

Promoting SME Competitiveness in Togo

A resilient foundation for
transformative growth



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About the paper

Enhancing the competitiveness of small and medium-sized enterprises in Togo can protect them from the effects of crises and unleash their potential to trigger economic transformation.

Drawing on data from the SME Competitiveness Survey, this report shows that Togolese businesses that fared better during the COVID-19 crisis shared certain characteristics: better human resource matching and management, stronger connections to business support organizations and higher productivity. Yet access to skilled labour, electricity and other key competitiveness factors is unequal across regions, and also varies according to the age and gender of the business owner.

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For more information on the SME Competitiveness Survey, see: <http://www.intracen.org/SMEintelligence/>

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Foreword

The health crisis triggered by COVID-19 has paralysed economic activities around the world since the beginning of 2020. Like most countries, Togo has not been spared by this crisis.

While all parts of the economy have suffered, small and medium-sized enterprises (SME) and industries (SMI) have been at the front line of this crisis. They generate 80% of gross domestic product in Togo and account for a significant share of employment. Yet 93% of them report that their turnover has decreased because of the pandemic.

SMEs, like the private sector in general, play a key role in the implementation of the National Development Plan as well as the new governmental roadmap 2020-2025, in order to structurally transform the Togolese economy for strong, sustainable, resilient, inclusive growth that creates decent jobs and induces improvements in social well-being.

To this end, the Government has put in place accompanying measures for the private sector, notably fiscal, customs and social measures, which target the resilience of the national economy. The government has also launched several reforms, including a reform that aims to reinforce support mechanisms for SMEs.

To support the recovery of these enterprises, the Chamber of Commerce and Industry Togo (CCIT) collaborated with the International Trade Centre (ITC), under the aegis of the Ministry of Trade, Industry and Local consumption promotion, to evaluate the competitiveness of Togolese SMEs/SMIs and examine how they experienced the COVID-19 pandemic.

The report from the surveys reveal that the economic damage brought by the COVID-19 pandemic has generated an unprecedented shock to Togo's business activities, with a slowdown of the economy and a consequent growth rate of 0.7% in 2020, according to the IMF.

The Government, through the Ministry of Trade, Industry and Local consumption promotion, shares a vision with all the private sector actors in general and in particular the Chamber of Commerce and Industry as well as the International Trade Centre to strengthen the competitiveness of SMEs so they can withstand shocks and compete on national, regional and international markets.

This report summarizes the key aspects of responses received from 570 enterprises visited for the SME Competitiveness Survey in Togo and the survey on the impacts of COVID-19 on the national economy.

Trade can facilitate the structural transformation of the economy and the reduction of poverty in particular when well-targeted policies are in place. This report will, without a doubt, contribute to making our vision a reality.

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and Industry of Togo

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The staff of the Chamber of Commerce and Industry Togo conducted the interviews. Essohouna Germain Meba, former CCIT President, and Karine Adotevi Edoh, Executive Director, provided executive guidance to the project. Yawo Gilbert Josias S. Kavege, Director of the business assistance department, led the interview team. Mandamili Semdatcha, Sennyka Amessiemenou, Yao Sodjavi, Essi Massan Amegee and Akpedje Doleagbenou each supervised regional interview teams.

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ITC offers its thanks to the Chamber of Commerce and Industry Togo for providing the images and photos used in this report.

The Chamber of Commerce and Industry of Togo supports private sector development in the country as a consultative and representative interface between business and government. It provides advice, support, information, training and management of industrial and commercial services to Togolese firms. CCIT also promotes Togolese businesses and facilitates their cooperation with the rest of the world, including as a member of the Regional Consular Chamber of the West African Economic and Monetary Union and the International Chamber of Commerce.

ITC was established in Geneva, Switzerland, as a joint agency of the United Nations and the World Trade Organization dedicated to strengthening the competitiveness of small and medium-sized enterprises to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons. Some figures in this report may not add up to 100% due to rounding.

BSO	Business support organization
CCIT	Chamber of Commerce and Industry Togo
ICT	Information and communications technology
ITC	International Trade Centre
R&D	Research and development
SMEs	Small and medium-sized enterprises
SMECS	SME Competitiveness Survey

Executive summary

Competitive small and medium-sized enterprises (SMEs) are at the heart of any successful economy. They represent 99% of registered businesses in Togo and generate about 80% of its gross domestic product. By virtue of the jobs they create and their impact on society, SMEs play a central role in Togolese economic development and transformation.

This is all the more important as companies navigate through and recover from the shock delivered by COVID-19. The pandemic is affecting Togolese economy, with growth expected to decline to 1% in 2020 from 5.3% in 2019. With fewer resources to ride out the storm, small and medium-sized businesses are particularly vulnerable to the repercussions of the crisis.

Increasing the competitiveness of SMEs can spur resilience to survive the pandemic and thrive in tomorrow's global marketplace. To do so, it is critical to understand the strengths and weaknesses of these firms, as well as of the business environment in which they operate.

To set this process in motion, the International Trade Centre (ITC) partnered with the Chamber of Commerce and Industry of Togo (*Chambre de commerce et d'industrie du Togo* or CCIT) to perform a diagnostic on the competitiveness of SMEs in the country.

Under this collaboration, the ITC SME Competitiveness Survey questionnaire was administered to 573 businesses across Togo between January and March 2020. In addition, CCIT interviewed 1,084 enterprises in March and April 2020 about their experience with COVID-19.

This report highlights the findings of both surveys, while taking advantage of an overlap in respondents to identify factors that lead to both competitiveness and resilience. Although the report focuses on SMEs, large companies are included in the analysis for the sake of comparison.

Examining the evidence on different aspects of competitiveness yields insights into the daily realities of Togolese firms. Focusing on how Togolese SMEs compete in certain sectors and regions – and when they are led by women or youth – shows the detailed pattern of competitiveness across enterprises.



Most Togolese firms struggle with COVID-19

Almost all (93%) interviewed firms had lower turnover in March 2020 because of COVID-19. The hospitality and catering subsector experienced the most dramatic drops due to the effects of the curfew. More than half (53%) of Togolese companies coped by shifting to part-time working arrangements, but 21% had to suspend employees temporarily and 5% dismissed workers.

Small business owners in Togo are generally pessimistic about the post-COVID recovery process. Two-thirds of surveyed firms had a negative outlook on the economic environment. Yet 20% were optimistic about the future, including because of new opportunities, reforms and subsidies emerging from the crisis.

The impact of the pandemic depended on the characteristics and competitiveness of firms. Those that had been in operation for less than a year, and smaller businesses, were more likely to say they would be in dire straits if the crisis lasted more than three months. Firms coped better when they had better human resource matching and management, stronger ties to business support organizations and were more productive.

Capacity utilization is linked to resilience

Small businesses in Togo are adopting financial management practices that enable them to greatly enhance their productivity. Four out of five interviewed firms keep at least one type of financial record, for example. What's more, there seems to be a virtuous cycle that links the maintenance of records to establishment of a bank account, and from a bank account to better productivity. Companies that kept records were much more likely to have a bank account, and this almost doubled the probability of having high capacity utilization.

Productivity is important to boost the international competitiveness of Togolese SMEs in good times. Yet it is also important to the resilience of small firms during a crisis. Surveyed enterprises that had low productivity before COVID-19 were more likely to see turnover decrease significantly once the pandemic arrived than their peers with high productivity before the crisis.

Given evidence that the turnover of more productive firms was safeguarded from the worst of the pandemic, and that infrastructural developments in the country could lead to a more efficient business ecosystem, there is a strong rationale for spreading electricity and transport infrastructure more evenly across Togo – and notably to those regions responsible for producing significant amounts of exports.

Quality is improved through certification

Certification is relatively uncommon in Togo; just a third of surveyed firms were certified to an international standard. Although youth-led enterprises had higher-than-average rates of adoption of international standards, many pointed to the high costs of certification as an obstacle to their efforts to upgrade quality.

When certification is driven by or associated with the needs of single or a few buyers, companies may be more exposed to disruptions. Indeed, certified firms in Togo suffered more during the COVID-19 crisis, which underscores the need to promote diversification alongside certification for more resilience and competitiveness.

Connected firms cope better with shocks

Advertising was very popular among survey respondents, with three-quarters saying they marketed their wares online, in print, on the radio or on television. They also connect with each other, with survey responses showcasing that they frequently cooperate with their peers to solve shared problems. These collaborative networks are especially common among women-led firms and companies that are part of a business support organization.





Research shows that globally, SMEs with stronger connections to their community tend to be more resilient to crises. The data from the Togo survey reinforces this fact. Togolese companies that were engaged with a sectoral association, chamber of commerce or other business support organization were less likely to suffer supply and transport challenges when the COVID-19 pandemic hit, highlighting the important role these organizations can play.

Skills matching sustains employment during crisis

Although 90% of surveyed companies felt that the skills of their workers matched their own needs, a minority seem to be unable to access the skills they require. Many of the firms that suffer from a mismatch between worker skills and the needs of their enterprises did not have established hiring practices, or were based in the northern regions of Togo. Although more than three-quarters of interviewed firms in the capital city of Lomé, as well as the southern Maritime and Centrale regions, were satisfied with labour markets for skilled labour, this was true for only 65% or less of the firms in the northern regions of Kara, Plateaux and Savanes.

Moreover, the survey evidence indicates that companies that did not invest in the skills of their workforce before the crisis did not value those workers once the pandemic hit – and so were more likely to let them go. A quarter of companies that admitted to pre-pandemic poor skills had to fire their employees during the crisis, against only 6% of enterprises that had provided training and hiring measures to ensure a high match of employee skills with workforce needs.

This suggests a vicious cycle at play: companies that lacked strong hiring processes before the pandemic had poor skills matching when it hit, cut work hours in the short term to cope, and laid off employees in the medium term. The implication is that to reduce layoffs during crises, SMEs should invest in the skills of their workforce during good times.

Increasing technology adoption for the digital future

A total of 92% of respondents said new technologies positively affect their business. Instant messaging was the preferred means of communicating with buyers and suppliers, with 83% of respondents saying they use it. In addition, 58% of firms said they used e-mail and 24% had a webpage.

Young entrepreneurs seem to be the technological leaders in Togo, and were more willing than their older counterparts to invest in technological capabilities and innovation activities. The share of youth-led firms that invest substantially in research and development and create new products is more than 10 percentage points higher than for non-youth-led businesses.

Innovative firms are more able to change, and for this reason were less likely to fire staff during the pandemic. Surveyed companies that had invested significantly in research and development dismissed no staff during the pandemic, and just 17% sent staff on temporary unemployment. In contrast, 13% of low-research enterprises had to fire staff and 26% used temporary unemployment measures.

Policy insights

Several policy recommendations emerge from the survey findings. The clear connections between business competitiveness in good times and ability to cope with crises signal that more investment is needed in human resource management and inter-firm connections to build the resilience of Togolese enterprises to shocks.

Many of the suppliers of Togo's exports hail from relatively under-serviced regions of the country. This means that investments in infrastructure and services in these regions can facilitate the transformation of products into value-added Togolese exports. This, in turn, can trigger backward and forward linkages across the country that facilitate structural transformation and achievement of the Sustainable Development Goals.



Togo's quality infrastructure could be improved by addressing the high cost of certification, notably for young entrepreneurs. Certified enterprises should be encouraged to develop a diversified portfolio of buyers to improve their resilience to disruption to any single market outlet.

Creating a network of enterprise support centres could facilitate collaboration between enterprises to resolve common problems and improve access to market information.

Continued investment in the development of Togo's technical, vocational and higher education courses will help ensure that they are aligned with labour market demand. Human resource training for small businesses may be in

order, as well, to encourage firms to introduce official hiring processes.

Young entrepreneurs, who are information and communications technology leaders, need more support. Improvements in internet access can help, while efforts to showcase their projects and techniques can help facilitate technological take-up across the country.

This report, along with complementary events and collaborations, aims to trigger a dialogue on SME competitiveness and suggests policy-based solutions that the Government of Togo can apply to build both competitiveness and resilience to crises.



Chapter 1

Unleashing the potential of small businesses

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Unleashing the potential of small businesses

Small and medium-sized enterprises (SMEs) are the beating heart of the Togolese economy. These firms generate about 80% of gross domestic product¹ and are key to the economic resilience of the country. When SMEs are competitive, they can survive during crises like the COVID-19 pandemic and boost growth through their exports.²

As companies recover from the shock delivered by the coronavirus, there is an opportunity to strengthen their capacity to compete in tomorrow's global marketplace. SMEs represent 99% of registered businesses in Togo and account for a significant share of the employment.³ By virtue of the jobs they create and their impact on society, SMEs play a central role in economic development and transformation.

The signs were promising for small companies in Togo in 2013–2019. Reforms spurred macroeconomic stability and improved the business climate, and gross domestic product growth averaged a healthy 5%.

As elsewhere, however, the COVID-19 pandemic hit the Togolese economy hard, with growth expected to decline to 1% in 2020 from 5.3% in 2019.⁴ The pre-crisis economic overhauls probably prevented an even worse outcome for the country. Yet most firms reported that their turnover plummeted in April 2020, which has led to concern that recent gains could be set back.

Strengthening the competitiveness of SMEs in Togo can help them recover from the pandemic in a way that triggers widespread and sustainable structural transformation of the economy. Strategic policies that address weaknesses and build on strengths can take advantage of this window of opportunity to rebuild the country's businesses for a resilient, digital, inclusive and sustainable future.

Resilient, because societies cannot afford to be unprepared for external threats, and digital, because COVID-19 has shown the full power of technology to keep businesses running in difficult times. Inclusive, because the recovery

must leave no one behind. And sustainable, to avoid a climate shock causing the next crisis.

To set this process in motion, leaders need better data about the state of competitiveness in their country. What limits competitiveness and what characteristics make firms more resilient to shocks? What can be done to improve the competitiveness and resilience of SMEs?

To answer these questions, the International Trade Centre (ITC) partnered with the Chamber of Commerce and Industry of Togo (*Chambre de commerce et d'industrie du Togo*, or CCIT) to assess the competitiveness of Togolese SMEs. The goal was to perform a diagnostic on the state of these firms, to better understand their strengths and weaknesses, and opportunities to improve their competitiveness for trade and resilience.

Under this collaboration, the ITC SME Competitiveness Survey questionnaire was administered to 573 businesses across Togo in January–March 2020. In addition, CCIT interviewed 1,084 enterprises in March and April 2020 about their experience with the pandemic. This report presents the findings of both surveys, while taking advantage of an overlap in respondents to identify factors that lead to both competitiveness and resilience.

Assessing competitiveness

ITC developed the SME Competitiveness Survey⁵ (SMECS) to help countries collect the data needed to assess the competitiveness of their enterprises. As of June 2020, more than 17,000 firms had been surveyed in 46 countries, including Benin, Botswana, Burkina Faso, Kenya and Zambia.

The tool is designed to combine information at the meso level (local support ecosystem for businesses) and the micro level (firm capacity) to provide a nuanced picture of the capacity of a country's private sector to compete in international markets.



Box 1: Government policies for small and medium-sized enterprises

Togo's National Development Plan (2018–2022) sets out a vision for the structural transformation of the economy through sustainable, resilient and inclusive growth based on a strong private sector. Adopted by the Government in August 2018, it sketches out a roadmap to position Togo as a world-class logistics hub and business centre in the region. The plan also focuses on the development of the agricultural processing, manufacturing and mining sectors through transformative value chain upgrading, and underscores investments in digital connectivity.

Private sector development associations in Togo are proving instrumental in achieving the goals set out in the plan. The National Agency for the Promotion and Guarantee of SME Financing, as well as the National Fund for Inclusive Finance, facilitate SME access to finance. The Grassroots Development Support Project provides technical assistance to entrepreneurs and,

along with the Support Fund for Youth Initiatives and Enterprises, provides targeted assistance to youth-led firms. Publicly provided online training programmes support Togolese companies – for example, to develop their managerial capacities – and enable them to create or expand their agribusinesses.

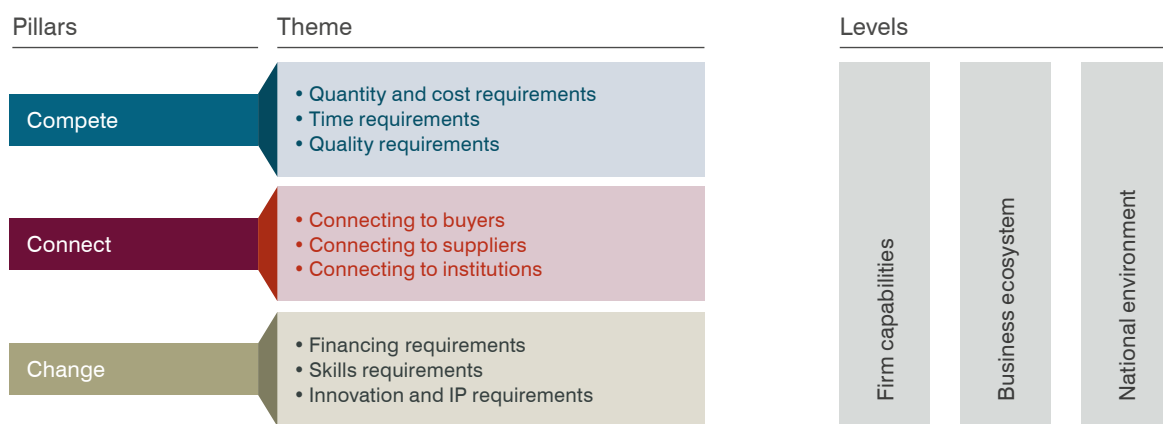
The legal framework for business and investment provides a foundation for enterprise competitiveness. Decree 2012-008 streamlines business registration procedures by reducing costs and bringing together into a single entity all the institutions involved in the business creation process. Law 2019-005 promotes sustainable and responsible investment in Togo for supporting employment, and creates an agency to promote the country's export processing zone. Finally, the 2020 finance law reduces corporate taxation and simplifies a number of administrative procedures.

Small and medium-sized enterprises are defined as firms with fewer than 100 employees (see Annex). The term SME therefore includes microenterprises. Although the focus is on small and medium-sized companies, some large businesses are included in the survey so the competitiveness of SMEs and big firms can be compared.

The importance of competitiveness in driving firm survival, growth and trade makes it a central element in economic

development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars that drive the capacity of a company to be competitive across three levels of the economy (Figure 1).⁶ The rest of this report is structured around key themes featured in this competitiveness grid.

Figure 1 SME Competitiveness Grid



Source: ITC.



The SME Competitiveness Survey in Togo

CCIT, with support from ITC, collected data for the SME Competitiveness Survey from Togolese enterprises between January and March 2020. The Ministry of Trade, Industry, Private sector development and Local consumption promotion provided high-level support for the initiative.

To simplify the collection of data, a sample of firms from across the country was randomly selected from a list of companies compiled by CCIT. The sample was spread across regions (Savanes, Kara, Centrale, Plateaux, Maritime and Grand Lomé), sectors (primary, manufacturing and services) and sizes (micro, small, medium-sized and large). To the extent possible, the sample in each region was composed of exporting and non-exporting firms.

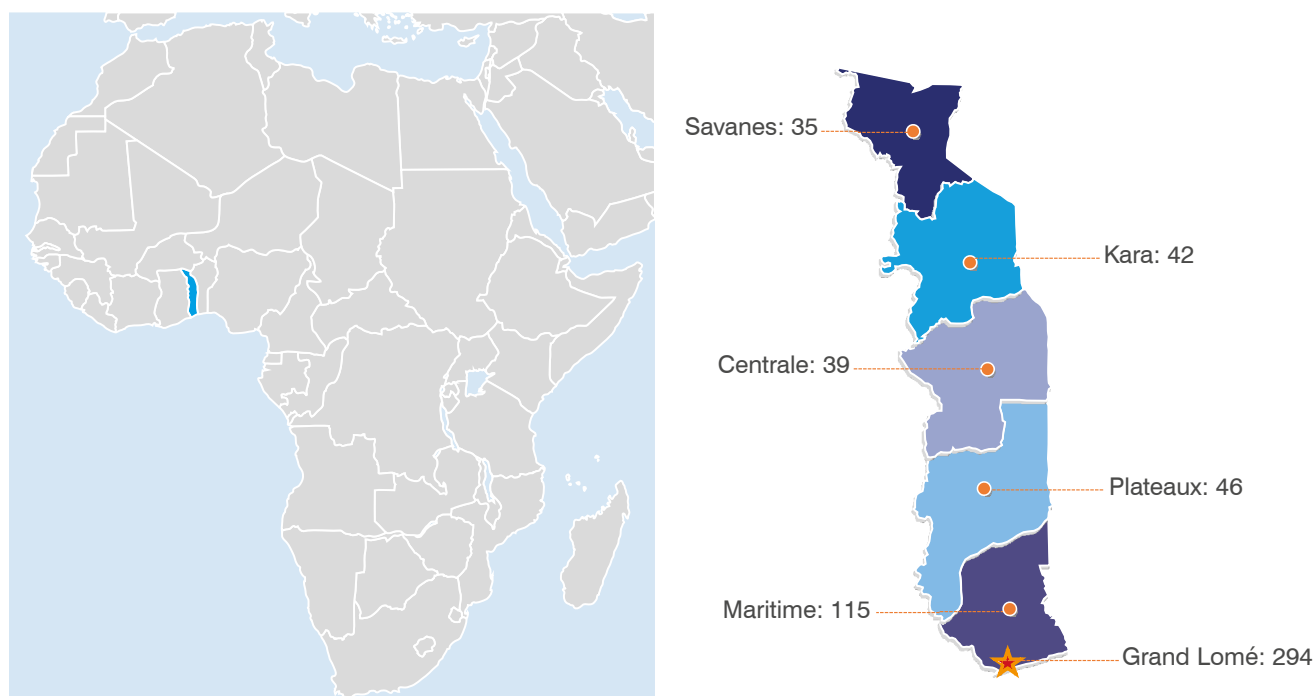
Data were gathered using the SMECS questionnaire between January and early March 2020 from 573

enterprises. Figure 2 highlights the surveyed regions, with the corresponding number of firms interviewed in each region.

A total of 98% of companies interviewed for the SMECS in Togo were micro, small or medium-sized enterprises (Figure 3). Almost 60% of the firms operated in the services sector, while 25% were agricultural in nature and 18% were manufacturers. This is consistent with evidence showing that services and agriculture companies dominate in the country's private sector, gross domestic product and employment.⁷

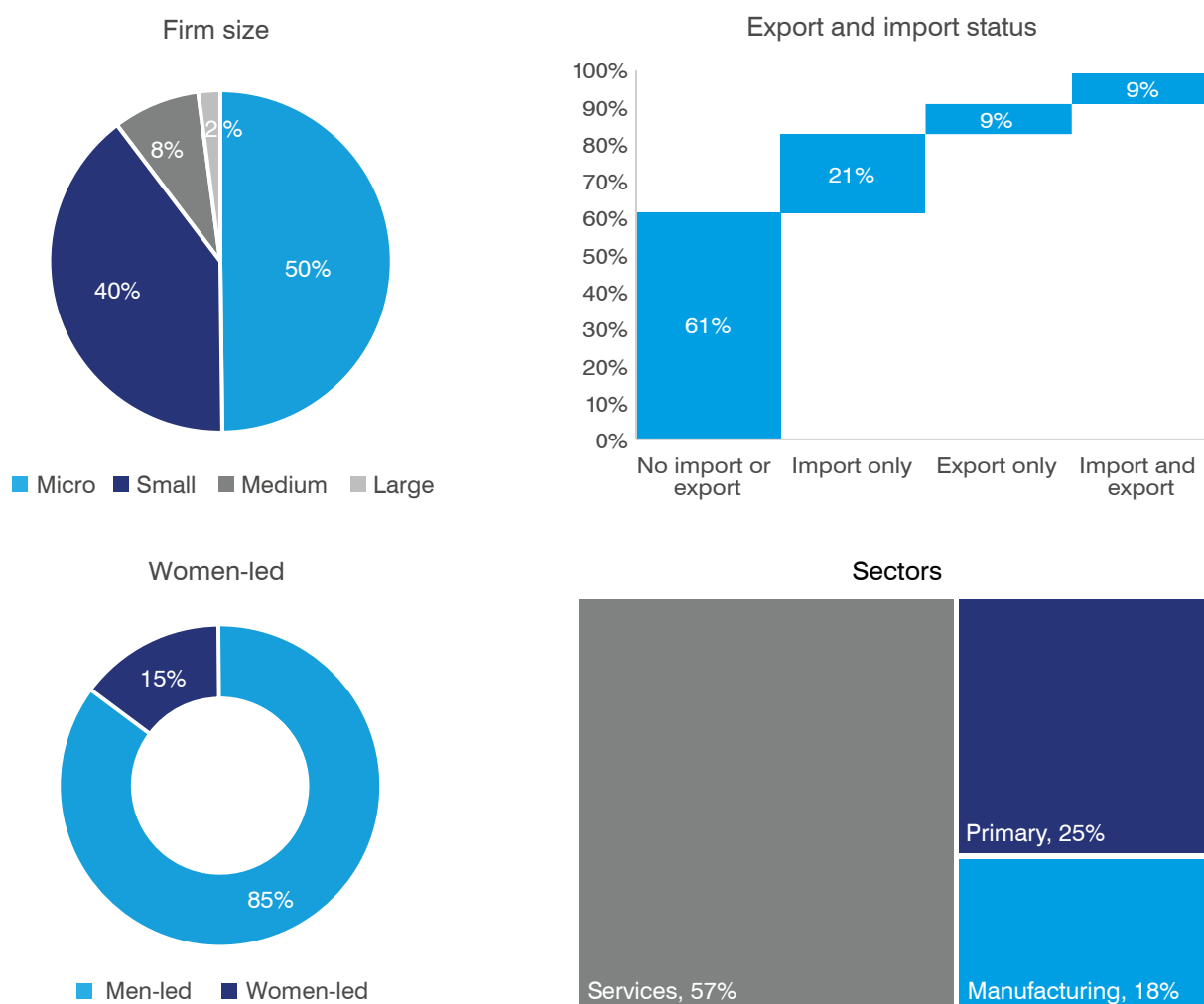
Women owned just 15% of the companies interviewed for this study, a rate of participation relatively low compared to that found in many other sub-Saharan African SME Competitiveness Surveys and the national census.⁸ The data showed that two-fifths of the enterprises were engaged in trade, affirming the participation of internationalized firms in the survey.

Figure 2 Surveied regions of Togo



Source: ITC based on SME competitiveness data collected in Togo.

Figure 3 Characteristics of companies that participated in the survey



Note: Microenterprises are defined as those with four or fewer employees; small firms have 5–19 employees; medium-sized ones have 20–99 employees; and large companies have 100 or more employees. Women-led firms are managed by a woman and at least 30% owned by women.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

About 80% of the surveyed firms said they were registered with or licensed by a national authority. Informality is pervasive in Togo, however, with estimates suggesting that 80% of the workforce is employed by unregistered firms that generate 20%–30% of gross domestic product.⁹ As only one in five companies interviewed for the SMECS was informal, the analysis may not apply fully to them. Rather, this study focuses on the formal sector.

COVID-19 shock sours outlook for future

The spread of COVID-19 around the globe led the Government of Togo to adopt several measures in late March and early April 2020 to protect the health of citizens.

Schools and universities were closed on 20 March; nighttime curfews were imposed; all sporting, cultural and commercial events were suspended; particularly affected villages were placed under strict confinement; and land and air borders were closed. Alongside a decrease in commercial transactions between local companies and affected countries, the pandemic led to a significant deterioration in the business environment in Togo.

CCIT surveyed 1,084 firms in April 2020 about how the pandemic had affected their businesses.¹⁰ Although the impact of the crisis varied across sectors, a drop in sales – and to a lesser degree, difficulties obtaining inputs and accessing finance – stand out as the biggest problems faced by Togolese companies.

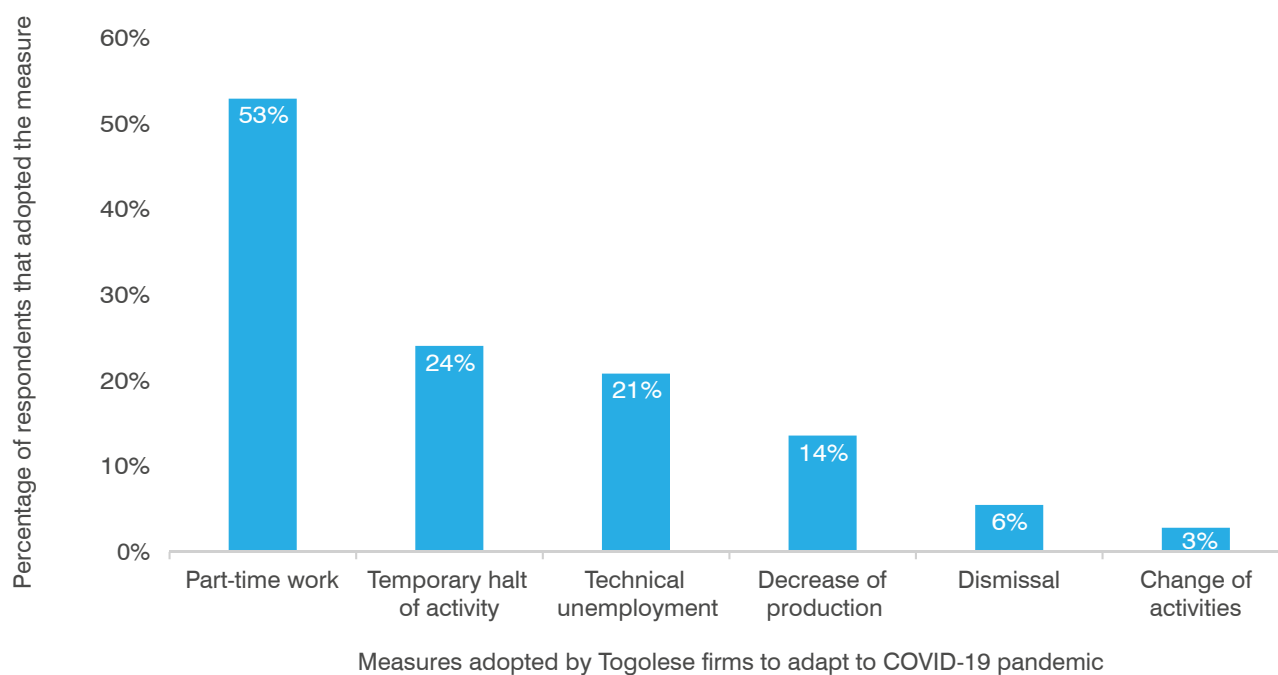
From January–February 2020, although not a single case of COVID-19 had been detected in Togo, almost 54% of the surveyed companies experienced a decline in turnover, perhaps as a result of a decrease in commercial transactions between Togo and affected countries. This percentage almost doubled between February and March, when 93% of the companies questioned recorded a drop in turnover.¹¹

A detailed analysis shows that 62% of the surveyed companies saw turnover fall by more than 50%. The hospitality and catering subsector was particularly exposed to the effects of the curfew and the border closures that led to the desertion of hotels and restaurants, and was without

doubt the most affected. Half of companies in this subsector recorded a drop in turnover of more than 75%. The services, health, transport, education and import-export subsectors also experienced significant disruption.¹²

Togolese companies adopted a variety of strategies to cope with the COVID-19 crisis. There was a widespread shift towards part-time working arrangements. More than half of survey respondents used such human resource practices, while 21% let some of their employees go on temporary unemployment insurance. A quarter of firms closed temporarily, and 14% scaled back their production processes. Six percent of firms had to fire employees, and 3% simply changed their business activities.

Figure 4 Most firms switched to part-time working arrangements



Note: The survey question was 'What measures have you put in place to overcome the difficulties that are confronting you?' and respondents checked off all measures they had taken. Percentages indicate the share of companies that adopted that measure, but as many respondents chose two or more options, the percentages do not total 100.'

Source: ITC calculation based on COVID-19 Survey conducted by CCIT in Togo from 27 March to 28 April 2020.

The Government has developed programmes to help SMEs and other vulnerable actors in society deal with the pandemic. Small firms have benefited from government provision of 2 billion CFA francs (\$3.6 million) for urgent actions, the creation of a National Solidarity Fund of 400 billion CFA francs (\$722 million) and the Novissi cash transfer system for people who are the most vulnerable and most affected by the crisis. The Government has also

offered the most vulnerable groups free water and electricity for three months and reduced water connection charges to 25,000 CFA francs (\$45) from 75,000 CFA francs (\$135).

Although businesses adopted coping strategies and more than half felt the Government was taking appropriate steps to address the crisis, many Togolese companies interviewed in April 2020 were pessimistic about their future. If the



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pandemic lasted more than three months, more than 90% of these firms doubted they would be able to repay their loans and 84% doubted they would be able to pay their employees.

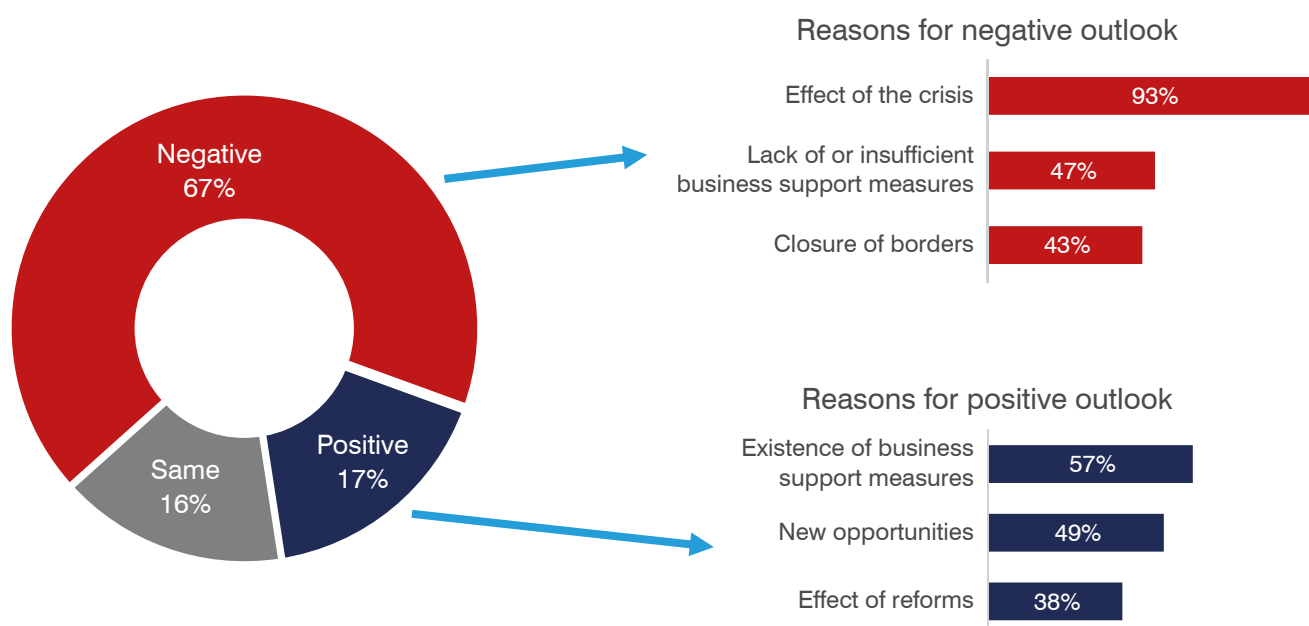
Paying rent is perhaps less of an issue, with 40% of respondents saying this would be challenging. Companies that had been in operation for less than a year, and those smaller in size, were more likely to say they would be in serious trouble if the crisis lasted more than three months.¹³

Firm perspectives about their own prospects stem from how quickly and severely the Togolese business ecosystem

shifted in 2020. Although 40% of enterprises saw business conditions over the previous six months in a favourable light, that figure dropped to 19% when they looked forward to the coming six months.

Indeed, 67% of surveyed firms had a negative outlook on the future economic environment, largely because of the crisis. Retail companies were the most worried about the economic climate, with 72% saying they expected it to be less favourable than in the past. Still, 17% of surveyed companies saw the future economic environment as promising, in part because of new economic opportunities.

Figure 5 Two-thirds of companies have a negative outlook



Note: The survey question was 'Over the next six months, do you think that the economic environment around your business will be more favourable, no change or less favourable?'

Source: ITC calculation based on COVID-19 Survey conducted by CCIT in Togo from 27 March to 28 April 2020.

The Togolese Government lifted the curfew in early June 2020, with land borders opening at the end of the month. Although selective confinement of villages continued, it appeared that the worst of the first wave of COVID-19 in the country had passed as of autumn 2020.

As businesses start to recover from the pandemic, they – and policymakers – are focusing on how to build back better, so firms will be resilient to the next crisis. This starts with enhancing competitiveness. Evidence from other countries shows that companies that were more competitive before COVID-19 hit were better able to cope.¹⁴

Is this true in Togo? To find out, the concluding COVID subsections at the end of each of the following chapters

in this report analyse the evidence from the subset of 85 enterprises that participated in both the SME competitiveness and COVID-19 surveys with a view to understanding how the pre-pandemic competitiveness of firms influenced their experience with the crisis. The first part of each chapter assesses competitiveness based on data from the 573 firms that responded to the SME Competitiveness Survey.

Given how crucial competitiveness is to the ability of SMEs to participate in international trade and contribute to the transformative development of Togo, the following chapters will focus on the aspects of competitiveness that need to be strengthened in the country to build resilience to shocks.



Chapter 2

Driving forward improvements in output

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Driving forward improvements in output



A successful business competes for market share by striking the right balance between quantity, quality, cost and timely delivery of its product. Achieving such a balance is closely tied to the available resources and how management incorporates them. As such, adequate access to resources and adopting efficient management practices can enable a business to fulfil its production potential and to fortify its market position.

Evidence from the SME Competitiveness Survey shows that Togolese companies perform quite well in meeting market productivity requirements using their financial managerial skills. Data also show that the turnover of more productive firms was safeguarded from the worst of the COVID-19 pandemic and that fast-growing infrastructural developments in the country could herald a business ecosystem conducive of efficiency, cost reductions and timeliness of delivery.

Yet many suppliers of Togolese exports are in relatively underserved regions. This means there is a strong

rationale for spreading output-spurring infrastructure more evenly across the country to facilitate value-added exports. In this context, firms throughout Togo have the potential to capitalize on future improvements in the business ecosystem.

Bank account ownership spurs productivity

Transparent financial reporting is indispensable for boosting the ability of companies to compete. Managers can use accurate records as a decision-making tool. They help them identify their liabilities, receivables and needed amount of funding, all of which facilitate the efficient allocation of resources.¹⁵

Togolese firms perform well in keeping records. Indeed, 85% of them keep at least one type of record related to expenses, revenues, liabilities or assets. Most banks

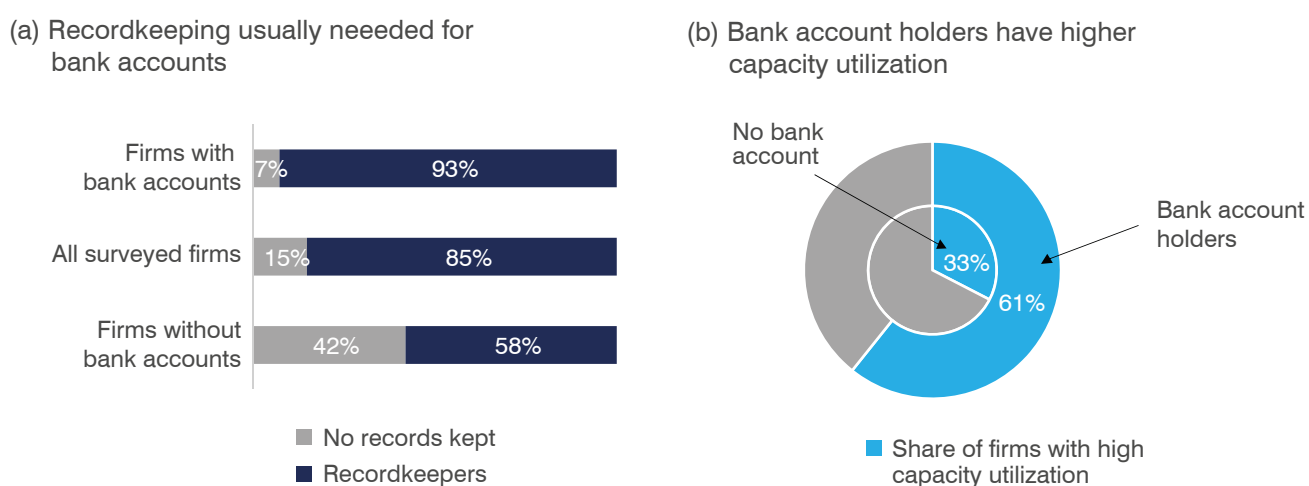
require such records, so keeping records doubled the likelihood of having a bank account. In fact, the vast majority (93%) of businesses that had a bank account kept records, compared to just 58% of non-banked firms that kept records.¹⁶

The close link between recordkeeping and having a bank account is all the more important in light of the survey evidence connecting bank accounts and higher productivity. Almost two-thirds of firms that had a bank account used at least three-quarters of their production capacity. By contrast, just a third of companies that did not have a bank account had such high productivity. The average capacity utilization

was significantly higher among banked firms, according to statistical tests of the data.

The two parts of the figure below may indicate a virtuous cycle among recordkeeping, bank accounts and productivity. Reliable and transparent financial statements give strong financial health signals to lenders,¹⁷ and African SMEs that are granted adequate funding can improve their productivity.¹⁸ This shows that synergies between records, bank accounts and access to finance in Togolese businesses can enhance productivity and, in so doing, yield positive impacts on competitiveness.

Figure 6 Virtuous cycle: Recordkeeping, bank accounts and productivity



Note: Respondents were asked: 'At this time, does this company have a bank account for daily operations that is separate from a personal account?', 'Does your company keep the following types of records – Revenues, Expenses, Liabilities and/or Assets?' and 'In the last year, what was this company's output as a percentage of the maximum output possible?' The percentage of respondents who said they kept at least one type of record and had a bank account are shown in the bar graph on the left, while the percentage of those who said they had at least 75% output generation and had a bank account (or not) are shown in the graph on the right.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

Of course, other factors beyond recordkeeping also drive productivity, including firm size. Previous research suggests that larger businesses have better access to professional management and accounting services that help them manage their resources more efficiently.¹⁹ This seems to be the case in Togo: three-quarters of the big firms surveyed for this report said they used at least 75% of their production capacity. On the other side of the spectrum, half of the microenterprises said they operated at a similar capacity.

Access to electricity helps firms realize potential

A sound business ecosystem and a favourable national environment are both necessary for a company to reach

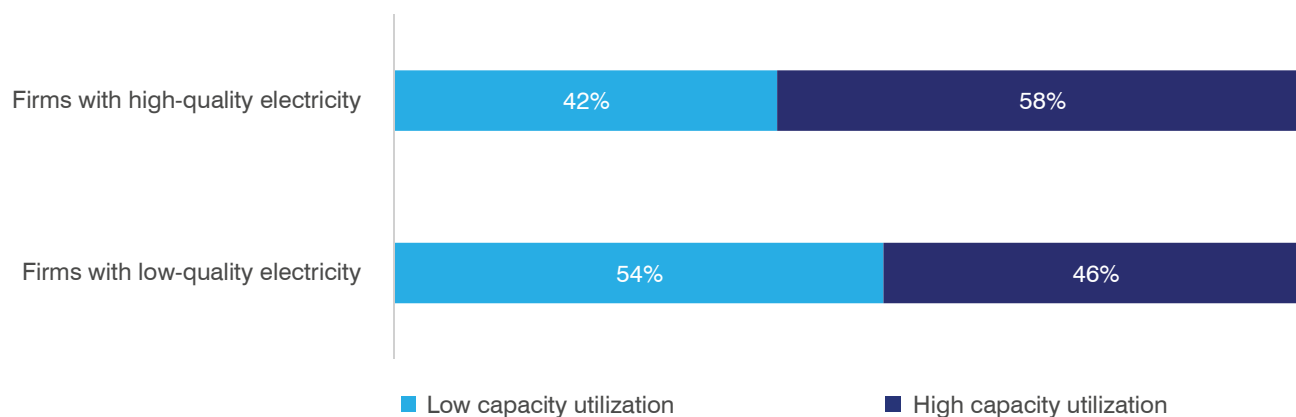
its full production capacity and be able to compete in the marketplace (see Annex).²⁰ Adequate infrastructure, including continuous access to power and reliable logistics at reasonable prices, are essential business-level factors feeding firms' value creation processes.²¹

Most surveyed Togolese companies appear content with their access to electricity. This reflects the fact that the country has experienced rapid improvements in access to electricity in recent years, with nine out of 10 people in the cities now having access.²² Togo scores higher than the sub-Saharan African average in the reliability of electricity supply and the transparency of its electricity tariffs.²³ Still, a third of interviewed firms rated the quality of the provided electricity service as weak.

Access to electricity influences the productivity of firms in all value-creation stages, from inbound logistics through operations to outbound logistics. Moreover, high electricity costs or inconsistent access to the electrical grid can impose additional costs of electricity storage, generation and regulator equipment on enterprises.

The evidence from Togo suggests that dependable access to electricity helps companies produce more. When given satisfactory access to electricity, 58% of surveyed firms produce to at least 75% of their potential. In contrast, this share decreases to 46% when companies are faced with low-quality electricity.

Figure 7 Reliable access to electricity is linked to productivity



Note: Respondents were asked: 'How would you rate the quality of your electricity provider?' Options ranged from 1 (low quality) to 6 (high quality); respondents who chose options 4, 5 or 6 are classified as having high-quality electricity. Respondents were also asked: 'In the last year, what was this company's output as a percentage of the maximum output possible?' Those who said 75% or higher are classified as having high capacity utilization

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.



Access to utilities and transport diverges across regions

An important issue underlying businesses' access to electricity in Togo is the considerable urban-rural electrification gap.²⁴ Improvements in services may have favoured the relatively more urbanized southern regions of the country.

Indeed, 22% of companies located in Plateaux and 25% of those in the capital city of Lomé said the quality of their electricity provider was low, compared to 58% and 76% in the northerly regions of Kara and Centrale, respectively. Given the need to improve access to electricity in the northern regions, it is encouraging that the Government has set a goal of achieving universal coverage by 2030.²⁵

Differences in access to electricity can translate into asymmetric capacity utilization across regions. Weak access to quality energy at a reasonable price limits the use of modern technology equipment in enterprises that are located in rural regions, notably among the many primary sector firms that are based in these areas.

There is also a regional divide in access to logistic services, which are concentrated in the south. This translates into relatively higher transportation costs for inland and northern businesses. Around two-thirds of firms in Savanes, and about a third of those in Kara, Centrale and Plateaux, report high transportation expenses. In contrast, more than three-quarters of enterprises in Maritime and in Lomé said they benefited from access to high-quality shipping services, and can efficiently manage their logistic costs.

Figure 8 Logistics services are weaker in northern regions



Note: Respondents were asked: 'Please rate the cost of the services offered by the logistics services companies this company uses' and 'Please rate the quality of the services offered by the logistics services companies this company uses.' Answer options ranged from 1 (low quality/cost) to 6 (high quality/cost) and included 'do not use such companies'. The figure shows the proportion of companies in each region that chose options 4, 5 or 6 for high cost, and options 1, 2 or 3 for poor quality.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

In addition to the direct logistic fees, the timing and quality of transportation services can give rise to indirect costs for businesses. For instance, insufficient transportation services caused by low-quality infrastructure can lead to damage such as breakage or spoilage of products during shipping to domestic or foreign markets.²⁶ Such expenses can weigh heavily against the competitiveness of a firm.

Northern and central Togolese firms are more exposed to such problems. More than two-thirds of businesses in Savanes describe the quality of logistic services as dissatisfactory. This share progressively decreases when moving to the southern regions, reaching 16% in Plateaux and 18% in Lomé.

This can be partly explained by the fact that both water- and road-based transport corridors pass through the Maritime region, so the northern regions are relatively left out. The two seaports of Lomé and Kpeme in the most-southern Maritime region are gateways for Togo's trade and transit through the Atlantic Ocean.²⁷

The Port of Lomé not only handles most of the country's trade flows, but it is also the leading commercial hub in the West African region.²⁸ This port accommodated annual traffic exceeding 22 million tons in 2018 and is expected to handle more after operationalization of its development projects.²⁹

Three main road corridors connect Lomé to neighbouring Benin, Burkina Faso and Ghana, shouldering most of Togo's traffic.³⁰ Together with the Port of Lomé, these corridors deliver traded goods to nearby landlocked countries, notably Burkina Faso, Niger and Mali.³¹ In addition, the Trans-Western African Coastal Highway,³² which is expected to cross through Lomé in a few years, may play a major role in facilitating trade for businesses and reducing transportation costs.

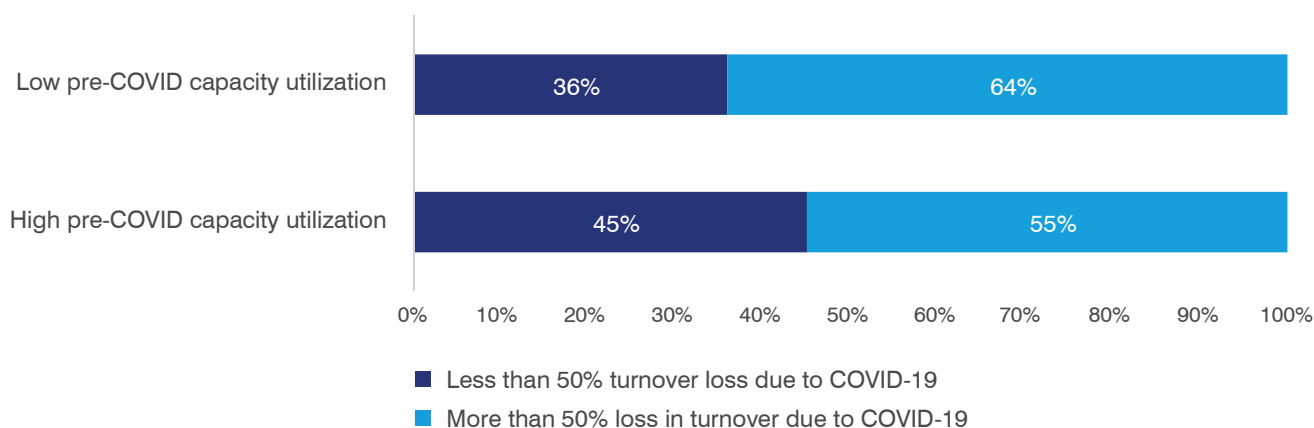
Less-productive companies hard hit by pandemic

The factors driving higher productivity mentioned above – access to electricity, recordkeeping, finance and location – are all the more relevant because productivity is also

essential to resilience. Analysis of the data from companies that were interviewed for both the SME competitiveness and COVID-19 surveys reveals an interesting pattern in this regard: firms that were more productive before the pandemic appeared to be less severely affected by it, while those with lower capacity utilization were more hard hit.

As the figure below shows, the turnover of firms with low productivity before COVID-19 fell dramatically once the pandemic arrived. Those that used more than 75% of their capacity in good times, on the other hand, were less likely to see their turnover cut in half during the crisis. This indicates that relatively high productivity may go hand-in-hand with robust business practices that insulate enterprises from business continuity risks.

Figure 9 Turnover drop is more severe for less-productive firms



Note: Respondents were asked in early 2020: 'In the last year, what was this company's output as a percentage of the maximum output possible?' Respondents who said 75% or higher are classified as having high capacity utilization. The same respondents were asked, in April 2020: 'Is your turnover currently increasing; stable; or decreasing?' and 'If decreasing, by what proportion?'

Source: ITC calculation based on SME competitiveness and COVID-19 data collected by CCIT in Togo in 2020.

High-productivity firms and low-productivity firms (defined as those with capacity utilization below 75%) had different priorities in the wake of COVID-19. The former were concerned with external and long-term factors, including the supply of inputs and declines in sales. The latter were focused on internal issues and short-term survival. Relatively high proportions of these less-productive firms said they expected their own production to decrease, and were worried about access to finance.

businesses are more vulnerable when shocks hit, such that they are unable to produce and make ends meet. As these firms supply into the value chains that keep others stocked with inputs, there is a risk of a cascading effect of lack of inputs for downstream, stronger and often larger enterprises when these smaller, weaker firms stop production or go bankrupt during a crisis.

This highlights the systemic risks for the Togolese economy of letting many SMEs struggle with low productivity, limited access to electricity and weak infrastructure. These

Policy insights: Infrastructure and utility investments for value-added exports

Electricity and transport infrastructure are important for the productivity that drives the bottom line of firms. At the same time, they are also integral to value-added upgrading for structural transformation of the Togolese economy.

Togolese exports are concentrated in basic commodities and manufactured goods, the production of which has limited backward and forward linkages to stimulate the transformation of the rest of the economy. These low-value goods can be shipped relatively easily, and are less at risk of damage from poor logistics. Indeed, other studies show that for these reasons, commodities are often the focus of entrepreneurs operating in regions with poor infrastructure.

In this context, government investments in infrastructure and utility improvements can open up opportunities for businesses to fully exploit their potential in value-added exports. With reliable electricity and internet, and dependable roads and ports, companies can upgrade their production to more lucrative processed products for overseas markets.

This is particularly relevant for the inclusivity of Togo's structural transformation. The results highlighted in this chapter underscore how transport and utility deficits in the north of the country can undermine the productivity of firms in these regions. Spreading access to low-cost transport and utilities, alongside training in recordkeeping and good managerial practices, can boost the output and quality of northern companies so they are competitive enough to link into national and international supply chains. This, in turn, can boost employment and economic growth in remote areas.

As new highways criss-cross more of the country, alongside the increasing importance of Lomé as a major port, there is an opportunity for Togolese firms to capitalize on opportunities to trade in value-added agro-industrial, horticultural, tourism and business and trade services. To do so, however, strong links to capable remote SMEs must be built. Policies that improve the energy provision pattern are for this reason a crucial catalyst to break the vicious cycle of low productivity and underdevelopment in rural areas.

Source: Nordas, H.K., E. Pinali and M. Geloso Grosso (2006). Logistics and Time as a Trade Barrier. OECD Trade Policy Working Papers, no. 35, OECD Publishing. <https://doi.org/10.1787/664220308873>; Newfarmer, R.S., J.M. Page and F. Tarp (Eds.). (2018). *Industries without smokestacks: Industrialization in Africa reconsidered* (First edition). Oxford University Press; Morris, M., R. Kaplinsky and D. Kaplan (2012). *One Thing Leads to Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa* (First edition). lulu.com.





Chapter 3

Getting certified for improved quality

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- Certified firms can diversify for resilience24

Getting certified for improved quality

Proof of quality has long been necessary to export to industrialized countries, but it is also turning into a key criterion for penetrating regional and domestic markets. Studies show that complying with international standards encourages higher productivity by spurring improvements in managerial and operational processes.³³ Certificates can also signal the superior quality of the product or service to buyers, which in turn reduces transaction costs and boosts firms' competitiveness and exports.³⁴

The relevance of certification for trade is borne out in Togo, where a third of companies interviewed for this report had adopted international standards. Many of them did so with a view towards participating in international trade. Certified companies were more likely to keep close tabs on their

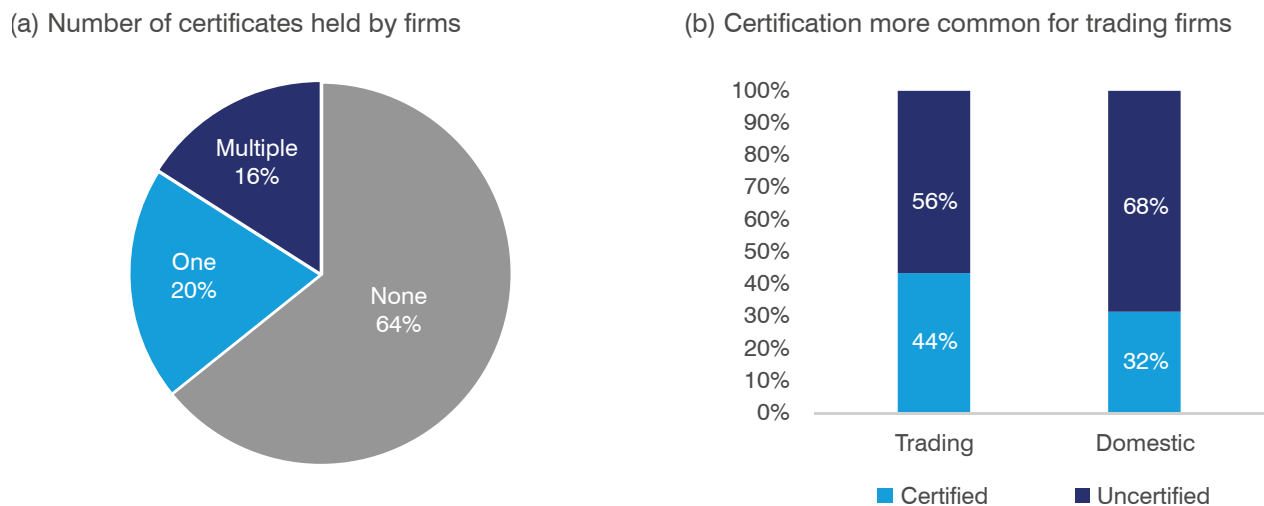
suppliers, highlighting a nascent trend towards cross-supply-chain quality networks in the country.

Yet there are opportunities to improve the country's quality infrastructure, notably through improved financing for the certification of youth-led companies and to ensure that certified firms diversify their marketing for resilience.

Few enterprises adopt international standards

Certification is relatively uncommon among Togolese companies. Just 36% of surveyed firms are certified to international standards.

Figure 10 A third of Togolese companies are certified



Note: Respondents were asked: 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates – Safety certificates, Quality or performance certificates, Sustainability certificates and/or Other?' The panel on the left shows the proportion of firms in the sample that chose none, one or multiple of the four certification types. The panel on the right shows the proportion of firms with one or more certification, and those that export and/or import or are domestic-only firms.'

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

Certification is more prevalent among Togolese firms that export and import than those targeting only the domestic market. Among the enterprises interviewed for the SME Competitiveness Survey, 44% engaged in international trade are certified, compared to 32% that are active only domestically.

Yet the certification rate is low in the primary sector, which is responsible for most Togolese exports.³⁵ Three out of four surveyed agricultural companies had no international standards. Adoption rates among service and manufacturing businesses exceed those in the primary sector by 10 percentage points.



Firms involved in intercontinental exports were more likely to be certified than those that traded within Africa. Almost two-thirds (64%) of Togolese companies that export to France – the third-biggest trading partner of surveyed firms – held at least one certificate. That compares to 44% and 35% of businesses that trade with neighbouring Benin and Burkina Faso, respectively.

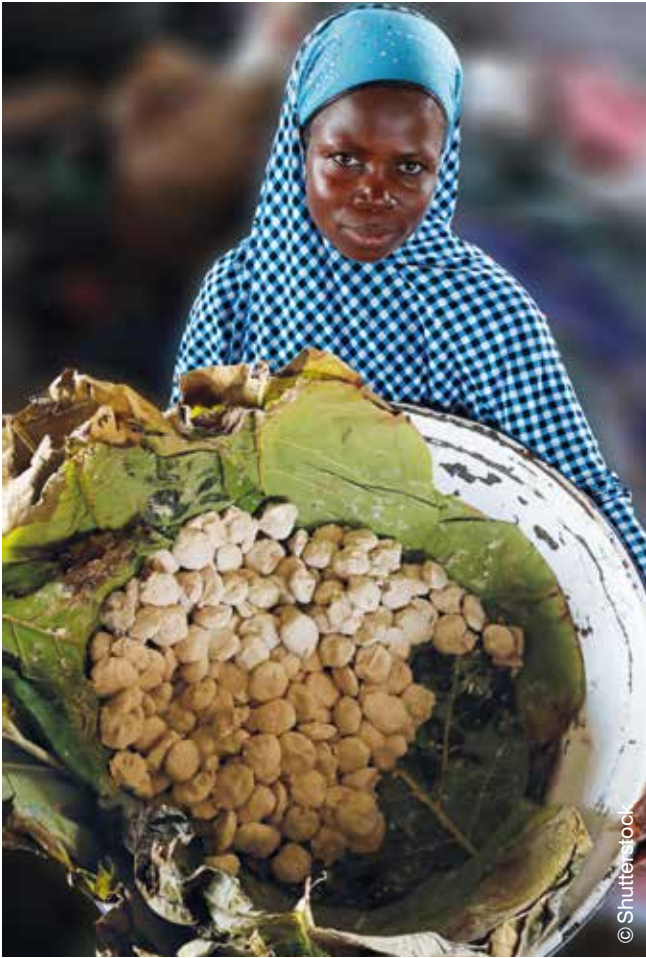
The implementation of the African Continental Free Trade Area provides a unique opportunity to boost the quality certification of Togo's SMEs. Its framework agreement provides a legal basis for the standard harmonization and technical assistance activities of the African Organization for Standardization, which support the spread of effective quality infrastructure across the continent.³⁶

By selling to other African countries, small Togolese firms can learn about these buyers' standards. This learning can help facilitate the adoption of even more stringent schemes.³⁷ Furthermore, when they sell to buyers in other African countries who go on to sell overseas, SMEs in Togo can learn locally relevant protocols that enable them to meet the standards of overseas customers.

Even when they do not sell across borders, many Togolese enterprises have strong relationships with their buyers that encourage long-term and stable collaboration for higher quality production. Previous studies show that selling into a value chain through a predefined contractual relationship promotes a more certain business environment for developing country producers.³⁸

These contracts often require adherence to quality and other standards, so companies may become certified to reduce their uncertainty.³⁹ Indeed, survey results show that Togolese businesses that have a contractual relationship with their buyers have a rate of certification to international standards that is 10 percentage points higher than their peers.

Decisions to become certified also depend on the size of the firm, as the cost of certification can be more pronounced for smaller companies that struggle to obtain finance.⁴⁰ The survey results show this is true in Togo, where the likelihood of holding an international certification grows with the size of the firm. For instance, just 28% of interviewed microenterprises adhered to an internationally recognized standard. This is problematic in light of the fact that buyers



are increasingly looking for quality signals from potential suppliers.

Togolese companies that do decide to get certified are most likely to take up quality or performance standards – 23% of all respondents held such a certificate. Rates of certification to other types of standards, such as safety or sustainability certificates, were relatively lower in the survey sample.

Certified firms pay more attention to supplier quality

The performance of input suppliers can affect the quality of a firm's final product, which in turn plays a decisive role in the company's competitiveness.⁴¹ This is why businesses must assess supplier performance before and during the sourcing process if they want to meet market quality requirements. Cooperative relationships that encourage suppliers to improve the quality of inputs can support this process.⁴²

Survey evidence suggests that 80% of Togolese firms source from an input supplier. These suppliers enable the enterprise to focus on its core competence and outsource input supply to an external firm. But having external suppliers can also make a firm vulnerable, particularly when it depends on a single supplier.

Firms that rely heavily on suppliers are more affected by the suppliers' business health.⁴³ Even a temporary poor performance of the supplier can massively disturb the firm's production and endanger its reputation and survival, in an escalation of supply chain risk. This is relevant in Togo, where 64% of interviewed enterprises said they relied moderately or highly on their lead supplier.

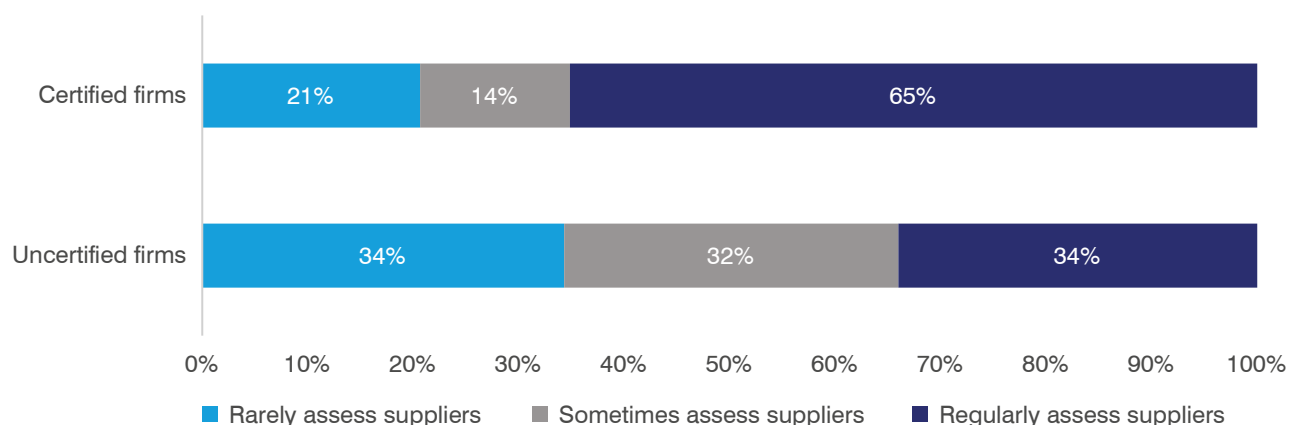
One way to avoid exposure to supply chain risk is to diversify input sourcing – that is, purchase inputs from many suppliers. The SME Competitiveness Survey revealed that many exporters and companies with contractual relationships with their buyers have taken up this strategy.

However, the survey evidence also indicates that women-led Togolese firms tend to have fewer suppliers than men-led enterprises, making them more vulnerable to supply chain shocks. On average, women-led companies get inputs from six suppliers while men-led firms are served by 15 suppliers. This may be because women entrepreneurs have limited access to information and networks, as noted in previous studies.⁴⁴

Another successful technique for avoiding supply chain risk is regularly evaluating supplier performance. Yet most surveyed Togolese firms said they rarely assessed the performance of their suppliers. Certified businesses were almost twice as likely as uncertified firms to evaluate their suppliers regularly.

Some enterprises that produced according to the specifications of their buyers also conducted regular supplier evaluations. By doing so, they established long-term relationships with their suppliers and resolved input-related problems cooperatively.

Figure 11 Certified firms assess supplier performance more frequently



Note: Respondents were asked: 'How often does your company assess the performance of your suppliers?' Answer options ranged from 1 (rarely) to 6 (often). Those who answered 1 or 2 are categorized as 'rarely', 3 or 4 'sometimes', and 5 or 6 'regularly'. Respondents were considered certified if they said they held at least one international standard.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

These findings indicate that some Togolese firms have a contract with a buyer with a strong interest in good quality. Owing to this contract, they have adopted a two-pronged approach to ensure consistent quality output: on one hand, they ensure the quality of their internal operations, as verified by certification processes; and on the other, they ensure the quality of their suppliers, through supplier performance assessments.

This is consistent with past studies showing that a direct connection to the next part of the value chain increases the firm's commitment to the quality and adequate delivery of the product. As a result, the company keeps a closer eye on its suppliers.⁴⁵

Certification cost is burdensome for youth

As the leaders of relatively new companies, young entrepreneurs need to show customers that they can be trusted. This is why many young entrepreneurs, and the programmes that support them, turn to certification schemes to signal their compliance with the best production standards.⁴⁶

Two-fifths of the youth-led Togolese companies that were surveyed have chosen to adhere to standards to signal their reliability and thereby boost their competitiveness in the market. Their certification rate (41%) is eight percentage points higher than businesses managed by their elders (33%).

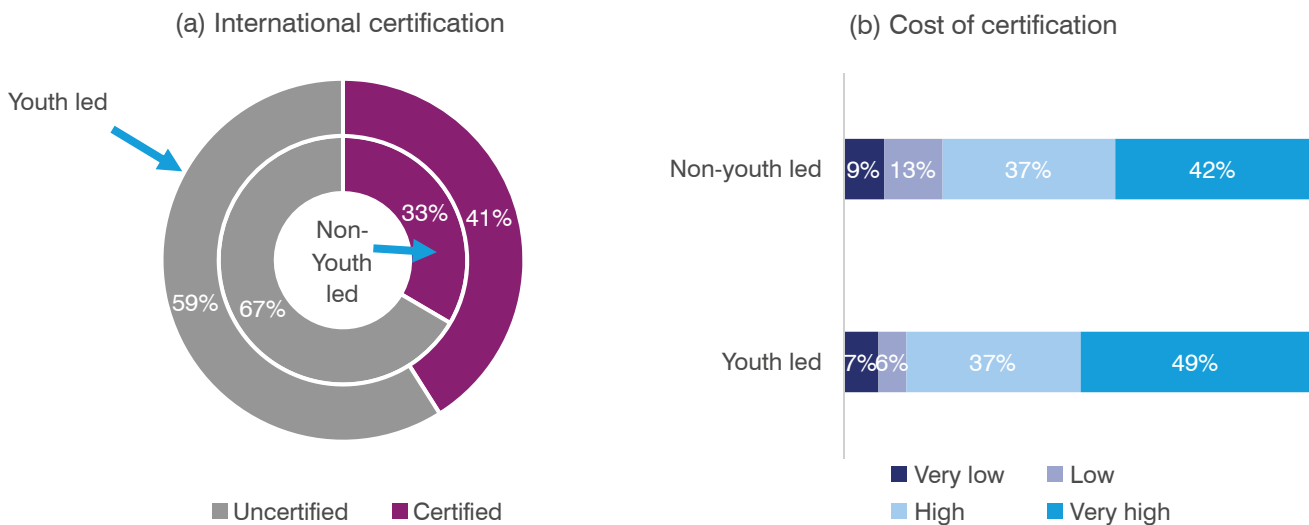
In general, firms in Togo consider the costs of certification to be high. For youth-led companies, however, these costs seem even more burdensome. Indeed, 86% of surveyed youth-led businesses rank the cost of certification as high or very high, compared to 79% of older managers.

Firms headed by Togolese youth may perceive standards as more costly because they have a hard time financing the certification process. Younger entrepreneurs the world over tend to struggle to access external finance. Lack of collateral, as well as scepticism about their ability to succeed, can decrease their chances of obtaining credit to cover certification costs.⁴⁷

Moreover, the banking rate among youth-led companies in Togo is very low; just 66% of surveyed youth-led firms had a bank account, compared to 81% of other businesses. Without bank accounts, youth-led firms are unable to build up the financial history and familiarity with banking procedures that is often a prerequisite to a successful loan application.

The malaise that young people experience in approaching banks may reflect key weaknesses in the Togolese financial sector. Past research indicates that Togo's troubled financial sector requires high collateral and offers insufficient loan amounts with short maturities – and in so doing, discourages companies from seeking credit.⁴⁸

Figure 12 Certification is more popular among youth-led companies



Note: A youth-led firm is a company whose owner/top manager is younger than age 35. In (b), shares are based on responses to the request to 'Please rate the cost of the services offered by product testing, certification and inspection authorities.'

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

Moreover, the International Monetary Fund suggests that the Togolese banking system lacks an adequate formal structure to evaluate the profitability of SMEs, leading to a high share of rejected loan requests.⁴⁹

Fortunately, Togo has a strong set of microfinancing institutions. They grant microloans to SMEs, including those led by youth, for their early stages of development.⁵⁰ However, there are opportunities to increase funding options to help small enterprises transition from their early stages to a growth stage.⁵¹

Certified firms can diversify for resilience

Certified and uncertified companies in Togo experienced the COVID-19 crisis differently. Firms certified to an international standard were more likely to face demand-side difficulties during the pandemic than their uncertified peers: 43% said virus-induced measures in March 2020 caused them to decrease their output, compared to just 36% of uncertified firms.

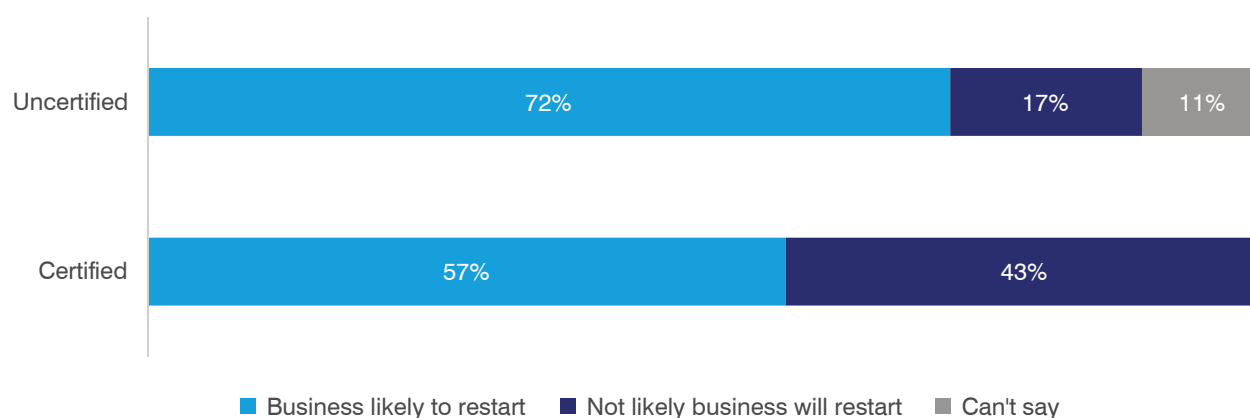
Production drops during the pandemic were probably so widespread among certified firms because their sales were also falling more steeply. Fully 86% of interviewed companies that had adopted international standards

reported a decrease in buyer purchases, compared to 68% of other firms. This finding is independent of whether a company traded, as both trading and non-trading certified firms faced more sales and output difficulties than uncertified firms.

COVID-19 may have had a greater impact on the revenues of certified firms because they tend to have a different business model from conventional firms. In particular, the literature suggests that companies that become certified to international standards often do so at the behest of one or two buyers.⁵² The importance of a single buyer's purchases can defer the high cost of certification, but also may encourage the firm to narrow its sales portfolio, which makes it vulnerable. This underscores the importance of diverse marketing methods and destinations to the resilience of firms.

Given these effects of the pandemic on certified firms, it is perhaps unsurprising that they tended to be more pessimistic about the future. Their view on the economic environment was more bleak, with 88% saying the post-COVID-19 business context was negative or uncertain, compared to 80% of uncertified firms. These factors also tempered their sense of their prospects: 57% of certified companies thought they would reopen after the crisis, compared to 72% of uncertified companies.

Figure 13 Certified companies are more pessimistic about restarting



Note: The survey question was: 'If your business activities stopped now, would it be possible to restart after the crisis?' Response options were yes; no; and can't say. Respondents who chose 'yes' are classified as 'business likely to restart', while those who chose 'no' are classified as 'not likely business will restart'.

Source: ITC calculation based on SME competitiveness and COVID-19 data collected by CCIT in Togo in 2020.

Policy insights: Promote diversification alongside certification for resilience

The above evidence on the vulnerability of certified firms in the wake of COVID-19 in Togo is worrisome. If many of these businesses fail because of the pandemic, the overall certification rate – and by implication the quality reputation of the country's private sector – will go down as well. While the data do not identify the specific drivers explaining why certified firms have been hit so hard, the literature on the matter points to the tendency of certified firms to concentrate their sales on a few key buyers. This lack of diversification makes them vulnerable to shocks.

In this context, policies should continue to encourage Togolese SMEs to seek certification, but should underscore that a well-diversified, healthy portfolio of sales outlets must accompany such a strategy. This is especially relevant in light of the fact that certification, trade and resilience seem to go hand in hand.

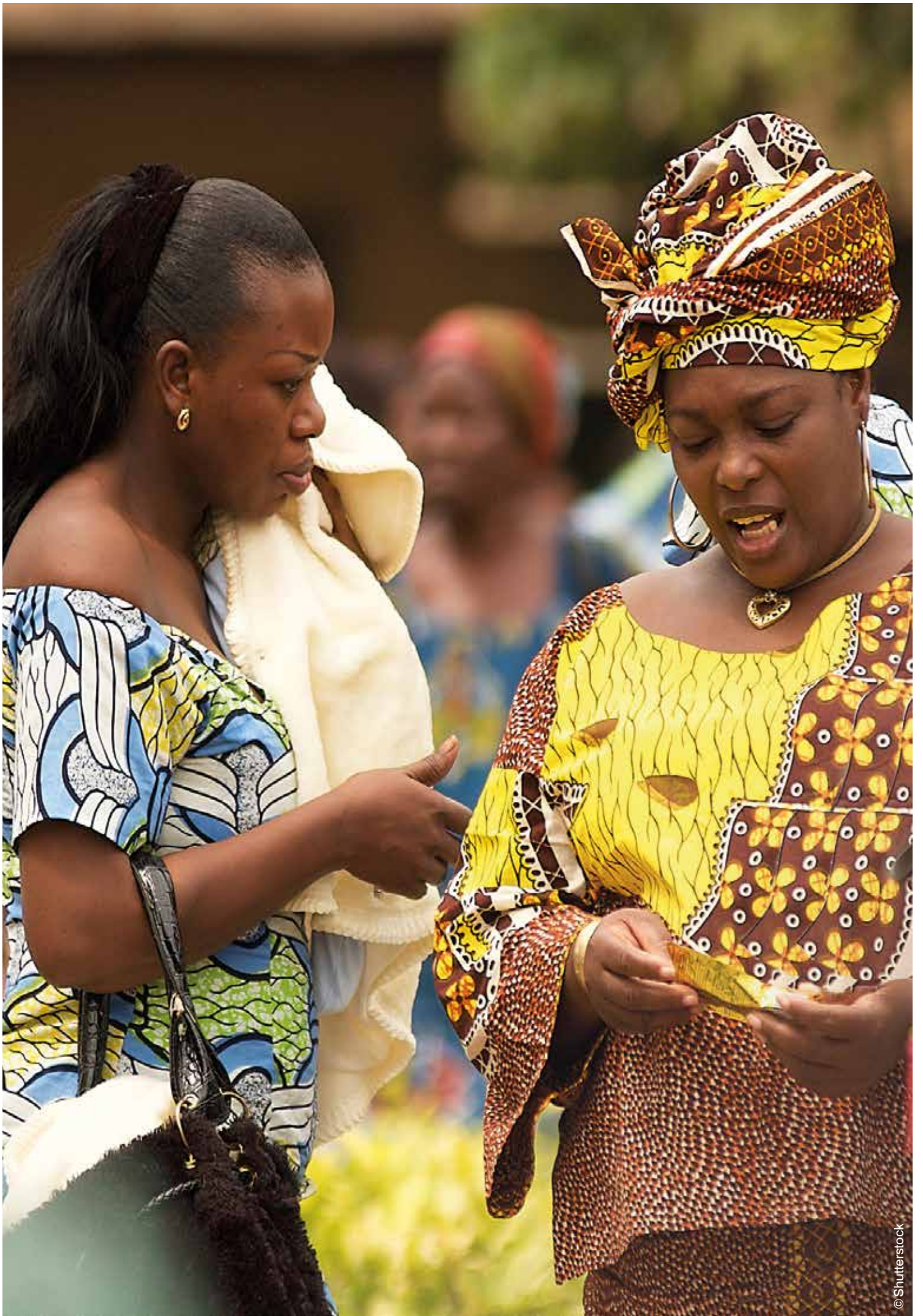
The survey data gathered for this report show that four out of five certified exporting firms had negative expectations for

the future – much more than certified companies that do not export. Although certified exporting firms were particularly pessimistic about their recovery prospects, these firms were more likely to be quite remunerative in good times.

This finding highlights a possible policy tradeoff between profitability and resilience in private sector development policy, as policies that encourage profitability – such as certification for a single overseas buyer – can weaken resilience by undermining diversification.

Given the increasingly tumultuous nature of the business environment, characterized not only by disease-incited confinement but also climate-induced drought and technological disruption, resilience is becoming a more important policy priority to ensure the success, and even survival, of SMEs. In this context, combining certification programmes with diversification assistance can ensure that a country's leading firms are both high quality and robust.

Source: Hynes, W., I. Linkov, and B. Trump (2020). A Systemic Approach to Dealing with Covid-19 and Future Shocks (p. 8). Organisation for Economic Co-operation and Development.; ITC (2020b). *Supporting small businesses through the COVID-19 crisis and towards the future: A 15-Point Action Plan*. International Trade Centre.



Chapter 4

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Connecting to networks to cope with shocks

Measures to limit the spread of the coronavirus in Togo were the latest in a series of disruptive events in the local business ecosystem. From losses spurred by rapid coastal erosion to the rise of the digital economy, the rapid pace of change in contemporary markets has made it essential for businesses to connect to sources of timely business information.

Companies can adapt to a quickly changing economic environment by using market intelligence to identify opportunities and threats. A strong two-way flow of information between companies and their business support institutions can strengthen adaptability to external changes.

In case of a common sectoral challenge, strong business connections can allow firms to collaborate to solve problems in an agile and efficient way.⁵³ At the same

time, managers learn from the information they receive about firm performance from buyers and can attract new buyers through the information they disseminate through marketing.⁵⁴

The SME Competitiveness Survey reveals that Togolese firms perform well in disseminating information to customers through marketing. In addition, many companies work with each another to solve common problems, a tactic that came in very handy to deal with the supply chain shock induced by the COVID-19 pandemic. The prevalence of such collaborative problem-solving among women-led companies, and those involved in business support organizations, underscores opportunities to improve the social capital driving Togolese business networks.

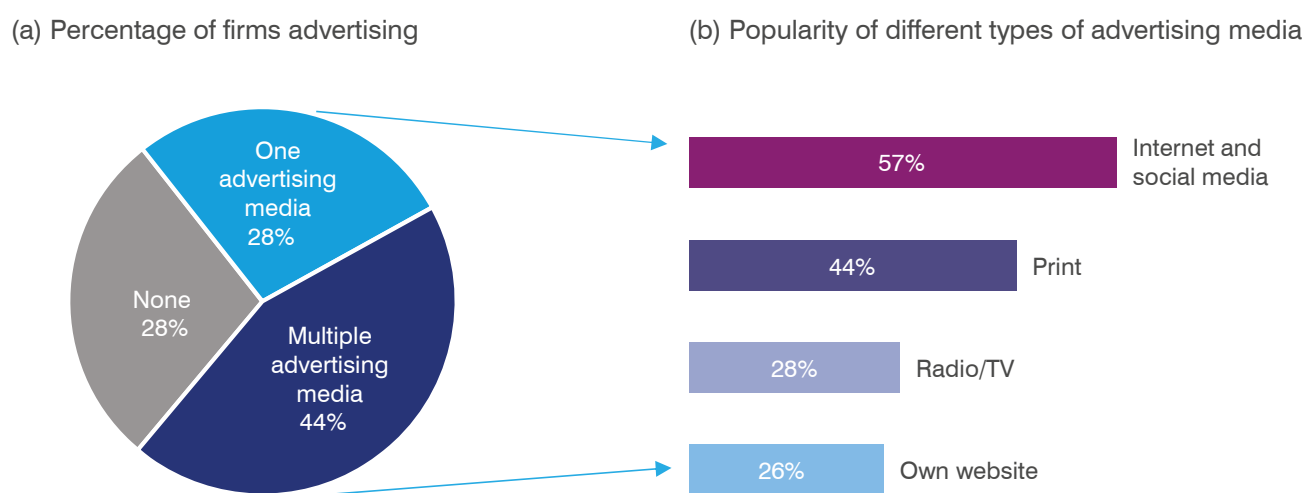


Strong outreach to buyers through advertising

Businesses must collect and analyse information about what customers want so they can produce goods and services that meet this demand. Once this is accomplished, however, they must reach out to targeted buyers and convey their offer to them through efficient marketing strategies.⁵⁵

The evidence from the SME Competitiveness Survey indicates that Togolese firms excel in their marketing efforts. Almost three-quarters (72%) of interviewed companies said they advertise through at least one marketing channel. In a testament to the popularity of marketing among Togolese firms, many surveyed firms actually pointed to multiple simultaneous advertising campaigns. In fact, 44% of respondents said they reached out through several different types of media outlets.

Figure 14 Three-quarters of Togolese firms advertise



Note: Respondents were asked: 'In the last year, did this company engage in any of the following forms of advertising: Leaflet, poster or newspaper advertising; radio or television advertising and/or internet or social media advertising?' In panel b, shares represent percentages of all companies in the sample that said 'yes' to each type of advertising.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

More extensive marketing efforts were found among companies that were better integrated into international markets and value chains. Survey findings indicate that 56% of Togolese exporters conducted marketing activities using multiple media, compared to 42% of non-exporters. Just 16% of exporters did not advertise at all, compared to the 31% of non-exporters who shunned advertising.

The popularity of advertising among Togolese exporters is not unique to the country. Previous studies in developed economies show that most successful exporters rely on information they collect through their marketing activities to make decisions.⁵⁶ These studies document that successful exporting performance is tied to long-term plans based on market information and marketing strategies, while unsuccessful performance tends to be based on day-to-day uninformed decisions.⁵⁷

In Togo, like elsewhere, digital advertising campaigns have gained a prominent place in businesses' marketing strategies because they are relatively cost-effective and easy to use.⁵⁸ Internet and social media advertising tops the rankings as the preferred marketing tool of Togolese firms, with close to six in 10 surveyed firms depending on it. About 44% of companies in the country advertise in print media, including leaflets and newspapers, while marketing using radio or TV commercials and business websites are the least used advertising methods.

The success of marketing strategies hinges in part on the extent to which advertising is targeted. This, in turn, depends on the businesses' knowledge of market trends. Firms can draw on market intelligence from business support organizations to better understand their market position and identify ways to increase their market share.

Sector associations enable cooperation

Past studies suggest that cooperation among businesses in a sector benefits SMEs, in part because it can reduce costs and facilitate synergies between participating firms.⁵⁹ Sectoral associations can facilitate these benefits by acting as a hub to link up companies and as a platform for sharing expert knowledge on various business-related issues.⁶⁰

Connecting with similar businesses through an association can be preferable because these organizations can reduce the problems firms often face when establishing one-to-one contacts with each other. Given that some companies in the same sector may be competitors, and are of varying sizes, constructive collaboration can sometimes be stymied by unequal power distribution and fear of loss of proprietary knowledge.⁶¹

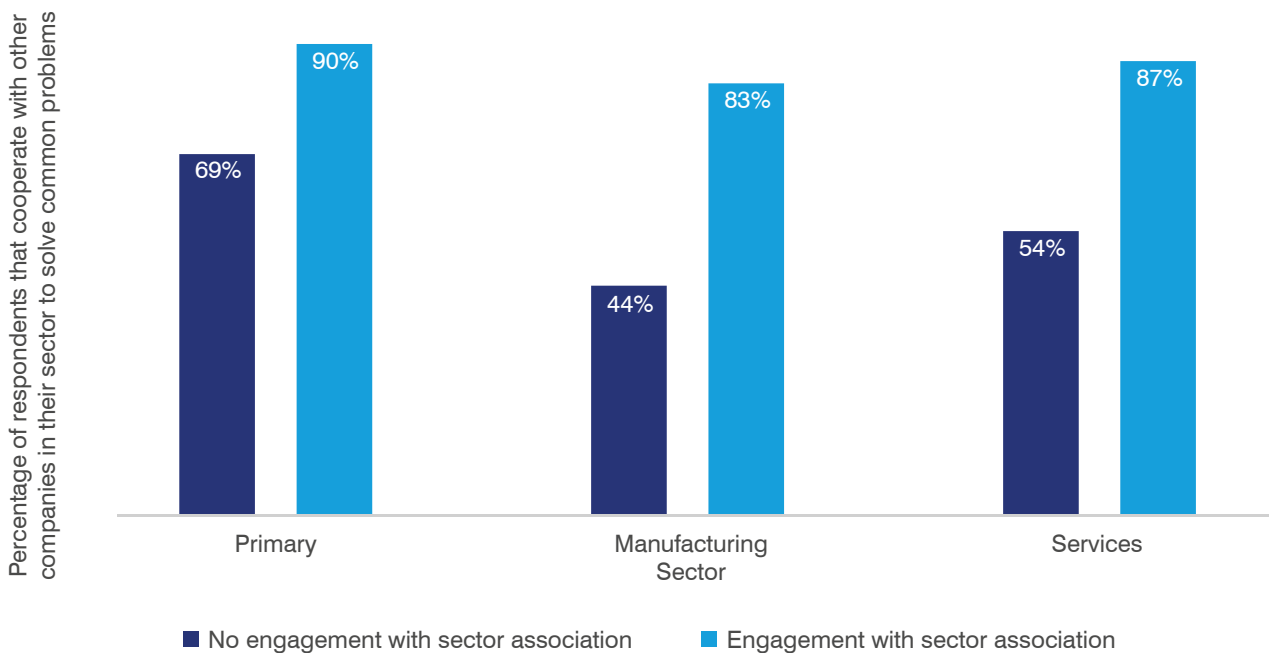
Sharing knowledge and collaborating on equitable grounds is especially relevant when firms in a sector face common problems or threats. In such cases, associations can facilitate the transmission of information and promote sectoral cooperation.

The SME Competitiveness Survey finds that Togolese firms that are actively engaged with sector associations are also considerably more willing to cooperate in resolving common sectoral issues. Nine out of 10 companies that work with sector associations cooperate with other firms to solve common problems, compared to 55% of enterprises with no connection to sector associations.

The willingness of businesses to tackle sectoral problems cooperatively varies from sector to sector. Among firms unaffiliated with sectoral associations, those in the primary sector are the most likely to collaborate to solve problems. This could be because they tend to face common climate, labour and pest-related challenges, whose solutions may benefit the agricultural sector as a whole. Cooperative problem-solving is less common among service providers and manufacturers.

However, involvement in solving common issues increases in all three sectors when firms are actively engaged with sector associations. The most substantial difference can be seen in the manufacturing sector, where the rate of cooperation almost doubles from 44% to 83% once enterprises join a sector association.

Figure 15 Joining a sector association fosters mutual problem solving



Note: Respondents were asked: 'To what extent do companies in your sector cooperate to solve common problems which may be beneficial to the sector as a whole?' Answer options ranged from 1 (no extent) to 6 (great extent); the figure indicates the percentage of respondents in each sector-institution category that answered 4, 5 or 6 to this question. Other questions identified the sector of the firm and asked 'Are you actively engaged with any of the following types of institutions – Trade promotion organizations, Investment promotion organizations, Chambers of commerce, and/or Sector Associations?' Companies were classified by whether they responded 'yes' to engagement with sector associations.

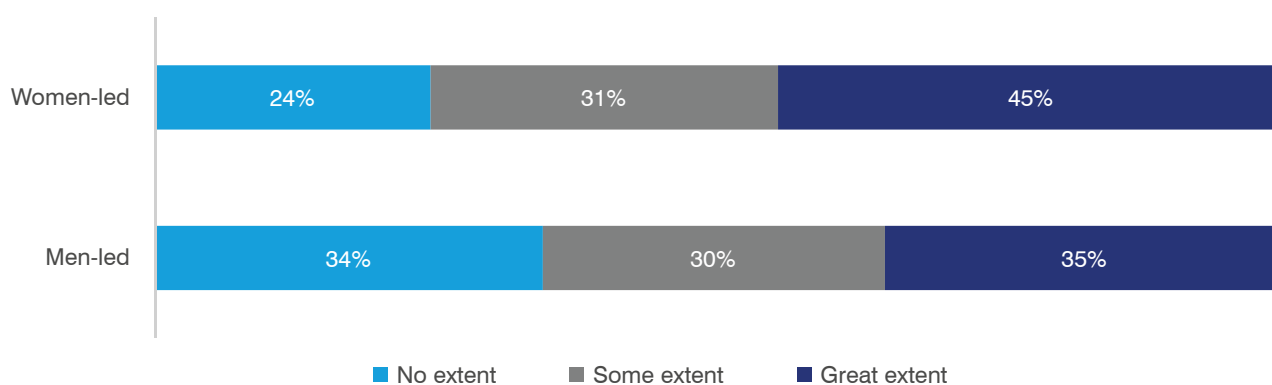
Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

Women-led companies cooperate more

Companies that are owned and managed by women have long played an important role in the economy of Togo.⁶² The country scores higher than its West African neighbours in measures of women's economic rights, and many female entrepreneurs have developed innovative firms based upon processed and packaged versions of the country's classic crops, including cocoa and cotton.⁶³

Further evidence of the strength of the country's women-led firms comes from the SME Competitiveness Survey, which indicates that female managers in Togo tend to be more proactive in resolving common sectoral issues than their male counterparts. Survey data show that 76% of women-led companies cooperate in sectoral problem-solving initiatives (31% of them cooperating to some extent and 45% highly cooperative). In comparison, 65% of men-led enterprises cooperate to solve a common sectoral problem.

Figure 16 Women-led enterprises collaborate extensively



Note: Respondents were asked: 'To what extent do companies in your sector cooperate to solve common problems which may be beneficial to the sector as a whole?' Answer options ranged from 1 (no extent) to 6 (great extent); firms that chose 1 are classified as 'no extent', those that chose 2, 3 or 4 are 'some extent' and those that chose 5 or 6 are 'great extent'. Women-led firms are managed by a woman and are at least 30% owned by women.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

In other countries, the data indicate that female entrepreneurs tend to be less involved in formal business networks and less connected to sources of information than men.⁶⁴ Yet in Togo, this may be less of a liability, as the strong tradition of female entrepreneurship, women's emotional intelligence and their social understanding can be a major asset to their efforts to build their own businesses.⁶⁵

At the same time, as in other countries, women-owned firms in Togo face challenges such as discrimination and difficulty accessing finance. These and other challenges mean female-owned enterprises report monthly profits that are 38% lower on average than those of male-owned enterprises.⁶⁶

Business support organizations soften COVID-19 impact

Participation in collaborative networks is valuable in good times, but it seems even more helpful when crises occur. Other studies have shown that SMEs with strong



connections to their community are more resilient to crises, with higher post-shock revenues than firms with less social capital.⁶⁷ Cooperative planning and problem solving seem to make the difference for connected enterprises: companies that are part of networks more efficiently develop contingency plans before crises hit and coordinate problem-solving efforts both during and after disruptive events.⁶⁸

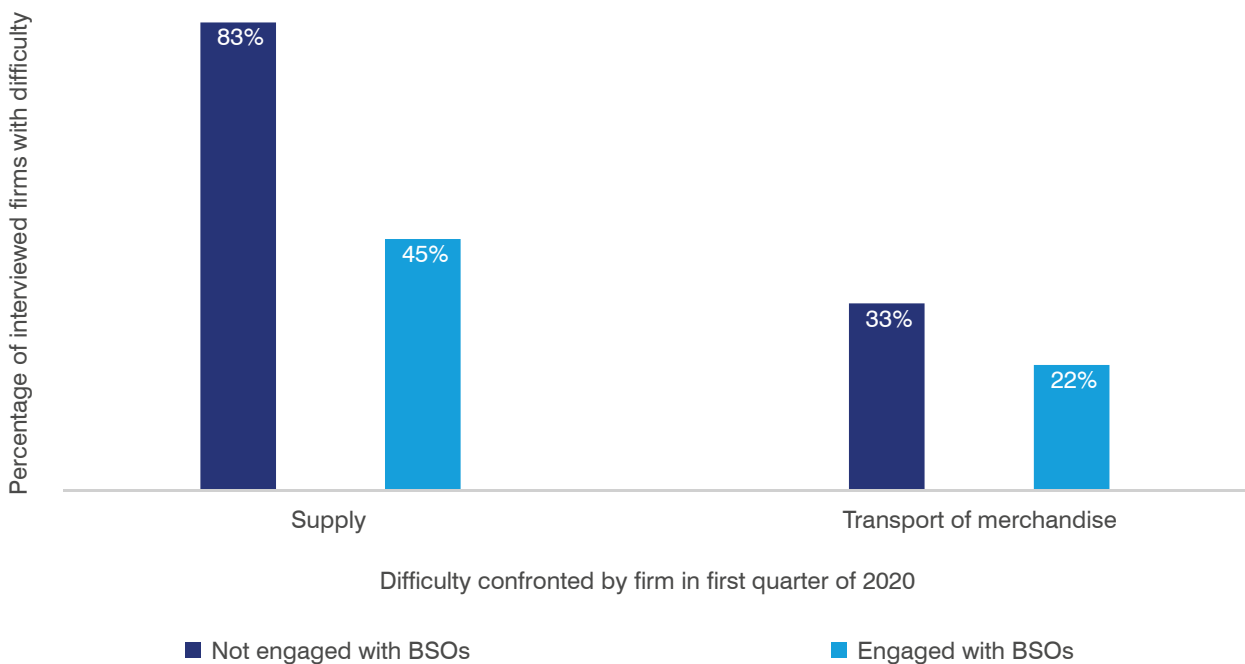
The resilience-enhancing power of business networks in Togo is clear from the evidence collected by the SME competitiveness and COVID-19 surveys. Companies that said they were involved with a sectoral association, chamber of commerce or other business support organization (BSO)

were less likely to suffer supply and transport challenges when the pandemic hit.

COVID-19 interrupted the input supply of 83% of firms that were not actively associated with any type of BSO, for example, while just 45% of BSO-connected firms experienced the same problem.

Similarly, a significantly lower share of companies that networked through BSOs suffered issues with the transport of their merchandise during the pandemic, perhaps because those organizations facilitated cooperation between businesses to transport output to customers.⁶⁹

Figure 17 Firms tied to support groups had fewer COVID-19 problems



Note: The question was: 'Since January 1, 2020, have you encountered any difficulties in carrying out your activities ?' If the answer was 'yes', a follow-up question asked 'What types of difficulties?' Response options included access to administrative services, supply and transport of merchandise.

Source: ITC calculation based on SME competitiveness and COVID-19 data collected by CCIT in Togo.

Even when businesses do not use the services of a specific business support organization, they may have informal collaborative practices that help them communicate and solve problems. Before the pandemic, the SME Competitiveness Survey interviewed Togolese companies and found that 37% said that firms in their sector cooperated to a high extent to solve common problems in a manner that could benefit the sector as a whole.

Once the crisis hit, companies that cooperated with their peers tended to have fewer issues with their sales, transport and supply chain. While 77% of firms that did not work together struggled with lower sales due to the measures adopted to contain the pandemic, just 58% of enterprises that collaborated faced such problems.



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Policy insights: Supporting business networks can enhance firm resilience

Efforts to improve the linkages connecting Togolese firms would improve their ability to survive, and thrive, in the future. Although many companies have reached out to other actors in their business ecosystem – notably using the internet and through business support organizations – others have been left out.

Creating a network of physical business support centres across the country would help companies that do not belong to an organization, that do not have a track record of collaboration with their peers and that lack access to information and communication technologies, tap into business networks.

Togo could learn from the experience of other countries, such as the Philippines, in creating small business drop-in centres that provide training, networking opportunities and assistance in business registration and licensing. Elsewhere, entrepreneurial incubators help early-stage enterprises access mentoring, financing and operating premises, as in

Nigeria's Yabacon Valley. Online forums are also relevant, particularly when physical access and remoteness is an issue, as was the case for the Libyan online entrepreneurial school.

The Togolese SME Group, as well as CCIT, Innov'Up and others, support networks of members. Yet the evidence in this report, and from other countries, underscores the importance of informal collaboration for problem solving as well as access to information from BSO services – in which the creation of a networking space is essential.

In the long term, better internet access could make online peer-to-peer networking facilities feasible. In the short term, lessons can be learned from the strong social networks among women-led firms, from Togo's strong microcredit groups and from members of sectoral associations, on how collaboration can help small companies survive difficult times.

Source: ITC (2020a). *Promoting SME competitiveness in the Philippines*. International Trade Centre; Ramezani, J., and L.M. Camarinha-Matos (2020). Approaches for resilience and antifragility in collaborative business ecosystems. *Technological Forecasting and Social Change*, vol. 151.



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Chapter 5

Spread skills for inclusive growth

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Spread skills for inclusive growth



Human resources are the engine of a firm's competitiveness. Capitalizing on a capable workforce can help a company absorb new technologies, so it gains productivity advantages and adjusts to changes in market conditions.⁷⁰ It can also help firms capture market share because, unlike other production resources, human capital is difficult for rivals to copy.⁷¹

Evidence from the SME Competitiveness Survey indicates that most businesses in Togo have good human resource practices that enable them to find and retain the skilled workers they need, even during the COVID-19 crisis. Still, the results show that companies in the northern parts of the country, as well as those with more informal hiring practices, are investing less in their workforce – with dire results for unemployment during the pandemic.

Investments in job-relevant skills could help all small and medium-sized enterprises in Togo find the workers they need to participate in the inclusive and transformative growth of the economy.

Established hiring practices help find better candidates

The companies interviewed for the SMECS confirmed their solid human resource practices. Three-quarters of these firms said they found skilled workers on the labour market. The same proportion had an established hiring process to choose the best candidate for their firm. What's more, most companies (90%) said the skill sets of their current employees suited the needs of the firm.

These survey results suggest that a shortage of skilled workers is not a pressing concern for most Togolese firms. Although previous studies warned that many companies suffered from a mismatch between labour market skills and their own needs, this issue touched just 10% of firms interviewed for this report.⁷²

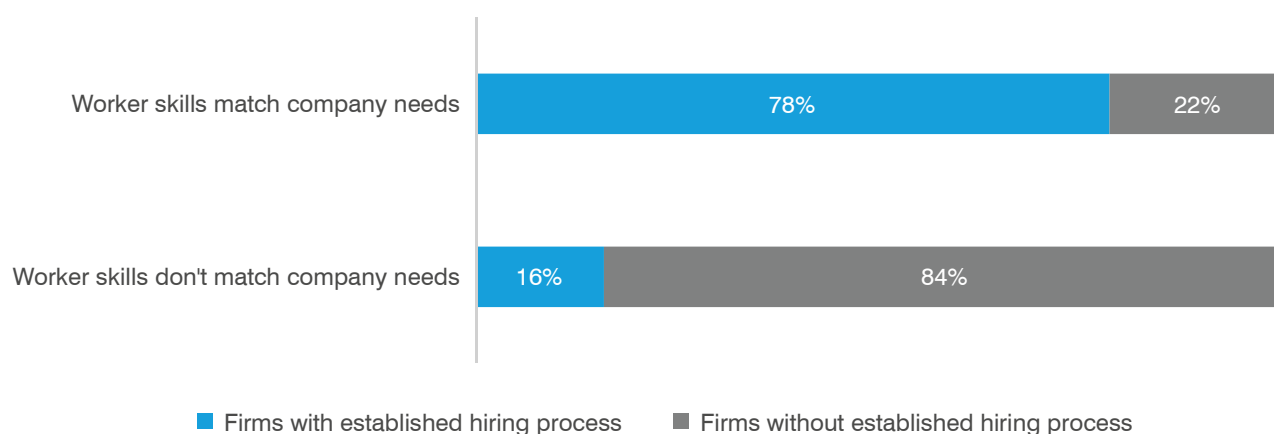
Although small, this share is not negligible. It may be very expensive for these businesses to deal with skills shortages

by, for example, training their employees or hiring skilled foreign workers. Indeed, research shows that approximately 30% of Togolese firms offer training to their employees.⁷³

Most companies that said they were able to match worker skills with their own needs had good human resource

practices. More than three-fourths of these firms (78%) had established hiring practices for recruiting the best workers. On the other hand, 84% of firms that complained about their workers' skills not being a good fit for their enterprise had no fixed hiring process in place.

Figure 18 Firms with well-matched skill sets have good hiring practices



Note: Respondents were asked: 'Please rate the extent to which the skill set of currently employed workers matches the needs of this company' and 'Please rate the extent to which your company has an established hiring process to hire the best candidates.' Answer options ranged from 1 (poor match, no established process) to 6 (good match, strong established process). Worker skills match the needs of companies that chose 4, 5 or 6 on the first question. Firms are defined as having an established hiring process if they chose 4, 5 or 6 on the second question.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.



Established hiring practices help businesses efficiently identify the best match for the position they are seeking to fill, thereby increasing productivity and ultimately leading to greater competitiveness.⁷⁴ Formal selection practices, which involve searching for and assessing job applicants using tests and interviews, and qualification-based selection are considered effective matching methods.

In contrast, informal methods such as social networks are less successful in filling vacancies with suitable candidates.⁷⁵ Especially in the start-up stage, SMEs the world over rely on their social networks, family and friends as their primary sources of personnel.⁷⁶ Yet in the long run, this practice can compromise company skills, which in turn hurts innovativeness and undermines the competitiveness of the firm.

Northern regions lack skilled workers

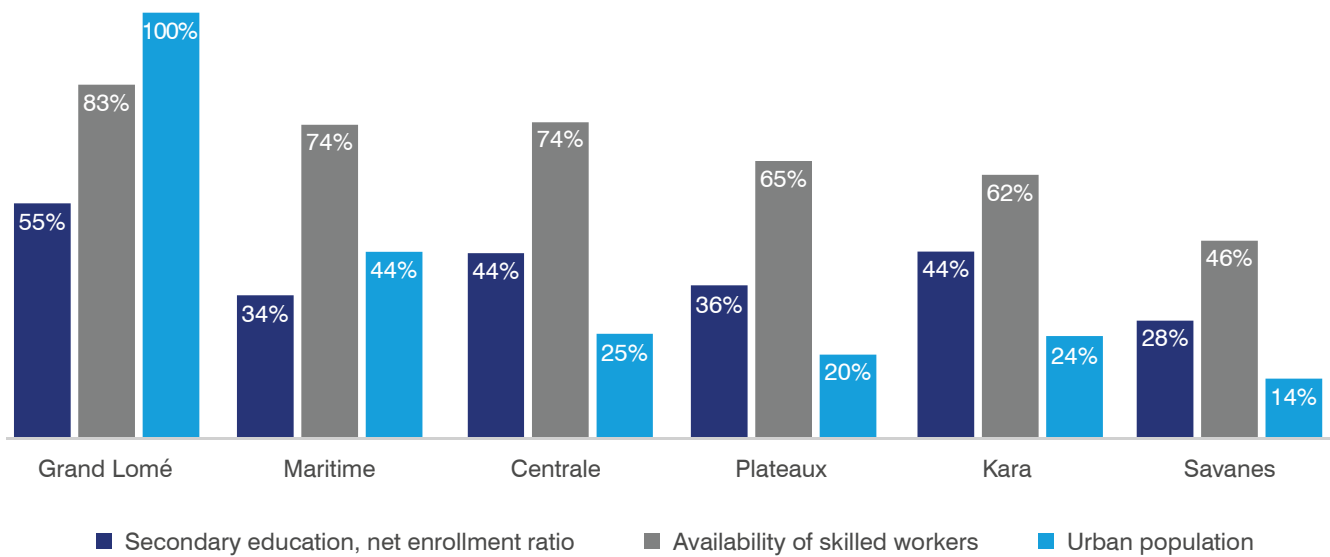
Drilling down into regional data shows that skilled workers are not distributed uniformly in Togo. Companies in the southern part of the country appear to have an advantage

over those in the north, which struggle to hire employees with the right skills.

In the capital city of Lomé, 83% of enterprises say there are plenty of skilled workers. Similarly, three-quarters of interviewed firms in the Maritime and Centrale regions

are largely satisfied with their local labour markets. In the Plateaux and Kara regions, however, the share slips to 65% and 62%, respectively. The northernmost area of Savanes struggles the most with this challenge, with only 46% of firms pleased about the availability of skilled workers.

Figure 19 Skilled workers are more available in Togolese cities



Note: Respondents were asked: 'Please rate the availability of skilled workers for hire.' The percentage shows the share of respondents who chose options 4, 5 or 6 from a range of 1 (shortage of skilled workers) to 6 (plenty of skilled workers). Net enrollment ratio for secondary education is defined as the number of children enrolled in secondary school who are of official secondary school age, expressed as a percentage of total number of children of official secondary school age.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo and Togo Census 2010.

These findings can be understood in a context where demand for skilled labour tends to be higher and educational services more widely available in urban areas, which for these reasons benefit from a greater supply of qualified labour. In addition, higher demand for skills in urban areas encourages skilled workers to move to cities.⁷⁷

In this sense, the unbalanced distribution of skilled workers in Togo is testament to migration within the country, with many young people relocating to urban areas in the south. It implies an unequal business environment that may hamper the development of growth-oriented firms in the hinterlands of the country.

Easier access to talented labour gives a competitive advantage to firms located in the southern and central regions. They can access the skills necessary to produce high-quality goods efficiently and compete in national or

overseas markets. This situation also suggests a deficit of talent in the rural regions that are growing and processing the primary products that make up a majority of Togolese exports.

This phenomenon manifests itself in Togo's regional socioeconomic indicators. In Savanes, where just 14% of the population lives in urban areas, the secondary school enrolment rate stands at 28% and about half of surveyed firms reported hardships in finding employees whose skills matched their needs. These figures contrast with those of Lomé, which is 100% urban, has a 55% rate of secondary school enrolment and where 83% of interviewed businesses said skilled workers were readily available.

By implication, the availability of qualified labour in Togo stems from the secondary school enrolment rate and urbanization. This suggests that the regional and rural-urban

skill supply gap can be partially filled by improving access to educational services across the country.

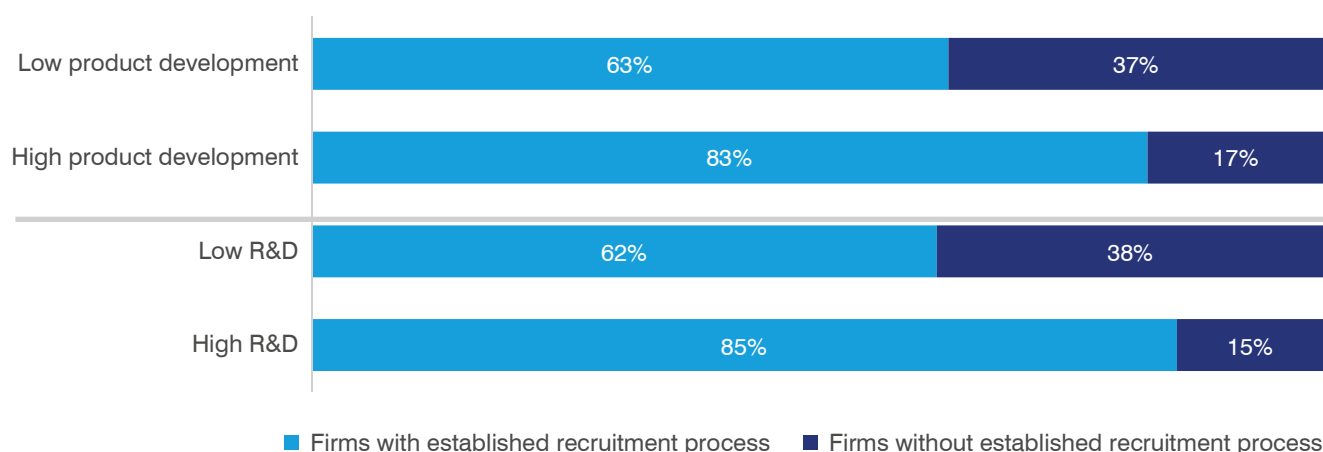
Structured hiring is key for innovation

In today's competitive business world, innovation is essential to stay ahead of the pack. Innovation shapes competitive advantage by generating new ideas and transforming them into products, processes or systems that meet the ever-changing needs of the market.⁷⁸ Such a process is founded on research and development (R&D) activities,⁷⁹ which depend on talented employees.⁸⁰

Identifying and selecting suitable employees who have the needed set of skills and knowledge is, therefore, pivotal to innovation.⁸¹ This is why an established, structured hiring process can significantly affect the ability of a company to change and to compete.

Survey data from Togo show that a firm's level of commitment to innovation, as indicated by R&D expenses and the frequency of product or process development, goes hand in hand with well-organized hiring practices. Indeed, 85% of firms with high R&D spending hire their employees using systematic recruitment processes. On the other hand, just 62% of companies that spend little on R&D have established recruitment practices. The relationship between product development and hiring practices follows the same pattern.

Figure 20 Innovative companies use established hiring processes



Note: Respondents were asked: 'Please estimate the level of resources your company commits to research and development' and 'Please rate the frequency with which your company develops and implements new or improved processes or products.' Companies are included in the category of 'High R&D' if they chose options 4, 5 or 6 on a scale ranging from 1 (no resources) to 6 (high level of resources), and 'Low R&D' otherwise. Companies are included in the category of 'High product development' if they chose options 4, 5 or 6 on a scale ranging from 1 (rarely) to 6 (often), and 'Low product development' otherwise.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

Boosting workforce skills protected jobs

Small businesses employ the lion's share of workers in Togo and are therefore crucial to the ability of the country to meet Sustainable Development Goal 8 on decent work for all. As many workers depend on small business survival for their daily bread, these firms are also vital for Togolese citizens to survive the COVID-19 pandemic with enough income to meet their basic needs.

Preliminary evidence from the SME competitiveness and COVID-19 surveys indicates that the rigour of SME human resource practices is instrumental in determining how their workers fare during crises.

Analysis of the responses of Togolese companies to the surveys shows that those with tighter recruitment and training programmes for employees were less likely to let staff go during the pandemic. Only 14% of companies with strong hiring processes were forced to put their staff on



temporary unemployment during the crisis, compared to 29% of those that had weak hiring processes.

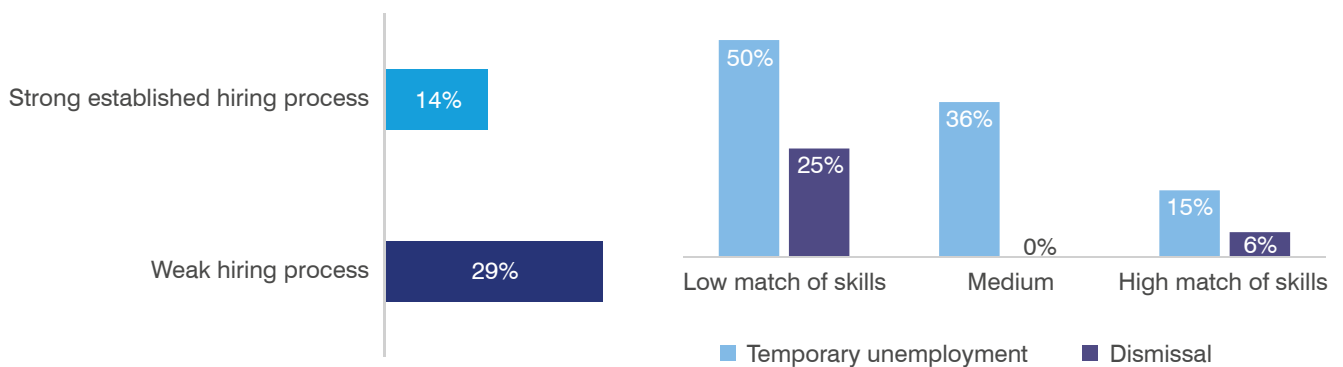
Similarly, just 6% of firms that provided training and had hiring measures to ensure a high match of employee skills

with workforce needs had to dismiss workers during the pandemic. In contrast, 25% of companies that admitted weak hiring and skills matching before the crisis had to fire employees.

Figure 21 Strong human resource practices protected workers during pandemic

(a) Share of firms turning to temporary unemployment

(b) Unemployment measures taken by firms



Note: Respondents were asked: 'Please rate the extent to which the skill set of currently employed workers matches the needs of this company,' 'Please rate the extent to which your company has an established hiring process to hire the best candidates' and 'What measures have you put in place to overcome the difficulties that are confronting you?' Options included temporary employment measures and dismissal of employees.

Source: ITC calculation based on SME competitiveness and COVID-19 data collected by CCIT in Togo.

The evidence shows that firms that did not invest in the skills of their workforce before the pandemic did not value those workers once the pandemic hit – and so were more likely to let them go. That is, companies with weak human resource practices in good times used temporary unemployment schemes and dismissals to deal with the business impact of the pandemic, while other firms used other coping strategies.

Indeed, companies with poor human resource management before COVID-19 seemed to follow a coping strategy during the pandemic founded upon job retrenchment. Firms that shifted to part-time work during the pandemic said they expected to shift some of their workforce to temporary

unemployment within the next three months. However, half of the businesses that had already introduced temporary unemployment expected to move towards dismissal in the coming three months.

This suggests a vicious cycle: companies that lacked strong hiring processes before the pandemic had poor skills matching when it hit, reduced work hours in the short term to cope, and laid off employees in the medium term. By implication, to reduce layoffs during crises, SMEs should be encouraged to invest in the skills of their workforce during good times. This increases the marginal productivity of their employees, and thus their value – and retention – when a crisis hits.

Policy insights: Investing in trade-relevant skills

Although the satisfying access of many Togolese SMEs to skilled labour is a boon to their competitiveness, analysis of the data reveals that many companies in the north of the country, as well as those without structured hiring practices, have employees without the skills needed for the business to thrive.

This is problematic in light of the fact that skills are central to the innovativeness of the private sector as well as the coping strategies used by firms during COVID-19. Combined with migratory flows, the risk is the emergence of a dualistic economy, with some thriving companies clustered in urban areas capturing the best and brightest, while others play fast and free with undereducated, underequipped workers stuck in dead-end jobs.

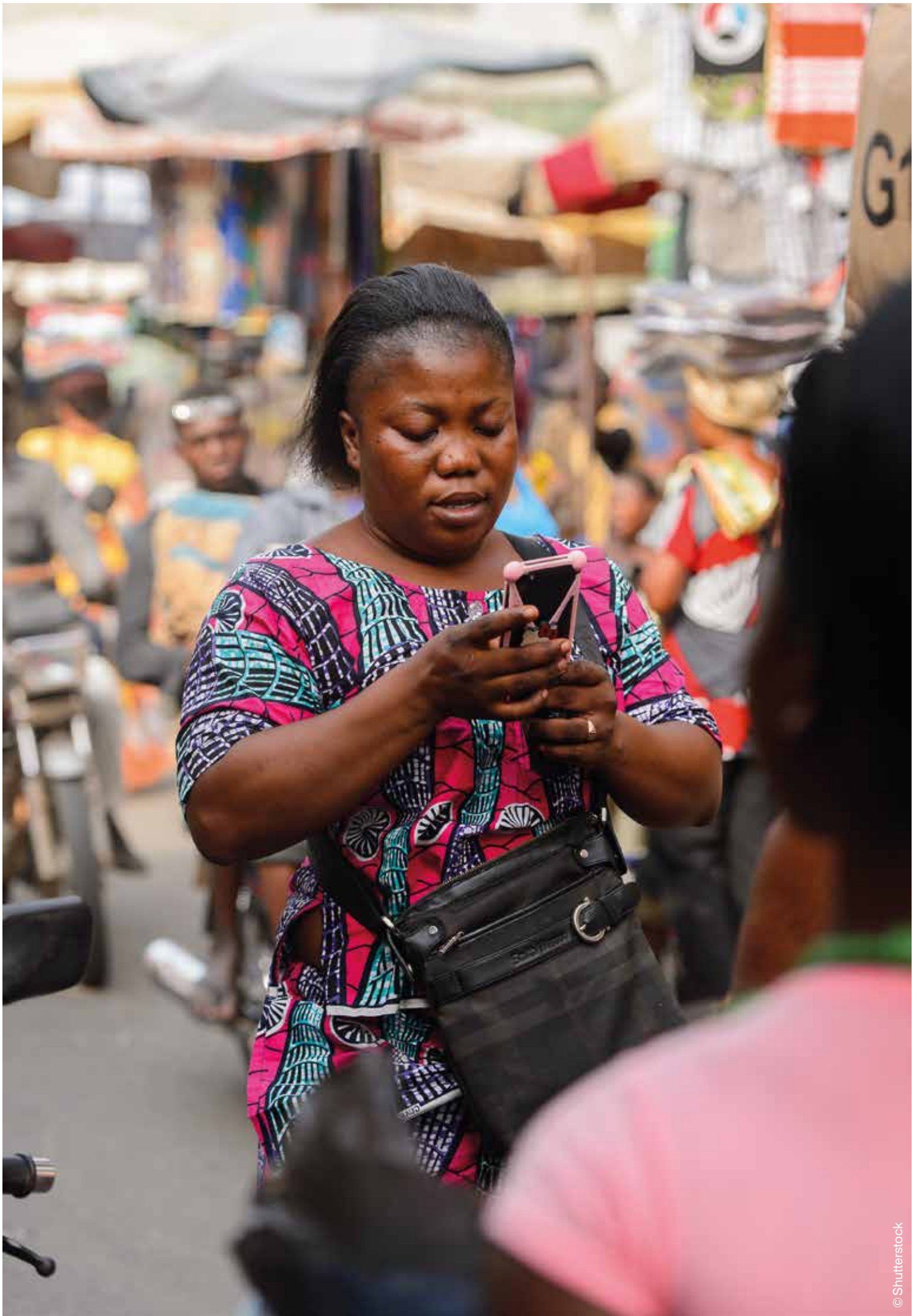
Elsewhere in Africa, this eventuality has been avoided through investment in the ‘missing middle’: education in middle school education and relevant training. In the Gambia, innovative collaboration between trade and vocational education and training institutions (including those in remote areas) and the private sector has ensured

that training programmes target identified skill shortages and lead to work or to the establishment of small, viable businesses. In addition, impact investors are starting to invest in schools in West Africa that support skills-relevant training.

Togo has struggled to align its educational system with its labour market needs for a long time. This has resulted in a low rate of employability of a large group of university graduates and a simultaneous need for skilled and qualified workers.

The government’s education strategy 2014–2025 aims to address this issue, including by developing quality technical, vocational and higher education courses that are aligned with labour market demand. Along with the plan’s approach to ensuring universal quality primary education, these changes could improve the quality of the skill sets of the pluckers, miners, processors and service workers that make up the backbone of the manufacturing and agricultural supply chains driving Togolese exports.

Sources: Financial Times (2019). Impact investors learn value of African education sector. *Financial Times*. 27 August. <https://www.ft.com/content/40735646-82f6-11e9-a7f0-77d3101896ec>; Dilly, T. (2019). Support education in Africa: towards a new partnership approach. *Entreprenante Afrique*. 11 September. <https://www.entreprenanteafrique.com/en/support-education-in-africa-towards-a-new-partnership-approach/>; Amouzou, *op. cit.*; Bayale, N., K.-A. Johnson and K. Evlo (2019). *Education in Togo: Towards a renewed strategy of the triptych training-employment-economic development*. Munich Personal RePEc Archive. <https://mpra.ub.uni-muenchen.de/93500/>; Ministère des enseignements primaire et secondaire, Ministère de l’enseignement technique et de la formation professionnelle, and Ministère de l’enseignement supérieur et de la recherche (2014). *Plan sectoriel de l’éducation 2014–2025: Amélioration de l’accès, de l’équité et de la qualité de l’éducation au Togo*.



Chapter 6

Adopting technology for a digital future

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Adopting technology for a digital future

The adoption of new technology is proving central to businesses in the twenty-first century. If workforce skills are the seeds of innovation, technological capabilities act as the fertilizer that allows efficient creation of market-ready products and services. Whether technologies are technical tools themselves – such as computing, machine or other products – or as knowledge about effective production techniques, developing and adopting them gives firms a competitive advantage.⁸²

Firms can reinforce their technological capabilities by developing new or improved products and by adopting new technologies from elsewhere. Supportive activities include R&D, patenting, incremental innovation and quality upgrading.⁸³ These activities allow the available knowledge to be applied to the firms' production processes, putting knowledge and technology to work for the economic transformation of the economy.⁸⁴

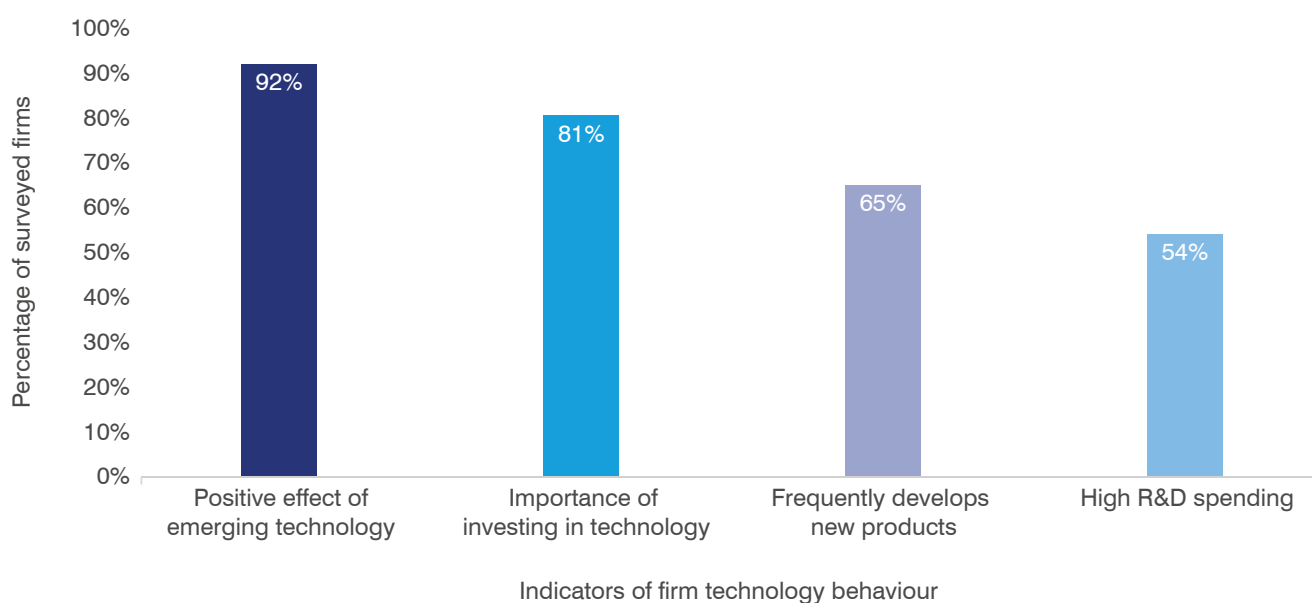
Togolese firms are generally open to new digital technologies, according to the survey evidence. Although their adoption of such tools is still in its infancy, youth-led and international firms are leading the way. This trend is particularly timely because technological adeptness came in handy during the COVID-19 crisis, when enterprises with digital connections used them to cope with curfews.

Positive attitudes towards new technologies

The SME Competitiveness Survey indicates that there is widespread goodwill among Togolese firms towards emerging technologies and the potential they have to improve their business operations. Indeed, 92% of interviewed firms said new technologies benefit their businesses, and 81% said it was important to invest in technological tools, applications and services.



Figure 22 Almost all firms see positive impact of new technologies



Note: Respondents were asked: 'How do you perceive the effect of emerging technologies (such as e-commerce, artificial intelligence, 5G connectivity, automation, robotics) on your business?', 'How would you rate the importance of investing in technological tools/applications/services for your company?', 'Please estimate the level of resources your company commits to research and development' and 'Please rate the frequency with which your company develops and implements new or improved processes or products.' Answer options for the first question ranged on a Likert scale from 1 (very positive) to 6 (negative). The percentage of respondents who chose an answer 1, 2 or 3 to the first question are included in the 'positive effect of emerging technology' bar above. The other questions ranged on a Likert scale from 1 (not important, no resource, rarely) to 6 (very important, high level of resources, often). The percentage of respondents who chose an answer 4, 5 or 6 to these questions are included in the figures above.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

There appears to be a gap between the share of Togolese firms that consider investing in technology to be highly important (81%) and those companies that actually invest in research and development (54%). This 27 percentage point difference can be attributed to desired versus actual technological investment. Other studies in developing countries emphasize how bottlenecks in technical skills, high technology costs and inadequate core infrastructure curb actual investments in technology.⁸⁵

Yet when financial and other resources permit investments in research and new technologies, this seems to yield fruit for the innovativeness of Togolese SMEs. Two-thirds of interviewed firms said they frequently generated new outputs or improved their business processes.

Many of these new techniques, products and processes use new information and communications technologies (ICT).⁸⁶ With 80% of the country's residents having a mobile phone connection, instant messaging through cell phones is a relevant and suitable twenty-first century digital

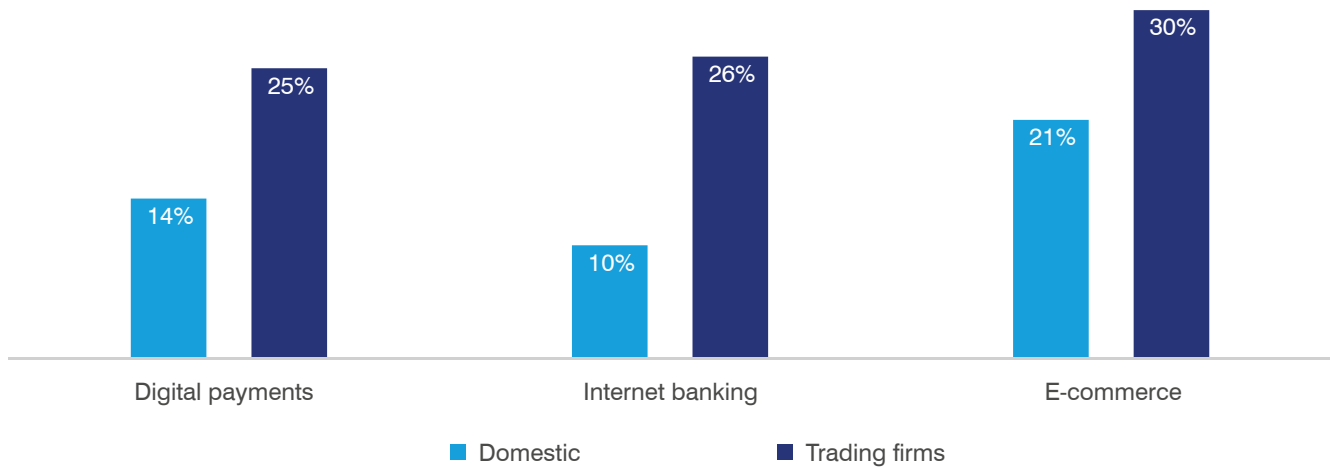
tool for local SMEs.⁸⁷ Instant messaging via applications such as WhatsApp is the preferred means of ICT-enabled connectivity with buyers and suppliers, with 83% of surveyed firms saying they use them.

E-mail was the second most popular digital technology used by interviewed firms, with 58% of respondents saying they send e-mails for their business. E-mails and the internet have emerged in Togo as a key way to facilitate business outreach; indeed, a quarter of interviewed companies had a company website.

Traders are technological leaders in Togo

Data from the SMECS show that companies that trade internationally lead adoption of digital financial technologies in Togo. Firms that export or import are more likely to use digital payment systems and internet banking facilities, and to sell their wares on e-commerce sites, than businesses that focus only on the domestic market.

Figure 23 Trading enterprises use more online financial tools



Note: Respondents were asked: 'Which of the following tools and services do you currently employ for your business?' Shares are companies that said 'yes' for digital payments, internet banking and e-commerce. Domestic firms are companies that do not export or import, and trading firms are companies that do either or both.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

The popularity of new digital tools among internationalized firms stems from their exposure to the latest technological innovations through their supply chain connections.⁸⁸ The technical assistance that traders get through their trading partners eases the technological take-up process, encouraging these traders to be early innovators in the local business ecosystem.

Indeed, survey responses suggest that Togolese exporters tend to incorporate new ideas into their production processes more frequently than non-exporters. This indicates that trading firms are early adopters of digital technologies in Togo and that other companies may follow their examples in the years to come. These follower firms may imitate the demonstration effect of the trading leader firms by taking up digital tools in turn, in a process known as technological herding.⁸⁹

Young entrepreneurs nurture innovation

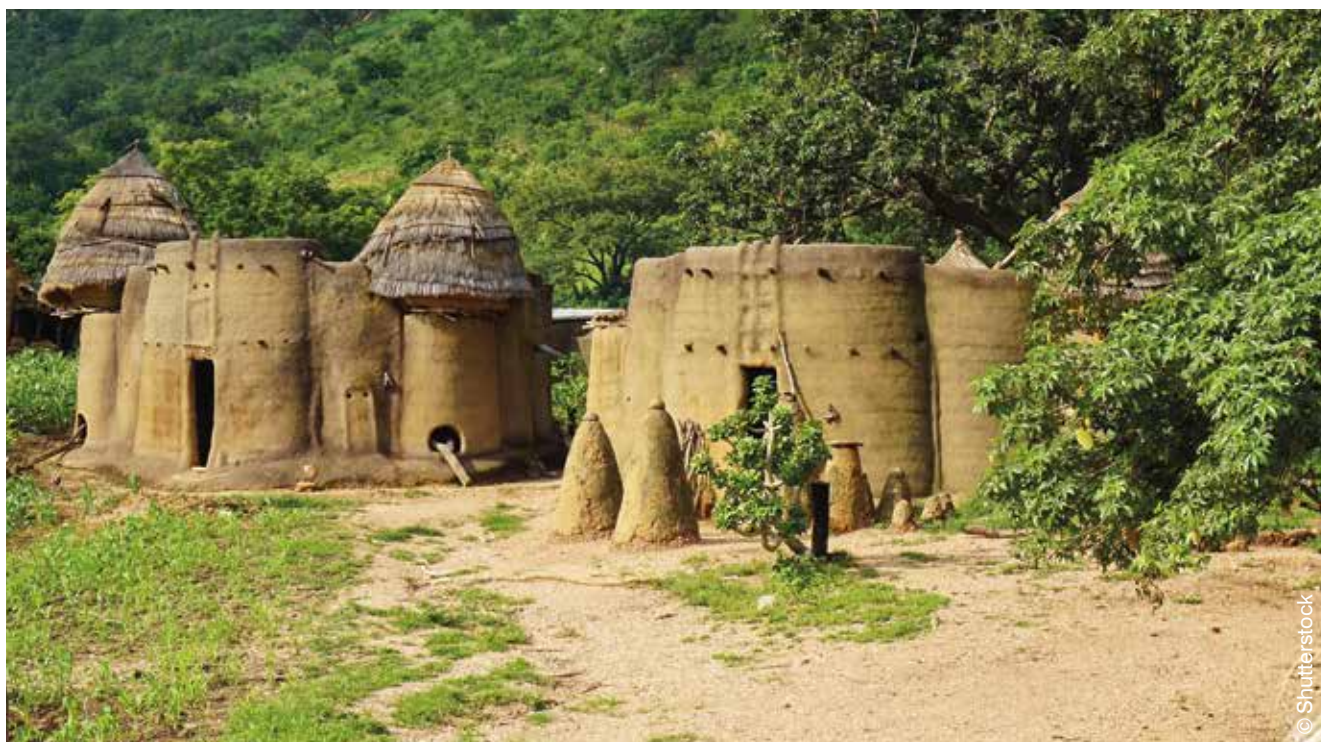
Young people are often described as 'digital natives', and the companies started by entrepreneurs under 35 years of age often use the digital technologies that their founders grew up with.⁹⁰ Although many young people are still acquiring the digital skills needed to thrive in the workforce, the evidence from Togo indicates that young entrepreneurs have a head start on the task.

Youth-led firms interviewed for the SME Competitiveness Survey were markedly more likely to expect emerging technologies to be beneficial. Indeed, 83% of young entrepreneurs believe these new technologies have a very positive effect on their business, compared to 70% of older entrepreneurs. E-commerce platforms, electronic data storage and digital payment technologies were also more popular among younger business leaders.

This partly reflects the fact that young Togolese entrepreneurs are more willing than their older counterparts to invest in their technological capabilities and innovation activities. The share of youth-led firms that allocate a high level of resources to R&D is 11 percentage points higher than the share of non-youth-led firms.

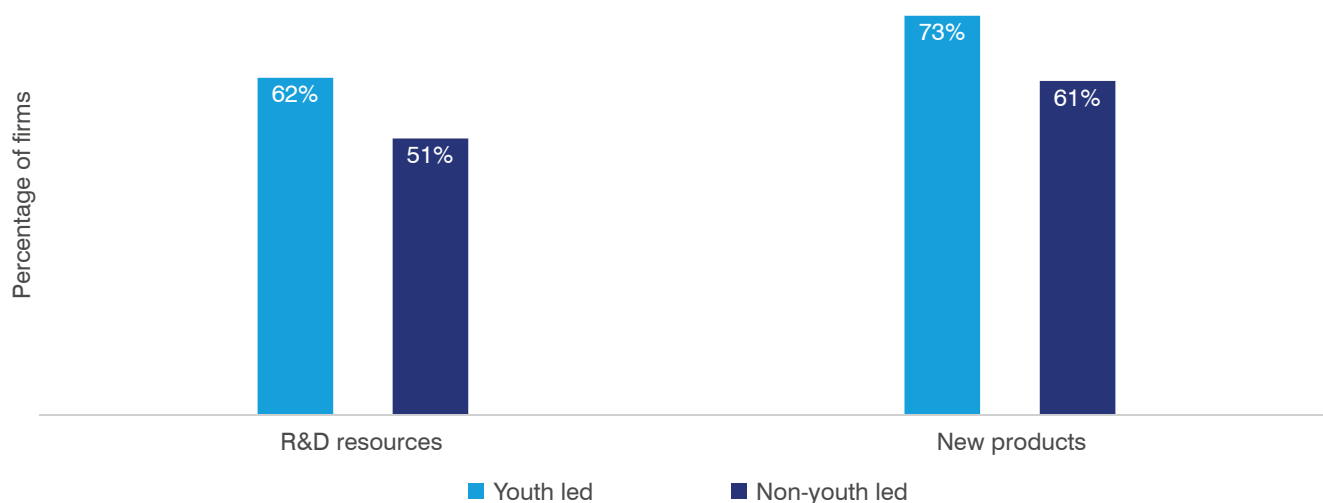
These investments seem to reflect high levels of youth innovation in Togo. When asked about the frequency of the development of new goods and processes in their firm, 73% of young entrepreneurs and 61% of senior entrepreneurs said they often do so.

Interestingly, companies led by young people and those headed by their elders agree that the physical information technology infrastructure is the top investment priority for their business. Regardless of the age of their managers, Togolese firms want to invest in purchases of 'hard' technologies such as computers, routers, printers and scanners.



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Figure 24 Young managers spend more on research and product creation



Note: Respondents were asked: 'Please estimate the level of resources your company commits to research and development' and 'Please rate the frequency with which your company develops and implements new or improved processes or products.' Answer options for each question ranged on a Likert scale from 6 (high level of resources/often) to 1 (no resources/rarely): the percentage of respondents who chose an answer 4, 5 or 6 to each question are included in the figure above. Youth-led firms are defined as those whose top manager is 34 years of age or younger.

Source: ITC calculation based on SME competitiveness data collected by CCIT in Togo.

However, youth-led firms were relatively more interested in investing in digital marketing tools. Among the 154 young Togolese managers interviewed for this report, 55 described e-mail marketing platforms and other similar

technologies as a priority: this 36% rate was higher than the 27% of older respondents who were interested in these tools.

Senior managers were more interested in investing in data management and storage, however. The rate of their interest in cloud services, servers and networks was four percentage points higher than for firms headed by young entrepreneurs.

Technologies were handy to cope with curfews

Access to information and communications technologies became more important during the COVID-19 pandemic, both to access market intelligence and to conduct sales and obtain supplies online.⁹¹ Indeed, all the surveyed Togolese companies that said they had high-quality access to the internet reported facing no difficulties in acquiring administrative information during the crisis. However, a quarter of companies with poor-quality internet access said they experienced such difficulties.

The inclusive nature of digital technologies proved helpful during the pandemic, when the Government of Togo provided digital cash transfers to help informal workers whose incomes had been affected by the confinement measures imposed to contain spread of the virus. The Novissi programme has reached more than one million citizens, including in autumn 2020, when targeted transfers

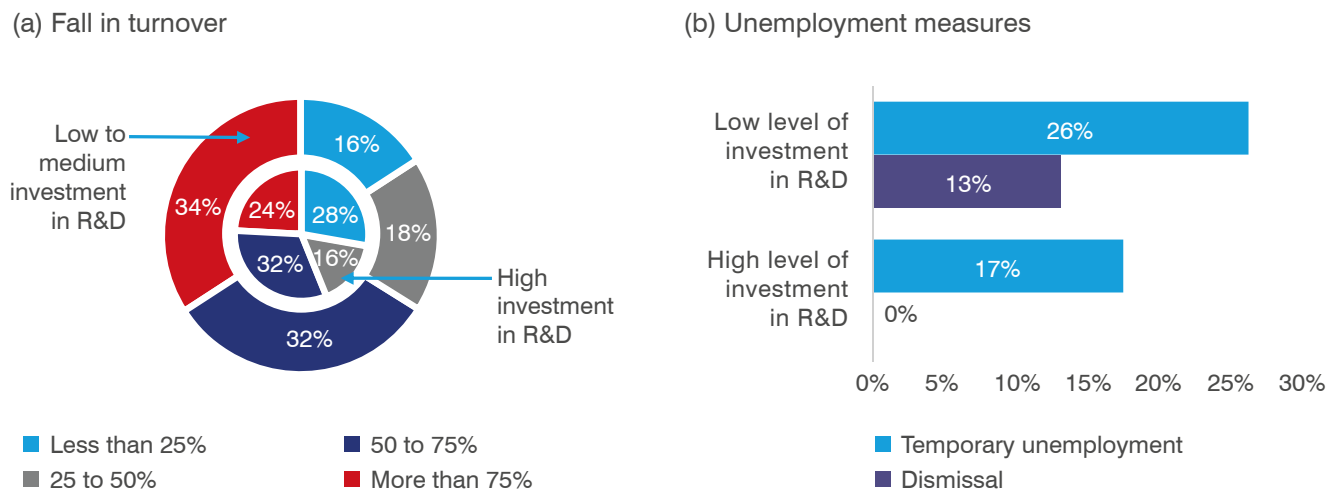
were sent to residents of villages put under curfew due to localized outbreaks. Initial evidence suggests that as much as 85% of targeted populations have received transfers, the majority of them women.⁹²

The survey evidence also indicates that a pre-crisis focus on digital management helped companies go digital once the curfew was imposed, reducing the impact of the crisis. Companies that said they were prioritizing data management before the pandemic were nine percentage points less likely to have their turnover decline by 50% or worse during COVID-19.

Similarly, the turnover of surveyed companies that invested a lot of resources in R&D before the crisis decreased less during the pandemic. A quarter of them had turnover declines exceeding 75%, compared to 34% of firms that invested limited or no resources in research.

As a result, these innovation-intensive firms did not have to fire staff during the pandemic and just 17% sent staff on temporary unemployment. At the same time, 13% of low-research firms dismissed workers and 26% used temporary unemployment measures.

Figure 25 Research-intensive firms kept turnover and didn't fire staff during pandemic



Note: Respondents were asked, in early 2020: 'Please estimate the level of resources your company commits to research and development.' Answer options for each question ranged on a Likert scale from 6 (high level of resources) to 1 (no resources/rarely). The percentage of respondents who chose an answer 5 or 6 are defined as 'high investment in R&D' in the left panel above. The same respondents were asked, in April 2020, 'Is your turnover currently increasing; stable; or decreasing?' and a follow-up question asked 'If decreasing, by what proportion?' A separate question asked, 'What measures have you put in place to overcome the difficulties that are confronting you?' Options included temporary unemployment measures and dismissal of employees.

Source: ITC calculation based on SME competitiveness and COVID-19 data collected by CCIT in Togo.

More robust turnover and staffing during confinement meant that research-intensive firms in Togo were more optimistic about the global economy. When the Chamber of Commerce of Togo interviewed them about their future

prospects in April 2020, three-quarters of companies that invested heavily in R&D were confident about restarting their business after the crisis. Just half of non-research firms were certain about the likelihood of reopening.

Policy insights: Support young digital leaders

Small businesses in Togo are on the cusp of a technological revolution, and many of them are already using new technologies to market their goods and services. The widespread use of instant messaging as a business tool, and the take-up of internet among traders and young entrepreneurs, show that there is the potential for other Togolese SMEs to follow in the adoption of internet-enabled technologies.

Young people are the leaders in this technological makeover. They are investing more in innovation than other entrepreneurs, and many are ‘digital natives’ who grew up with these tools. As young people come to make up more of the Togolese workforce, there is an opportunity to capitalize on their digital expertise to leapfrog directly to cutting-edge global digital practices.

However, weaknesses in the ICT infrastructure risk acting as a barrier to the ability of young entrepreneurs to take their digital ideas to market. Poor connections are the result of poor ICT infrastructure in many cases, with more than half of the firms interviewed for this report saying that volatile electricity access and internet connectivity were major challenges in using digital tools. Limited access constrains the use of the internet in Togo: just one in five people have

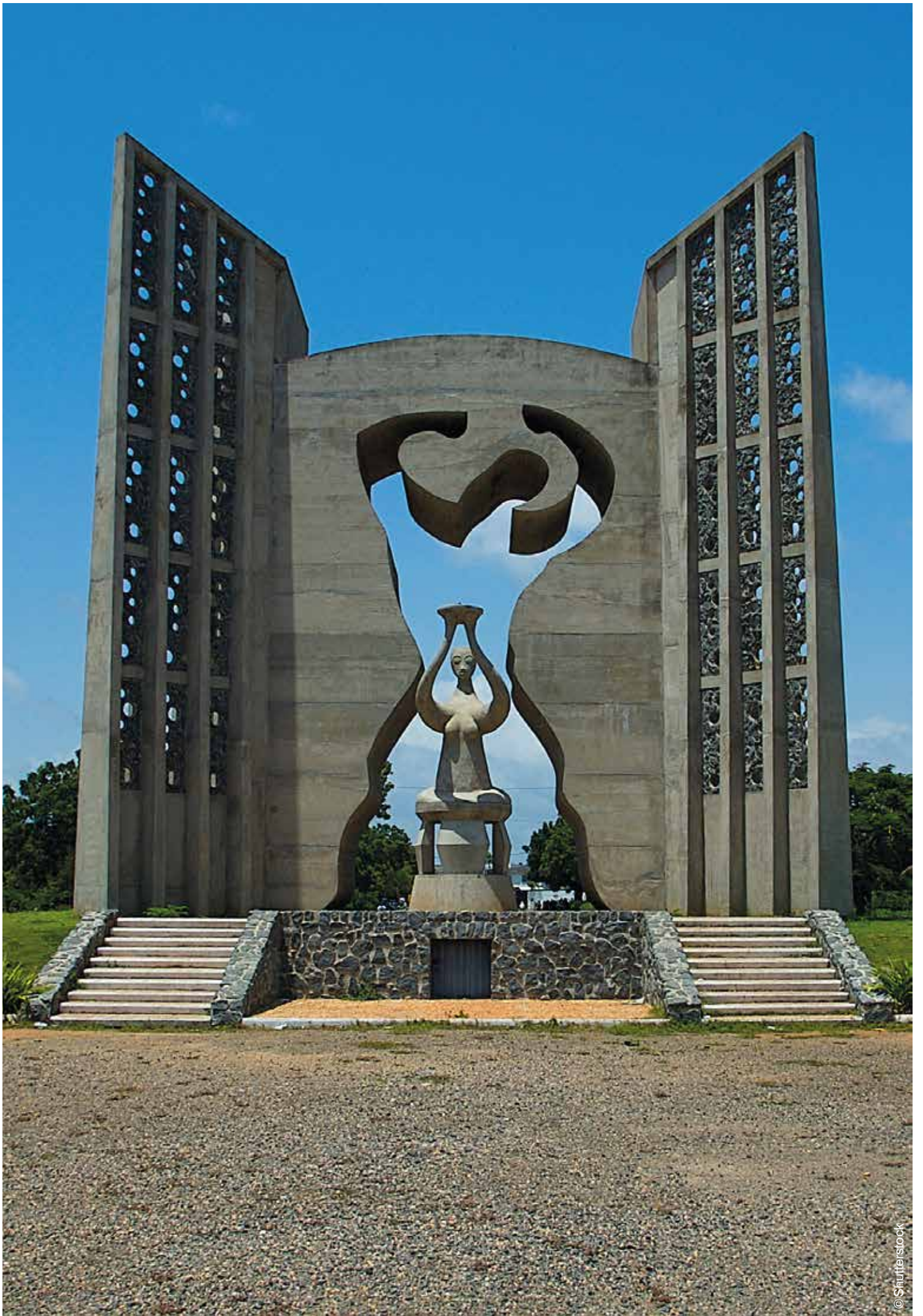
internet access, and two in five firms describe their access as poor.

Efforts to deepen the ICT infrastructure would enable youth-led companies to use the latest technologies for their productivity and marketing. This begins with improving the quality of electricity access, notably in rural areas. The Government could also offer subsidies for internet subscriptions as well as training in website development and maintenance.

Government and development agencies can promote the dissemination of technologies that make internet connections possible in remote areas – for example, solar panels that generate electricity for internet-connected computers in villages. These, in turn, can be used by small businesses to access market information and promote their offering.

Efforts to showcase the technology projects of young entrepreneurs can disseminate the knowledge of these technological experts throughout the economy. Business support organizations and governments can help youth-led companies demonstrate how to use this technology and in so doing bring all of the Togolese economy into the brave new digital world.

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Chapter 7

Policies for resilience and competitiveness

Policies for resilience and competitiveness

Small businesses hold the key to structural transformation in Togo. They are on the verge of a technological revolution that is changing how advertising, production and trade occur in this small West African country. As Togo recovers from the shock of the COVID-19 pandemic, the competitiveness of its small and medium-sized enterprises will determine the terms of its re-engagement with the international economy.

Small and medium-sized businesses produce the commodities that make up most of Togo's export basket. But they also include the innovators in the manufacture of the latest technologies that allow the country to stay at the cutting edge. And crucially, they provide jobs and livelihoods to millions of workers in good and bad times.

This report finds that although Togolese SMEs perform well on many business criteria, several important constraints keep them from achieving their full potential. Spreading

infrastructure and good management practices throughout the country could lubricate the wheels of these small firms, enabling them to upgrade and thereby stimulate economic linkages throughout the economy.

Improving competitiveness for resilience

The experience with COVID-19 has delivered several lessons for those interested in private sector development. One, companies that are more productive are more resilient to crises, and this is crucial in our tumultuous times. Second, the ties that bind firms together – be it electricity cables bringing information on support programmes or the social networks through which businesses in the same sectors solve transport difficulties together – are essential means to dynamically improve business performance.





Competitive, efficient Togolese firms were more resilient during the pandemic. This stems from their better management practices: those that started with a bank account tended to keep proper records, and those that kept proper records were more productive. These more productive businesses were in turn less likely to see their turnover plummet during the crisis. To reduce the risk of firm failure in the future, investments in good SME management may be wise.

Companies that said they were engaged with a sectoral association, chamber of commerce or other business support organization were less likely to suffer supply and transport challenges when the COVID-19 pandemic hit. This underscores that strong connections between firms, and the organizations that support them, are essential to business resilience to crisis in Togo.

Finally, global market conditions are changing rapidly, because of health, technology and trade disruptions. Firms that were innovation intensive did not have to dismiss staff during the pandemic, highlighting how their pre-crisis research and development boosted their adaptive capacity during the crisis. Further encouragement of such innovation

bodes well for the ability of Togolese SMEs to continue to ride out the volatile wave of twenty-first century market change.

Investing in infrastructure to upgrade exports

There are significant regional differences in access to electricity and infrastructure across Togo. Deficits in the northern region, in particular, pose a challenge to businesses operating there. Poor-quality electricity was an issue for twice as many companies interviewed in northern areas of the country than in southern regions, who were more satisfied. There is also a regional cleavage in access to logistic services, which are concentrated in the south.

Investments in better electricity and transport infrastructure could improve the productivity that drives the bottom line of firms. Policies and programmes that increase access to reliable, affordable energy for SMEs in the north can boost the output and quality of these firms so they are competitive enough to link into national and international supply chains. With reliable electricity and internet, and dependable roads and ports, companies can upgrade their production to



more lucrative processed goods for overseas markets. This will be essential to value-added upgrading for structural transformation of the Togolese economy in the future.

Encouraging diversified high-quality value chains

Relatively low rates of certification, and evidence of its high costs, indicate that improvements in Togo's quality infrastructure could make certification more attainable for more Togolese firms. Dedicated financing to facilitate the certification process, particularly for youth-led and smaller companies, could be appropriate.

This is particularly relevant in light of the evidence that certified firms are almost twice as likely as uncertified firms to regularly assess the performance of their suppliers. A nascent movement is underfoot towards cross-value-chain quality upgrading among some firms in Togo that entails SME certification in response to buyer requirements, and their close collaboration with input suppliers.

At the same time, the survey responses of certified firms during the COVID-19 crisis underscores the need to examine their business strategy. Steep drops in sales

and production were endemic to these businesses during the pandemic, and four out of five of them had negative expectations for the future.

This experience highlights opportunities to enhance the diversification, and thus resilience, of certified SMEs in Togo. In this context, policies should continue to encourage these companies to seek certification, but should underscore that such a strategy needs to go hand-in-hand with a well diversified, healthy portfolio of sales outlets.

Facilitating business networks

Three-quarters of surveyed Togolese enterprises advertise, and many solve shared problems together. Collaborative problem solving is particularly common among women-led firms, and those that are part of a business support organization.

These business networks come in handy during hard times, and policies should encourage the creation of a network of business support centres to facilitate collaboration for problem solving as well as access to information. Creating a network of physical business support centres across the country would help companies that do not belong to an

organization, who do not have a track record of cooperation with their peers and who lack access to information and communication technologies, tap into business networks.

Supporting youth-led innovation with digital technologies

Young Togolese entrepreneurs are leading the domestic digital revolution. They seem more willing than their older counterparts to invest in technology and innovation. What's more, a higher share of youth-led firms invest substantially in R&D and new product creation than non-youth-led firms.

Policies to improve internet access in remote areas can equip young digital innovators with the tools they need to be more productive, access new markets and spread their knowledge. Upgrading Togo's ICT infrastructure will also smooth the adoption of internet-enabled technologies for participation in international trade.

The Government could offer subsidies for internet subscriptions as well as training in website development and maintenance. Events that showcase the innovative projects of young entrepreneurs could also demonstrate the potential of digital technologies to other managers in the country, spurring adoption of productivity and trade-enhancing practices.

Catalysing good human resource practices

Although most of the companies interviewed for this report were satisfied with the match between their workers' skills and their own needs, many firms still struggle to find good employees and fail to invest in them. This has labour market implications in times of crisis. Indeed, analysis in this report shows that companies that did not invest in the skills of their workforce before the pandemic did not value those workers once the pandemic hit – and so were more likely to let them go.

Investment in the 'missing middle' – education in middle school education and relevant training – can equip Togolese workers with the skills their SMEs need to be competitive. Government policies that develop Togo's technical, vocational and higher education courses to ensure that they are aligned with labour market demand can ensure small companies have workers they value and keep in difficult times. Human resource training for small firms may be in order as well, to encourage them to introduce official hiring processes.

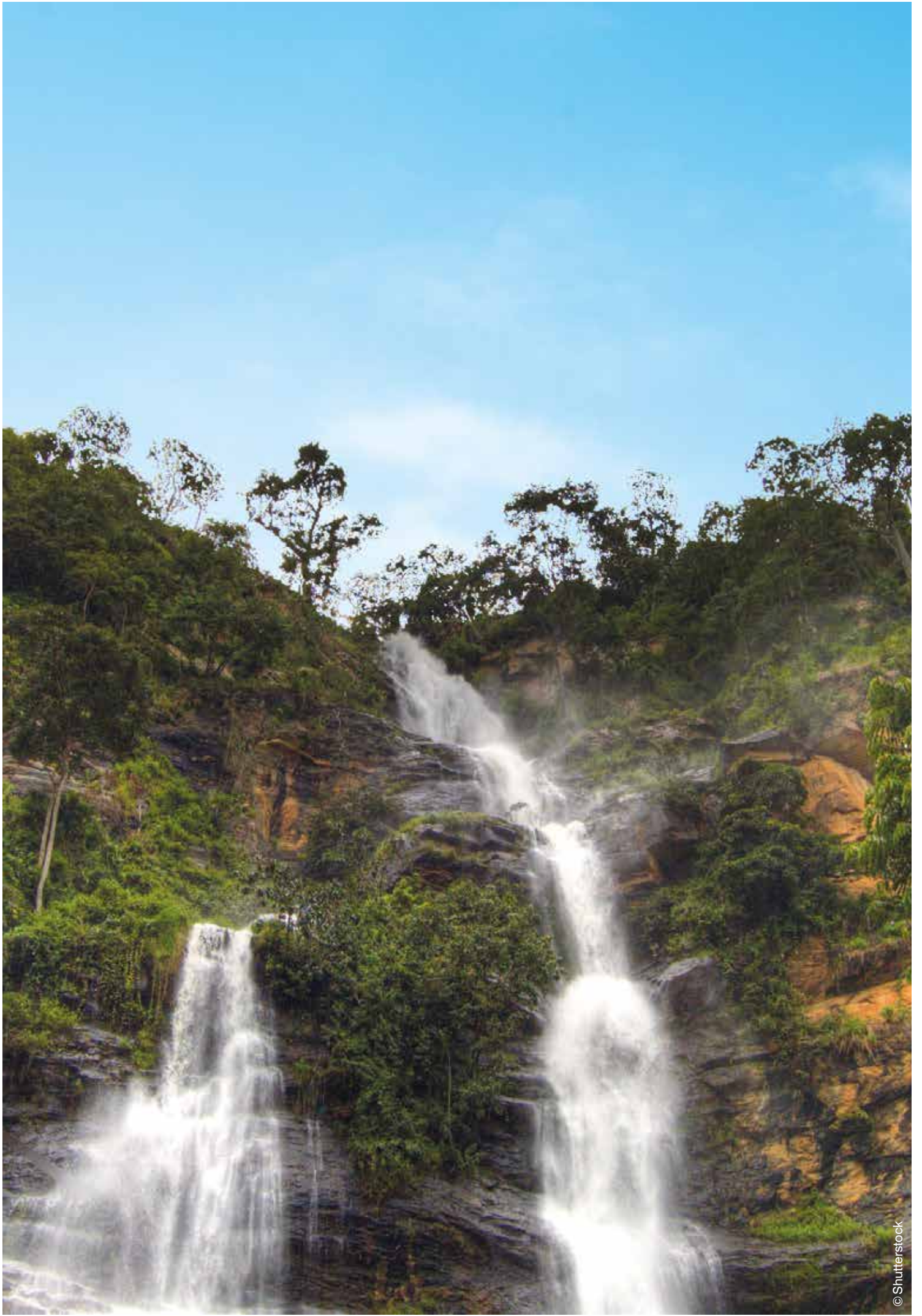
This can help these enterprises avoid a vicious cycle that played out during the pandemic: companies that didn't have strong hiring processes before the pandemic had poor skills matching when it hit, cut work hours in the short term to cope, and laid off employees in the medium term. To reduce layoffs during crises, SMEs should be urged to invest in the skills of their workforce during good times.

Relatively poor access to skilled labour in the northern regions of Togo calls attention to the special need to attract, and retain, skilled workers in these areas. Many of the country's exports come from rural regions, so this focus could improve the quality of the skill sets of the pluckers, miners, processors and service workers that make up the backbone of the manufacturing and agricultural supply chains driving Togolese exports.

Proceeding on the path towards competitiveness and trade

The opportunities identified in this report highlight a pathway towards greater international competitiveness of small businesses in Togo. These policy recommendations, which arise from the analysis of survey data from Togolese companies, show how carefully targeted programmes and policies can address key challenges faced by SMEs in the country.

These approaches to boosting competitiveness and resilience will unleash the ability of small companies to upgrade their exports. If backward and forward linkages throughout the economy are inclusive and sustainable, SMEs can hold true to their promise of contributing to the process of structural transformation in Togo.



Annexes

About the SME Competitiveness Survey

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About the SME Competitiveness Survey

Many factors influence the competitiveness of an economy on domestic and international markets. The International Trade Centre provides a holistic view of enterprise competitiveness in the following definition:

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed.

The importance of competitiveness in driving firm survival, growth and trade make it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. It consists of three pillars that drive competitiveness, each of which is subdivided into three themes (see Figure 1).⁹³

The three pillars of competitiveness are compete, connect and change.

- **Capacity to compete:** The first pillar refers to the static dimension of competitiveness, focusing on the current operations of firms and their efficiency in terms of cost, time, quality and quantity themes. This concept also extends to the immediate business and national environment. Examples of determinants include use of internationally recognized quality certificates (firm capability), access to technical infrastructure (immediate business environment) and low tariffs (macroenvironment).
- **Capacity to connect:** The second pillar centres on gathering and exploiting information and knowledge. At the firm level, this refers to efforts to collect information flowing into the firm (e.g. consumer profiles, preferences and demand), and efforts to facilitate information flows from the firm (e.g. marketing and advertising). At the

immediate business environment level, this includes links to sector associations, chambers of commerce and other trade and investment support institutions. At the national level, the capacity to connect is largely about the availability of information and communications technology infrastructure. The capacity to connect is not strictly a time-sensitive phenomenon, but gathering and exploiting information is so fundamental to current and future competitiveness that doing so is an essential link between the two pillars of static competitiveness and dynamic competitiveness.

- **Capacity to change:** The third pillar pertains to the capacity of a firm to make changes in response to, or in anticipation of, dynamic market forces, and to innovate through investments in human, intellectual and financial capital. This pillar incorporates the dynamic dimension of competitiveness. Industry phases and breakthrough or disruptive innovations all require strategy adaptations. Thus, the capacity to change includes how well firms access finance and invest in human capital, innovation and intellectual property protection. At the business or macroeconomic level, the ability of the environment to deliver these resources to companies is measured.

These three pillars of competitiveness can be examined at three levels of the economy.

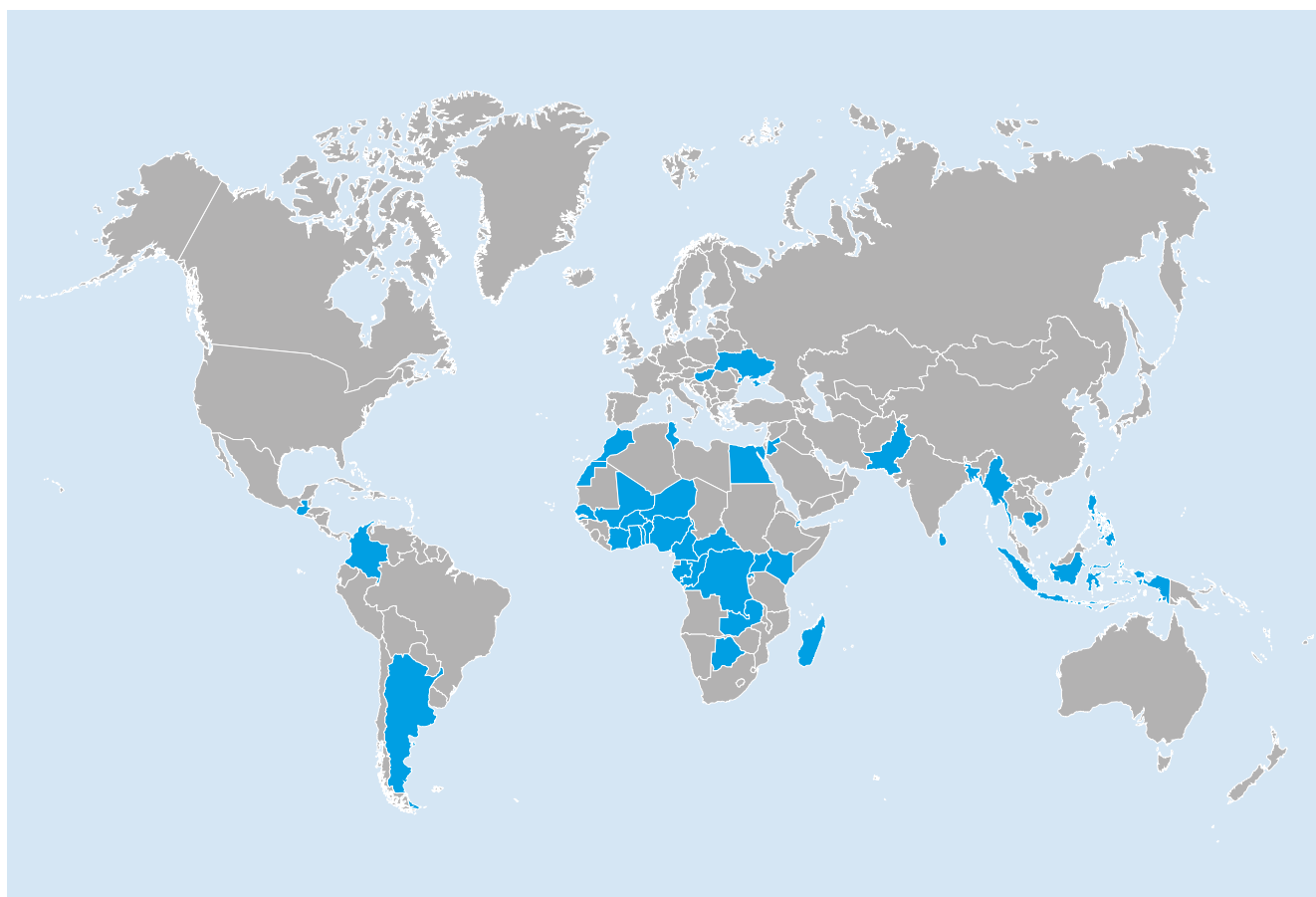
- At the **firm level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants of competitiveness rather than local or microeconomic determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the 'national environment' level of the competitiveness grid. ITC's *SME Competitiveness Outlook 2015* provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.

How to measure the competitiveness of small firms?

Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey (SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of June 2020, more than 17,000 firms had been surveyed in 46 countries, including Benin, Burkina Faso, Kenya, Botswana and Zambia.

Figure 26 SME Competitiveness Surveys across the world



Source: ITC.

The SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

The SME Competitiveness Survey helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets.



Policymakers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; to compare the competitiveness of enterprises based on size, sectors and location; and to better match firms with potential investors and buyers.

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the Togolese SME Competitiveness Survey data and assess the competitive position of small and medium-sized companies in the country.

The report analyses data from three levels in the SME Competitiveness Grid: national, ecosystem and firm level. The national environment is examined based on a review of secondary data and related literature. Firm- and ecosystem-level competitiveness are evaluated from firm-level survey data collected through the SMECS.

The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that Togo has a particular strength or weakness in that domain, or if previous research suggests the topic is important to the country's SMEs.

A disaggregated analysis of the SMECS dataset in Togo yields additional insights on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to number of employees. Women-led and youth-led firms are compared to their peers.

Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be further extracted from the data.

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