFZ) encounters land-related issues. In addition to this, it is foreseen that issues of involuntary resettlement could arise during the implementation stage. For this reason, a Resettlement Policy Framework (RPF) was developed with the intention to serve as the project's working manual. The RPF is a tool to mitigate the relocation-induced effects, and is used because the location and the content of projects, as well as the social impact on the population – with respect to displacement of persons, loss of socioeconomic activities and land acquisition are unknown at this time. The RPF presents the general principles that will serve as guides to all the resettlement operations undertaken under the programme of technical assistance to the free zone.

6. Currently, the mains texts related to land tenure and state-owned land system in Togo are based on the Order N° 12 of 6 February, 1974. Land acquisition or expropriation necessary for the implementation of operations directed to the public benefit is governed by the Decree n° 45-2016 of 1st September, 1945. According to texts on land tenure in Togo, during land division, any landowner should put at the disposal of the State 50 percent of his/her land for community enterprises (roads, schools, clinics...). The State could put the expropriated land at the disposal of a public body or a private person who must carry out works or operations directed to public benefit. Land expropriation is subject to the compliance with a very strict procedure aimed at guaranteeing the rights of expropriated persons both in the administrative and judicial phase. Holders of a substantive right over land receive compensation. Those who have neither substantive right nor titles likely to be recognised over the land they are occupying receive only allowance for resettlement.

7. The Togolese legislation and the World Bank's OP 4.12 diverge on several points, and compound only with regards to the calculation of compensatory damages and their payment. It is recommended that OP 4.12 be applied to guide any involuntary resettlement process that could arise during the implementation of the strategy for the new Free Zone.

8. Should the need arise; a Resettlement Action Plan (RAP) will be developed by the Project Coordination Unit. This plan will be approved by local authorities, the Steering Committee of the Project Coordination Unit and the national authorities. It will be transmitted to the World Bank for review and approval.

9. The following table shows the various responsibilities of implementation of involuntary resettlement. The monitoring and evaluation will be conducted to ensure that all the affected persons are compensated, relocated and resettled in the shortest time possible and without a negative impact, before the inception of works. The estimate of the global cost of resettlement and compensation will be determined during the socioeconomic studies within the framework of the establishment of the RAP.

Institutional stakeholders	Responsibilities
Ministry of Trade and Promotion of the Private Sector	• Dissemination of the RPF • Setting up of an approval committee • National supervision of resettlement • Fund mobilisation for compensation due to resettlement
Project Steering Committee	• Approval and dissemination of the Resettlement Action Plan (RAP) • Supervision of the process
The Project Coordination Unit	• Work in close collaboration with the communities and other implementing agencies • Appointment of Social Experts responsible for the coordination of the RAP implementation • Recruitment of consultants/NGO/Firms for conducting socioeconomic studies, the RAP and monitoring/evaluation • Supervision of compensation for affected persons • Preparation of the RAP • Dissemination of the RAP • Evaluation of the RAP
SAZOF	• Dissemination of the RAP • Monitoring/Evaluation of the RAP
Traditional chieftainships	• Registration of complaints and claims
Local governments	• Monitoring and evaluation of the RAP • Dissemination of the RAP • Implementation of the RAP

Summary of the Environmental Audit of the Togolese Free Zone

1. This audit assessed the environmental and social impact of the enterprises (in operation) belonging to the TZF and provided recommendations for mitigating environmental and social impacts.

2. The environmental audit concluded that the existing legal, regulatory and institutional framework is satisfactory. Overall, environmental performance within the Togo Free Zone is positive.

3. Sound management of waste generated by some businesses and application of good environmental practices can be observed. A few companies are following up on some of the recommendations of the previous internal environmental audit undertaken by SAZOF. Thus, waste minimization measures (reduction at source, reusing and recycling) and preliminary waste sorting (metals, chemical products, paper, litters) are generally implemented; special waste (greasy waste, solvents) is usually properly disposed of in designated areas.

4. The audit has pointed out that companies' policy in terms of Health, Security and Environment (HSE) should include a detailed emergency plan in order to cope with dangerous incidents that might occur during production processes. A specific reaction plan regarding unforeseen events should also be in place in order to prevent utmost hazards.

5. The audit recommends implementing a training program on environmental management for the workforce of the Free Zone companies (as well as their service provides), with a particular focus on HSE. The main modules of this course should include, amongst others:

- Rules and regulations related to environmental protection in the Republic of Togo;
- Behaviors at work that help prevent accidents and minimizing their impacts;
- Waste and wastewater management
- Standards and techniques for the assessment waste and wastewater before proper disposal
- Safeguards strategy to minimize the impacts of areas at risk on the environment, especially on the local flora and fauna.

6. Beside these specific recommendations, the following additional measures are recommended for each company of the Free Zone:

- Setting-up an efficient Environment Management System that is compliant with IFC standards
- Setting-up an internal contingency plan.

7. Finally, the Togolese authorities (Environment Direction) should (i) complement the environmental legislation, provide a prescriptive framework and monitor its implementation, (ii) disseminate rules and good practices (Conventions, norms and standards) to the Free Zone administration, and (iii) set up a monitoring and evaluation system to track the performances of the sector against standards defined by the ISO 14001 norm.

Annex 6: Implementation Support Plan

Strategy and approach for Implementation Support

1. The strategy for Implementation Support (IS) has been developed based on the nature of the project and its risk profile. It will aim at making implementation support to the client more flexible and efficient, and will focus on implementation of the risk mitigation measures defined in the ORAF.

- **Technical inputs.** The technical team will provide regular inputs to the PCU on technical issues. In particular, it will review Terms of Reference and draft reports from consultants.

- **Procurement and financial management inputs.** A close supervision on procurement and financial management will be deployed. Procurement supervision will include prior reviews of procurement activities (prior review thresholds are low in Togo because of limited capacity in procurement), as well as post reviews. In addition, procurement progress against the detailed procurement plan will be closely monitored. On Financial Management, the project will be supervised on a risk-based approach. Supervision will focus on the status of financial management system to verify whether the system continues to operate well and provide support where needed. It will comprise inter alia, the review of audit reports and IFRs, advice to task team on all FM issues, review of annual audited financial statements and management letters.

- **Environmental and Social Safeguards inputs.** The Bank team will supervise the implementation of the agreed actions plans in the Resettlement Policy Framework and Environment and Social Management Framework and provide guidance to PCU to address any issues.

Implementation Support Plan

1. Most of the Bank team members will be based in the Togo country office and other country offices in the region to ensure timely, efficient and effective implementation support to the client. Formal supervision and field visits will be carried out semi-annually. Detailed inputs from the Bank team are outlined below:

- **Technical inputs**. The technical supervision of the project requires expertise on investment climate reform, entrepreneurship development and special economic zones. Expertise on investment climate reform will be provided by AFTFW and the World Bank Group Doing Business Reform Team (which has been associated with the preparation of the project). Expertise on entrepreneurship development will be provided by AFTFW and expertise on Special Economic Zone will be provided by PRMTR. Technical supervision missions will be undertaken on a semi-annual basis. The TTL will ensure that overall project implementation – both technically and operationally – is progressing satisfactorily.

- **Fiduciary requirements and inputs**. The procurement specialist is based in the country, while the financial management specialist is based in Benin, which allows for timely support. Regarding the current status of the project FM risk assessment which is

Moderate, there will be **one on-site supervision visit per year** during the implementation and a review of transactions will be performed on that occasion. Procurement supervision will be carried out on a timely basis as required by the client.

- **Safeguards inputs**. Inputs from an environment specialist (based in Cote d'Ivoire) and a social specialist (based in Togo) are required. On the social side, supervision will focus on ensuring the Resettlement Policy Framework is applied, if need be. Formal supervision mission on safeguards will take place on a semi-annual basis.

2. The main focus of implementation support is summarized below.

Time	Focus	Resource Estimate	
First 12 months	Procurement review and training	TTL Procurement specialist	3 SWs 4 SWs
	FM training and supervision	FM specialist	2 SWs
	Resettlement issues	Social specialist	2 SWs
	Environmental training and supervision	Environmental specialist	2 SWs
	Technical supervision (on site and off site)	Technical specialists TTL	7 SWs 2 SWs
	Team leadership	TTL	3 SWs
12-48 months	Procurement review	TTL Procurement specialist	3 SWs 3 SWs
	FM supervision	FM specialist	2 SWs
	Resettlement issues	Social specialist	2 SWs
	Environmental supervision	Environmental specialist	2 SWs
	Technical supervision (on site and off site)	Technical specialists TTL	7 SWs 2 SWs
	Team leadership	TTL	3 SWs

Note: SW – Staff-Week

3. Staff skill mix required is summarized below.

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	8 SWs annually	2	Based in the region
Investment climate reforms specialist	3 SWs annually	2	
Entrepreneurship specialist	4 SWs annually	2	
Special Economic Zone specialist	3 SWs annually	1	
Financial management specialist	2 SWs annually	2	Based in the region
Procurement specialist	4 SWs annually	2	Country office based
Social specialist	2 SWs annually	2	Country office based
Environment specialist	2 SWs annually	2	Based in the region

Annex 7: Team Composition

World Bank staff and consultants who worked on the project:

Name	Title	Unit
Guillemette Jaffrin	Senior Financial Sector Specialist	AFTFW
Leonardo Iacovone	Economist	AFTFW
Alice Ouedraogo	Senior Private Sector Development Specialist	CICRA
Claude Baissac	Consultant	AFTFW
Garth Frazer	Consultant	AFTFW
Aminata Ndiaye	Junior Professional Associate	AFTFW
Ndeye Anna Ba	Program Assistant	AFTFW
Itchi Gnon Ayindo	Senior Procurement Specialist	AFTPC
Alain Hinkati	Financial Management Specialist	AFTFM
Wolfgang Chadab	Senior Finance Officer	CTRFC
Aissatou Diallo	Senior Finance Officer	CTRFC
Africa Eshogba Olojoba	Senior Environmental Specialist	AFTEN
Abdoul-Wahab Seyni	Senior Social Development Specialist	AFTCS
Lucienne M'Baipor	Senior Social Development Specialist	AFTCS
Anthony Molle	Counsel	LEGAF
Salwa Mohamed Saleh	Junior Counsel	LEGAF
Marie Roger Augustin	Paralegal	LEGAF
Chantal Leontine Tiko	Program Assistant	AFMTG
Esinam Hlomador	Team Assistant	AFMTG