ACET African Center for Economic Transformation

Pathways to Accelerating Investment Opportunities

A report for Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on Reform Partnership Countries and Togo

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The African Center for Economic Transformation

The African Center for Economic Transformation (ACET) is a pan-African economic policy institute supporting Africa's long-term growth through transformation. We produce research, offer policy advice, and connect key stakeholders so that African countries are better positioned for smart, inclusive, and sustainable development. Based in Ghana, we offer African-led solutions to some of Africa's most critical development issues. ACET was established in 2008 on the premise that Africa needs more than economic growth to improve livelihoods.

ACET focuses on the "how-to" of policy reform, going beyond the traditional role of a policy institute to ensure our research is accessed by the right people at the right time and is used to accelerate transformation. Maintaining a core staff in Accra, we tap into an extensive network of African and global experts to further Africa's transformation and we follow a unique approach that combines analysis, advice, and advocacy, underpinned by a commitment to collaborative partnerships to deliver results.

ACET helps African countries strengthen their transformation agendas for a stronger and more robust post-pandemic recovery. We focus on five program areas to include economic management and governance; youth employment and skills; private sector development; regional integration; and gender. Since 2017 ACET has supported the G20 Compact with Africa (CwA) with analysis, peer review, peer learning, advocacy and investment promotion.

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Acronyms and Abbreviations

ACET	African Center for Economic Transformation
ADF	African Development Fund
AfDB	African Development Bank
AFESD	Arab Fund for Economic and Social Development
AfD	Agence Française du Développement
ATI	African Transformation Index
BADEA	Arab Bank for Economic Development in Africa
BOAD	West African Development Bank
BIC	Credit Information Bureau (Senegal)
CARES	COVID-19 Alleviation and Revitalization of Enterprises Support (Ghana)
CBE	Commercial Bank of Ethiopia
CEPOD	Centre d'etudes de Politiques pour le Development (Senegal)
CPESDP	Coordinated Programme of Economic and Social Development Policies (Ghana)
CFAF	Franc Communauté financière d'Afrique
CIDT	Ivorian Textile Development Company
CIHEAM	International Center for Advanced Mediterranean Agronomic Studies
CMU	Universal Health Insurance Plan of Côte d'Ivoire
CO2	carbon dioxide
COVID-19	coronavirus disease 2019
CPIA	Country Policy and Institutional Assessment
CPSD	Country Private Sector Diagnostics
CwA	Compact with Africa
DBE	Development bank of Ethiopia
DFI	development finance institutions
DSSI	Debt Service Suspension Initiative
ECOWAS	Economic Community of West Africa
ESLSE	Ethiopian Shipping and Logistics Services Enterprise
EU	European Union
FDI	foreign direct investment
G20	Group of Twenty
GDP	gross domestic product
GEF	Global Environment Facility
GHG	greenhouse gas
GIPC	Ghana Investment Promotion Centre
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GSS	Ghana Statistical Service
GTP II	Growth and Transformation Plan of Ethiopia
HERA	Homegrown Economic Reform Agenda of Ethiopia
HDI	Human Development Index
ICT	information and communications technology
IDB	Islamic Development Bank

IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IIAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
ISET	higher institutes of technological studies (Tunisia)
JICA	Japan International Cooperation Agency
LPG	liquefied petroleum gas
LPI	Logistics Performance Index
MCC	Millennium Challenge Corporation
MDBs	multilateral development banks
MIFA	Incentive Mechanism of Agricultural Financing based on Risk Sharing (Togo)
NFIS	Ethiopia National Financial Inclusion Strategy
NLS	National Logistics Strategy of Ethiopia
NRDS	National Rice Development Strategy of Côte d'Ivoire
NRI	Networked Readiness Index
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
OEM	Original Equipment Manufacturers
OTT	over the top
PAA	Port Autonome d'Abidjan
PAP 2	Second Priority Action Plan (2019-2024) for Senegal
PEPT	Electricity for All Program of Côte d'Ivoire
PJF	Planting for Food and Jobs (Ghana)
PND	Plan National de Développement
PNIA	National Agricultural Investment Program of Côte d'Ivoire
PPP	public private partnership
PSGouv	Government Social Program of Côte d'Ivoire
PTIP	public investment triennial plan (Senegal)
PtX	Power-to-X
SEZ	special economic zones
SME	small and medium enterprise
SOEs	state-owned enterprises
SOTRA	Abidjan Public Transport Company
SOTRAL	Togo bus network
STMP	Sustainable Tourism Master Plan
TE	draft depth of a ship
TOE	tons of oil equivalent
TVET	technical and vocational education training
UA	official currency for the AfDB
UNACOOPEC)	National Union of Savings and Credit Cooperatives of Côte d'Ivoire
UNCTAD	United Nations Centre for Trade and Development
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
USAID	United States Agency for International Development

USD	United States dollar
VAT	value added tax
VOIP	voice over internet protocols
WAEMU	West African Economic and Monetary Union
WARCIP	West African Regional Communications Infrastructure Program

Overview: Pathways to Accelerating Investment Opportunities

Introduction

ACET has sought, through the attached reports, to identify pathways for accelerating investment in Reform Partnership countries and Togo. Such investment may include purely private sector investment or that with support of development finance institutions (DFIs), multilateral development banks (MDBs), and other institutions. The pathways include identification of sectors which are ready candidates for investment if the appropriate regulatory, legal, and policy parameters are in place. We have identified possible areas of German Development Cooperation support in each case. Such pathways also require strong national reform agendas and international development cooperative support to implement such reforms.

The report largely follows similar approaches and formats for each country, with appropriate variation due to context and/or ongoing reform or international support programs. The methodology for the reports was informed by development partner resources, as well as ACET's transformation framework for "growth with depth" and ACET's African Transformation Index (ATI). For the report, ACET worked with qualified consultants with strong economic and international development backgrounds, drawing upon national and global data, as well as reports and documentation from national authorities and international development partners. The reports utilized a ranking methodology oriented to the recommended sectors. They key criteria utilized were deemed the most applicable to improve investment and economic transformation in the country, but in some cases also reflected data availability and veracity.

Generally, the analysis utilized a weighted ranking methodology centered on four key dimensions: economic, employment, growth, and institutional. To harmonize the indicators for a common basis for scoring, they were divided into quartiles and given scores pursuant to all indicator values included in the first quartile range; the second quartile; and so on. The sum of the points assigned to each criterion thus gives the final and average score for each sector. Where appropriate, additional or slightly altered approaches were used. For example, in the case of Morocco, given its somewhat more advanced economy, a multiplier approach was used focusing on employment and production factors across twenty subsectors.

The definition of sectors and subsectors vary by country (particularly in budget structure, and depending on whether the country is Anglophone, sub-Saharan Francophone, or North African). We purposely took an 'expanded view' of sectors, to look beyond traditional 'productive sectors'. This expanded view allows assessment of sectors that are sometimes overlooked (for example, crafts), enabling sectors (for example, finance), or transversal sectors (for example, innovation). The recommended sectors are outlined below. In some cases, existing Reform

Partnership sectors of focus were ranked highly, but were not included as recommended sectors given their prior identification.

Recommended Sectors for Accelerating Investment

Country	Existing RP Sectors	Recommended Sector #1	Recommended Sector #2	Recommended Sector #3	Additional Sector(s)
Côte d'Ivoire	Energy/ Renewable	Agriculture	Crafts (SME/ entrepreneurship)	Transport	
Ethiopia	Agric/ Textile	Tourism	ICT		Finance and Logistics as enabling sectors
Ghana	Energy/ Renewable	Manufacturing	Agriculture/ Agribusiness		
Morocco	Finance / Banking	Food	Trade and Distribution	Renewable Energy	
Senegal	Labor/ Land/ Admin Reform	Construction and Real Estate	Smallholder Agriculture	Agro-food industries	
Tunisia	Finance / Banking	Real Estate/business	Transport and Communications	Agriculture	TVET and Innovation as transversal sectors
Togo	N/A	Manufacturing	Agriculture	Infrastructure and mobility	ICT and Innovation

The Imperative of Economic Transformation

That research also reflects ACET's Growth with DEPTH approach, which is how ACET defines economic transformation in African terms. We use the five attributes of DEPTH, described below, to turn the concept of transformation into a practical policy agenda for Africa. Aligned with **DEPTH**, these include: **Diversification** –while pursuing improvements in the macroeconomic and business environments, countries must acquire the capability to produce a wide array of goods and services and then choose which ones to specialize in. **Export competitiveness** – countries must become more competitive in global markets. Exporting provides the opportunity to expand production, create jobs, reduce unit costs, increase incomes, and exploit comparative advantages. **Productivity increases** – countries must increase the productivity of all resource inputs, especially labor, and boost productivity in key sectors that drive transformation, such as manufacturing and agriculture. **Technology upgrades** – countries must modernize their processes through the use of technology. Rising productivity can only be sustained with improved technologies and increased innovation, particularly through digitized economies. **Human well-being** – only by transforming can countries ensure that growth improves livelihoods by providing more productive jobs and higher incomes—and that everyone benefits from shared prosperity. These were applied according to each country context, level of economic development and current reform agendas.

Based on these five dimensions of how ACET conceptualizes the transformation of African economies (growth with DEPTH), economic transformation, the following picture as to the progress of this reports' study countries.

Reform Partnership Countries: Economic Transformation Performance, 1999-2018

Country	3-Years centering year	African Transformation Index	Diversification	Technological upgrading	Productivity	Export competitiveness	Human well-being
Côte d'Ivoire	2000	41.25	46.53	25.81	53.46	42.13	38.29
	2010	33.08	35.96	12.84	59.89	25.39	31.31
	2017	32.33	35.12	8.72	69.79	12.43	35.59
Ethiopia	2000	4.83	18.32	0.00	4.97	0.00	0.89
	2010	6.53	23.22	0.17	9.10	0.00	0.18
	2017	9.19	17.37	9.83	13.59	0.00	5.14
Ghana	2000	36.42	38.65	21.68	58.11	27.84	35.79
	2010	24.00	21.07	13.93	41.02	10.38	33.62
	2017	24.40	29.14	5.05	35.71	9.65	42.46
Morocco	2000	58.28	90.34	66.21	18.91	56.07	59.89
	2010	53.16	90.81	60.65	21.79	36.46	56.11
	2017	63.60	86.91	98.38	19.13	55.11	58.45
Senegal	2000	54.21	58.75	90.23	72.39	10.57	39.09
	2010	46.05	74.94	27.70	81.74	13.00	32.87
	2017	45.68	69.96	25.68	78.96	15.43	38.39
Togo	2000	15.43	25.52	7.78	3.58	11.37	28.93
	2010	21.79	38.93	20.45	1.53	20.05	28.00
	2017	24.15	48.61	15.14	1.36	28.14	27.48
Tunisia	2000	77.14	87.71	70.45	30.70	100.00	96.84
	2010	80.76	92.46	100.00	30.99	100.00	80.36
	2017	73.55	92.34	75.41	25.01	100.00	75.00

Source: ACET ATI Database and computations by ACET staff.

Notes:

1) The data is presented for 3-year averages centred on the indicated year, so that 2017 is for the average values for the three year 2016, 2017 and 2018.
2) The values correspond to fractional scores from 0 to 1, where 0 is lowest performance and 1 is top performance in the respective dimension, multiplied by 100. The data is initially normalized by the mini-max method.
3) The peculiar values of Ethiopia and Tunisia on technological innovation result from the method (namely: (X - Min(X)) / (Max(X) - Min(X)))), and the specific data for these two counties. Ethiopia had zero for each of the components on technological upgrading as the 3-year average in 2000 was equal to the minimum value in the min-max normalization. Tunisia on the other hand, had a score of 0.5 for each of the two components on technological upgrading thus, summing up to 1.

4) The Economic Transformation Index is a composite of the above indices, each one of which is in itself a composite of indicators as follows:

Diversification in production: Share of manufacturing value added in GDP_UN, share of services value added in GDP_UN, Inverse of the % share of top 5 export, and manufacturing and services exports;
Technology upgrading: High and medium technology in production; High and medium technology in exports;
Productivity: Manufactured value added per manufacturing sector worker. Agricultural value added per worker, and labor productivity to average manufacturing wages;
Export competitiveness: Exports Competitiveness (without oil, mining and extractives);
Human Well-being GDP per capita (constant 2010 $), Ratio of formal employment in labor force, Gini coefficient, Wages and salaries of females (% of female employment).

From the data above, Tunisia, Morocco and Senegal (in that order) stand out in the degree of their economic transformation, though the progress is not monotonic. Morocco and Senegal show some regression during the decade between 2000 and 2010, but then between 2010 and 2017 Morocco reverses into a positive trend while Senegal stagnates. Tunisia shows economic transformation progress between 2000 and 2010, but then substantially reverses trend between 2010 and 2017.

At the middle range of the transformation profile of the seven counties are Ghana and Côte d'Ivoire, with the former faring slightly better, but both showing some regression during the decade 2000 to 2010, and a stagnation from then to now. Over past two decades since 2000 both countries appear to have suffered losses across almost all dimensions of economic transformation, although substantially more so in technological upgrading and export competitiveness, while improving in human wellbeing (particularly in Ghana) likely on account of faster growth and poverty/inequality reduction.

Togo on its own, coming from lower levels of economic transformation, is making faster progress except in technological upgrading and productivity. The level of productivity achievements in Togo seems particularly low compared with the rest of the countries in the study set. While deeper research into the causes of these patterns is not the subject of this report, the patterns should however point to critical areas of interventions needed to spur growth, regardless of which sector is selected in each country for the purpose of investment acceleration. Thus, for instance, it becomes clear that spurring productivity is more critical in Togo than in other countries. Reversing the negative trend in technological developments should also be high priority in Côte d'Ivoire and Ghana.

Methodology Summary

The methodology for sector identification and selection used in this study generally follows the framework as described in Muench (2020a,b), except for slightly altered approaches where appropriate for country context or data availability. Even in these cases (such as in Morocco, given its somewhat more advanced economy, where a multiplier approach was used), the methodology targeted the same goal of extracting information from data and ranking sectors based on their potential for growth and employment generation.

The research combined desk and field research whereby at the same time that the local consultants collected and analyzed the data, they also drew from - and often benefited from the guidance of - experts available in country. The quantitative analysis relied on the adaptation (given specific country data availability constraints) of a common weighting and scoring matrix. The qualitative analysis considered the country political, social and economic context, sector institutional developments over time and of export potential and product diversification opportunities as drawn from documents/desk review and interviews with experts and development assistant officers from various German agencies. The information was organized to capture, with varying degrees of completeness across countries, the following:

- Socio-economic context analysis: general competitiveness, factors for constraining business performance, government priority sectors as outlined in national development plans and other policy documents.
- Analysis of economic structure and sectors: sector output (GDP) and employment structure and growth rates over time, labor productivity, wages, share of SMEs in the different sectors, share of females within the employment of the sector.
- Analysis of the growth perspectives of a sector: future demand for sector products or services; functions of a sector for the economy and/or for other sectors, employment elasticity of growth, output and employment potential of the sector, share of formal firms, firm maturity, firm linkages and innovation potential, opportunities for small and local firms, attractiveness of jobs within the sector, impact on the environment, and impact on vulnerable population groups.
- Export potential, product space and economic complexity: product diversification potential.
- Because the dimensions of the analysis differ between desk and field research, the criteria applied in each of these stages are also different.
    - Desk research: 15 criteria to analyze quantitative data and secondary information for a preliminary and final data-based sector selection
    - Field research: 20 additional criteria with additional information, especially on the development potential based on sector knowledge.

Overall, and depending on data availability, the above information was organized according to quarto dimensions grouping 15 criteria a indicated in the following table:

Methodology Dimensions and Criteria

Dimension	Criteria
Economic Dimension	Sector contribution to total GDP
	Growth rate of sector GDP in the past
	Share of SMEs in sector
	Export capacity/export potential of the sector

	Value chain/linkage capacity of the sector
	Innovation capacity of the sector
Employment dimension	Sector contribution to total employment
	Contribution of females to sector employment
	Growth rate of sector employment in the past
	Labor productivity
	Wages/mean earnings in the sector
Growth perspective dimension	Future demand for sector products/services
	Estimated future growth rate of sector
Institutional/structural dimension	Government priority of sector (priority sectors mentioned in government policy documents and studies)
	Enabling function of sector (potential of the economy to enable the development of the overall economy ort other sectors)
Source: Muench (2020a,b) Note: While social and environmental sustainability dimensions were also considered these were mostly taken into account qualitatively. Consultants sometimes also considered additional criteria which was deemed relevant in a specific country context	

Where data was readily available, employment elasticities of growth were also calculated (using the growth rate of sector GDP and growth rate of sector employment) in order to elicit information about the employment-orientation of growth as a relevant selection criteria (jobless growth, unproductive employment growth, productivity-led growth, declining sector, or employment-led growth).

The actual implementation of the methodology involved scoring and ranking based on the values calculated (or attributed - for instance based on expert guidance where data was not amenable to calculations). Weights summing to 100% were assigned to the criteria (indicators) and scored attributed on the basis of the criteria (indicators) values computed, and for each sector weighted scores were computed. Ranking was based on the total weighted score for each sector.

While this exercise was carried out in all cases to render sector selection as objective as possible, country analysis was given a margin of qualification on the quantitative results. Thus in some situations cases were made for consideration of sectors as priority even when they were not in the top three ranked ones (for example, the categorization of a sector may have not existed for enough time to generate information to enter the quantitative assessment, but development policy considerations were high for both government and development partner strategies.

Common Themes

There were numerous common themes across the seven countries, which reflect Africa's current context. The report purposely does not focus on sectors or themes already identified by

Germany and Reform Partnership countries, although in some cases these sectors factor into the analysis. Some of the common themes include:

Opportunities for Investment: A primary finding across countries is the strong potential for investment, both financial investment in sectors by partners and the private sector, and investment in reform agendas aimed at improving the business and investment environment. In general, countries continue to pivot to private sector led growth strategies, opening up to more FDI as a means to set up new industries, upgrade technologically, and access new markets (e.g. aeronautics, automobiles, organics, etc.).

While the IFC Country Private Sector Diagnostics (CPSD) were utilized as one source of background material there is no direct correlation to the CPSDs and the sectors recommended in this report. That said, there are important parallels to the sectors selected and the CPSD's as they are the most comprehensive and contemporary assessments across most of the countries analyzed for this report. For example, for Senegal the CPSD identified agriculture and agribusiness as sectors where Senegal can significantly accelerate its structural transformation and the role of private sector investment. This report identifies smallholder agriculture and agro-food industries as recommended sectors. The Senegal CPSD notes that agriculture is critical for investment as it employs about half the Senegalese population, and about 70 percent of the rural population. It also notes that agribusiness and processing have also the potential to boost productivity that can, in turn, lead to higher value addition that Senegal needs.

As another example, the Ghana CPSD identifies key sectors such agribusiness, finance and education, as priorities, while this report identifies manufacturing, agribusiness, extractives, and TVET. The CPSD notes that agribusiness, including agriculture and downstream processing activities, is the largest sector in Ghana's economy, with agribusiness accounting for a quarter of GDP and 35 percent of exports. It further emphasizes that agribusiness has a high capacity for job creation and development impact, and suggests that Ghana can attract substantial private sector investment in services for the agribusiness sector, including opportunities for post-harvest and logistics, storage, and transportation. Likewise, regarding the education sector, the Ghana CPSD notes that the private sector has become an increasingly important player in the provision of education in Ghana, yet TVET remains dominated by the public sector, accounting for most enrollments. The CPSD recommends educational challenges can, in part, be addressed through improved partnerships with the private sector, and specifically recommends that the Ministry of Education, Science and Technology should partner with corporations in sectors that are large-scale employers of TVET graduates.

Reform Commitment. A highlight of the research that is largely consistent across all countries is a strong reform commitment. Across the seven countries, governments have made progress and are continuing to further improve their business environment by providing better infrastructure, modernizing their business licensing and tax administration, and opening to FDI and export markets. These reforms are critical in enabling the countries to respond to the

COVID-19 pandemic, including efficiently deploy fiscal measures to support businesses and households.

In each country, national development plans are in place or being prepared; and in each country these plans are supported by the multilateral and bilateral development partners. In most cases there are sectoral support plans in place as well, although their level of implementation varies. Each country is also a Compact with Africa (CwA) member, and therefore has a CwA policy matrix agreed with the G20 and international organizations.

Impact of COVID-19. All seven countries have been severely impacted by the COVID-19 crisis. In most cases the health effects have been relatively limited compared to other regions of the world, but the economic impacts are devastating. In response to the pandemic the seven countries have taken a variety of measures aimed at limiting the spread of the virus, flatten the curve and protect health systems. Details of these measures as well as the expected impact of the pandemic on overall growth and in specific sectors (with particular focus on those selected for investment acceleration) are provided in each country section of this report. Below is a summary based on harmonized data (as of September 2020) as collected and organized by the International Monetary Fund in collaboration with national authorities.

Summary of Fiscal Measures in Response to COVID-19 Pandemic
(USD billion and percent of GDP)

	Above the line measures				Liquidity support			TOTAL
	Additional spending or foregone revenues			Accelerated spending / deferred	Subtotal	Below the line measures: equity injections,	Contingent Guarantees	
	Subtotal	Health sector	Non-health					
USD Billion								
Morocco	**3.2**	1.0	2.0					**3.2**
Tunisia	**0.7**	0.1	0.6	0.2	**0.2**	0.1	0.1	**0.9**
Côte d'Ivoire	**1.1**	0.2	1.0					**1.1**
Ethiopia	**1.5**	0.5	1.0		**0.6**	0.6		**2.1**
Ghana	**1.9**	0.1	1.8		**0.2**	0.2		**2.1**
Senegal	**0.7**	0.1	0.6	0.0	**0.1**		0.1	**0.8**
Togo	**0.2**	0.1	0.1	0.0				**0.2**
Total	**9.3**	**2.1**	**7.1**	**0.2**	**1.1**	**0.9**	**0.2**	**10.4**
Percent opf GDP								
Morocco	**2.8**	0.9	1.9		**0.5**	0.5		**3.3**
Tunisia	**1.8**	0.3	1.5	0.5	**0.5**	0.3	0.2	**2.3**
Côte d'Ivoire	**1.8**	0.3	1.6					**1.8**
Ethiopia	**1.5**	0.5	1.0		**0.6**	0.6		**2.2**
Ghana	**2.9**	0.1	2.7		**0.3**	0.3		**3.2**
Senegal	**3.0**	0.6	2.4	0.1	**0.5**		0.5	**3.5**
Togo	**3.2**	1.8	1.5	0.0				**3.2**
Average	**2.4**	**0.6**	**1.8**	**0.2**	**0.5**	**0.4**	**0.3**	**2.8**

Sources: National authorities and IMF staff estimates (https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19)
Note: Estimates as of September 11, 2020. Numbers in U.S. dollar and percent of GDP are based on October 2020 World Economic Outlook unless otherwise stated.

Overall, the seven countries allocated US$10.4 billion (2.3% of GDP) to a variety of fiscal measures aimed to address the COVID-19 pandemic, most of which in additional spending or forgone revenue. In terms of total value, Morocco allocated US$ 3.3 billion allocated to COVID-19 related measures, followed by Ethiopia, Ghana and Cote d'Ivoire. However in relative terms (as a ratio to the country's GDP), Senegal has made the largest effort with 3.5% of GDP.

Sustainable Development. The analysis explored opportunities for investment in sustainable or green sectors, and to what extent reform agendas explicitly focused on enhanced investment in subsectors that either further sustainable practices (for example, climate smart agriculture) or invest in green technology (for example, renewable energy). Generally for the countries selected, there are strategies to support green or sustainable sectors. In some cases these are particularly explicit (Green Morocco), while in other cases there are less purposeful strategies, but green sectors are emerging (organic products in Togo). Some aspect of investment in green or sustainable industry is included in the recommendations in nearly all of the seven countries. Agriculture or food is highlighted in six countries, often with an emphasis on sustainable development, while the renewables sector is recommended in one country and innovation in two countries. The renewables sector is already an area of emphasis in two existing Reform Partnership Agreements.

Risks across sectors. As might be expected, often the key risks identified in the recommended sectors are structural in nature. This is not always the case, and we have identified areas where technical assistance may be needed to improve specific policy challenges. The nature of these risks is not surprising and are reflected in ongoing reform agendas, including the CwA policy matrices for example. Accelerated investment, and economic transformation, over the medium term will require effectively addressing these structural risks. For example, the state domination of industry and key sectors in Ethiopia, or the need to invest more in local value chains, which have sometimes been ignored in favor of value chains for the export market in Tunisia are prime examples of the structural transformation that is needed, in part through investment.

These risks are echoed in many of the CwA reform programs. For example, in Côte d'Ivoire, the CwA program emphasizes great potential for local processing and expanding local value chains; the need to improve skills development and labor productivity – particularly in the informal sector; and the high cost of connectivity, including transport and logistics. Key structural reforms underway include policies related to taxes and contract enforcement; as well as improving access to finance for SMEs, reducing the cost of connectivity and improving the business climate. Similarly for Ethiopia the CwA reform program focuses on risks such as the complex and restrictive regulatory environment for business; the extensive state presence in primary sectors; outdated commercial legislation and inefficient logistics; and vulnerabilities in the financial system. Key policy priorities to address these structural risks include accelerating financial development to support private sector activities; improving the PPP regulatory framework and SOE privatization procedures; and opening the telecom, energy, and aviation sectors to private and foreign participation.

Likewise, as another example, the CwA reform program for Morocco points to the difficulty in achieving job-rich growth, and a slow reallocation of labor across sectors. It also emphasizes the insufficient support to entrepreneurship; limitations in human capital and skills; and continuing challenges on competitiveness. Morocco's reform programs are addressing these cross-sectoral risks, to include SOE and public investment management reforms to optimize finance for infrastructure; improved competitiveness policy; a national entrepreneurship strategy; and capital market development.

Parameters for Monitoring and Measuring Outputs and Outcomes

The Reform Partnership Frameworks are a key element of the Marshall Plan with Africa. BMZ and GIZ supports selected "reform champions" to help improve the general environment for private-sector activities in order to create more jobs and spur economic transformation. The Reform Partnership Frameworks include financial support from Germany in focus sectors, with an agreed reform roadmap. Such reform roadmaps may include revision or introduction of new legislation, improving transparency and competition, sovereign investment in infrastructure and human capacity, and regulatory reform to accelerate private sector investment.

Such reform roadmaps are closely linked to national development plans and ongoing support from the international development community. The reform roadmaps are focused on specific outputs and sometimes contain up to twenty reform initiatives and targets related to those outputs. In the context of the "*Pathways to Accelerating Investment Opportunities*" we argue that it may be constructive to provide a higher level set of parameters for monitoring outputs and outcomes. These would follow this report's general analytical approach, with a primary focus on economic, employment, growth and institutional dimensions.

These parameters could be developed for each sector of focus in each country, and would be adapted to country context and data availability. Both national and global data sources should be utilized, knowing that data availability is often delayed by years for some categories. Where possible, global data can be used. For example, the World Bank Group Cross Border Investment Report is presented to the G20 Africa Advisory Group on an annual basis and may provide more up-to-date information than available from national data.

While this high level approach to monitoring outputs and outcomes was prepared for Togo in the context of this report, it may be applicable for all Reform Partnership countries and could be developed for each planned outcome.

Sample Matrix

	OUTCOME 1: **Increased investment in, and reforms for,** SECTOR X **in** COUNTRY Y**, leading to greater growth and employment.**				
Dimensions	**Indicator**	**Baseline**	**Target value in year X**	Baseline source	Key structural reforms during the period

		Value	Period			
Economic	Share of GDP in relation to total GDP in %				National or global data	1.
	Average growth rate in the sector in %				National or global data	
	Average exports in millions of currency				National or global data	2.
	Average production volume of in the sector in millions of currency				National or global data	
Employment	Average number of jobs created				National or global data	3.
	Average annual salary per unit of employment in the sector				National or global data	
Growth	Value addition in the sector in millions of currency				National or global data	4.
	Private sector and blended finance investment in billions of currency				National or global data	
Institutional	Average capital expenditure in the sector in millions currency				National or global data	5.
	Average volume of official development assistance in millions of currency				National or global data	6.

Pathways to Accelerating Investment Opportunities in Côte d'Ivoire

Summary

The report recommends agriculture, crafts and transport as top sectors for investment and reform support. These are attractive because of the opportunity for job creation and modernizing key sectors, while supporting key priorities in the Ivoirian National Development Plan. Agriculture accounts for more than 40% of total employment in the country, but significant investment is needed, particularly to improve value chains and increase productivity. The crafts sector is often overlooked, but offers enormous opportunities for expanding an important sub-sector, with a strong focus on entrepreneurs and SMEs. And finally, the transport sector, including roads, ports and urban transport, must be rapidly improved or they will become a drag on economic growth and the country's economic transformation.

The reform agenda is strong, but implementation has at times been slow due to social and political disruptions indicated below. The National Development Program (Plan National de Développement - PND) guides Côte d'Ivoire's development objectives, and its overarching aim is to make Côte d'Ivoire an emerging country with a strong industrial base while reducing poverty. It calls for an increase in agricultural output, the promotion of the manufacturing sector, and improvements in the standard of living. In a first phase, the 2012-2015 PND laid the foundations for this evolution. In a second phase, the pace of development has accelerated even with social and political challenges. The PND 2021-2025 is under development now.

There are large development partner funded programs underway, but Côte d'Ivoire needs further support from the international community, including from German Development Cooperation. **This report recommends that in those sectors selected, Germany also provide robust development advisory services**. For example, Germany can play an important role in helping to strengthen linkages between agriculture, agribusiness and industry, particularly through the introduction of technologies in agricultural manufacturing and process. While there may be fewer opportunities for corporate investment in the crafts sector, there is need for support and technical assistance, both in organization (formalization) of the sector and for vocational training where Germany has strong expertise, as well as access to finance. Finally, in transport, German development cooperation can support sector reforms, particularly to improve project management, efficiencies, and transparency, while also promoting investment in the sector to German corporates, which have extensive experience in infrastructure development.

1. Economic, Political and Social Context

Context. Côte d'Ivoire is an economic power in the Economic Community of West African (ECOWAS) and the West African Economic and Monetary Union (WAEMU) zone, contributing more than a third of the union's GDP, which was estimated at US$58.8 billion in 2019 following rebasing and representing 60% of the union's agricultural exports. While the Ivorian economy has been experiencing sustained growth since 2012, the country suffered several shocks, to include a drop of nearly 50% in the price of cocoa over the period 2016-2017; a rise in oil prices in 2017; social unrest in 2017; and a disputed election in 2020. Even with these challenges, Côte d'Ivoire has achieved approximately seven percent economic growth per year over the period 2015-2018. Prior to the COVID-19 pandemic, Côte d'Ivoire was showing signs of structural and economic transformation, as evidenced by the emergence of local processing of raw materials and the diversification of exports. Private consumption and investment were increasingly the main contributors to growth.

Currently the political situation in Côte d'Ivoire remains fragile. On October 31, 2020 a presidential election took place in a context of socio-political instability. Opposition parties opposing a new term for the incumbent president called on their supporters to engage in civil disobedience in an attempt to prevent the electoral process from taking place. This call led the country into a stalemate, with the destruction of physical assets such as vehicles and houses, and several deaths as a result of clashes throughout the country. The Constitutional Council ratified the re-election of Alassane Ouattara, whose candidacy is considered unconstitutional by the opposition. Some opposition leaders remain in detention, but there are calls among some politicians for dialogue, but also warnings of future demonstrations [developments continue at the time of publication].

Macroeconomic. In 2019 growth was 6.9%, thanks, in part, to the dynamism of the extractive industry, the agro-food industry, construction, transport, and the agricultural sector. In 2020, due to the impact of the COVID-19 pandemic, growth could drop to 2.7% according to the IMF. However, the IMF's 2020 forecasts show a strong growth rebound to 8.7% by 2021, which would make it one of the most dynamic economies in sub-Saharan Africa.

Prior to COVID-19, the trade balance was consistently in surplus despite a continued deterioration in the terms of trade. Exports and imports rose 8.5 percent and 5.1 percent, respectively, during the first half of 2019 (implying a 2.4% deterioration in terms of trade) yielding trade a surplus of CFAF 961.8 billion, up 36.3 percent from June 2018 (CFAF 705.7 billion). This performance was partially helped by Côte d'Ivoire's continued gain in relative price competitiveness as the real effective exchange rate depreciated, there was a favorable inflation differential and an appreciation in the U.S. dollar against the euro.

Recent pre-COVID-19 financial sector developments were also positive. The recapitalization plan of the National Union of Savings and Credit Cooperatives of Côte d'Ivoire (UNACOOPEC) has been implemented, with a CFAF 10.9 billion contribution at end-May 2019 from members. Also, the Credit Information Bureau database (CréditInfo Volo) was strengthened with the registration of new persons, bringing the number of registered individuals on June 30, 2019 to

3.13 million, 10,996 of which are legal business entities. This is compared to 2.8 million total and 9,105 legal entities at end-2018.

The monetary situation at end-June 2019 was marked by 8.2 percent growth in the money supply owing to a surge in domestic loans. The net claims on central government rose 73.1 percent, reflecting the use of the domestic banking system instead of international financial markets. Credit to the private sector increased by 9.4 percent. In contrast, net external assets declined 29.2 percent from the same time in 2018 as a result of fewer international bank loans in the first half of 2019.

Human Development. Côte d'Ivoire's Human Development Index (HDI) value for 2018 was 0.516, which put the country in the low human development category, positioning it at 165 out of 189 countries. According to the World Bank rankings, the HDI for Côte d'Ivoire is estimated to be 0.38 in 2020. Côte d'Ivoire still has one of the highest gender inequality rates in the world. In 2018, the gender inequality index of the country was 0.657 with a rank of 157th out of 189 countries, suggesting that women continue to face discrimination, limiting their access to basic social services including education and health care and to economic opportunities.

Malnutrition also remains a concern. The 2019 nutrition accountability scorecard indicated that Côte d'Ivoire is not on track to meet six out of the 11 main nutrition indicators, including, for example, improving breastfeeding rates and access to clean drinking. These factors, coupled with limited public knowledge on good nutrition, health and hygiene practices and high levels of poverty and illiteracy, especially among women, constrain the nutritional status of the most vulnerable groups in Côte d'Ivoire.

The poverty rate slightly increased to an estimated 26.3 percent (international poverty line US$1.90 PPP) in 2020, from 26.2 percent in 2019. The poverty rate was projected to fall to 25.8 percent in 2021, based on strong GDP per capita growth (2.7 percent in 2021), although this will now be affected by the COVID-19 pandemic.

Efforts to boost access to education have had positive results at the primary level, where attendance surged and the net enrollment rate rose from 79.3% in 2015 to 91% in 2019. Despite investment aimed at recruiting teachers and building facilities, the situation continues to be more challenging at the secondary and tertiary education levels. For example, access to secondary education remains limited and classes in public high schools are overcrowded. In 2018, the repetition rate in secondary school was 12.8% while it was 11% in primary school.

Côte d'Ivoire has made a concerted effort in recent years to improve access to health care, and rehabilitate and build health facilities. There remains room for improvement in terms of quality, especially as universal health coverage is rolled out. Efforts to expand access have been key to addressing the challenges brought on by the COVID-19 pandemic. And to make economic growth more inclusive, the government stepped up initiatives to the most disadvantaged populations by implementing the Government Social Program (PSGouv) for the period 2019–

2020. This program aims to accelerate the pace of poverty and inequality reduction in the context of the implementation of the 2016–20 National Development Plan.

Achievements under the PSGouv include: (i) the connection of 109,592 households to the power grid through the Electricity for All Program (PEPT); (ii) the enrollment of 1,902,712 people under the Universal Health Insurance Plan (CMU); (iii) the transfer of CFAF 36,000 per quarter to 50,000 vulnerable households; and (iv) the provision of internships, skills development, employment opportunities for 25,015 young people. PSGouv will also address f access to drinking water in rural areas by refurbishing and/or replacing 21,000 manually-operated pumps. These achievements are timely as they will also assist in mitigating the impacts of the COVID-19 pandemic in the country.

COVID-19. After the first cases were reported in March, the Ivorian government implemented containment measures and strengthened its crisis management capacities. Lockdown measures included traffic limitations between Abidjan and the rest of the country. The government put in place a national task force chaired by the Prime Minister to steer the fight against COVID-19, with dedicated committees to coordinate the healthcare sector response and the economic response.

The government implemented measures to limit the spread of COVID-19 in three steps. First, on March 16, the government closed land, air and sea borders indefinitely. From March 23, schools were closed; and events, ceremonies and gatherings of more than 50 people were banned. Non-essential retail businesses such as bars, restaurants and entertainment venues were closed. Social distancing was mandating and a curfew was established from 9 p.m. to 5 a.m. Finally, on March 31, the authorities restricted travel between Abidjan and the hinterland, with the exception of freight transport and basic services [developments continue at the time of publication].

These measures had several effects on the country's economy. The direct impact for enterprises was lower sales and revenue, but there have been relatively few immediate layoffs of workers. The sectors the most impacted by closures were education, tourism, restaurants and hotels, financial services, as well as transport and logistics.

To reduce the burden of the crisis, government has allowed affected enterprises to defer tax payments and employer social security contributions, and the government is providing temporary suspension of tax controls; and made crisis-related expenditure (masks, hand sanitizer, etc.) tax deductible. As part of its economic response package, the government allows households to defer electricity and water payments, and provides subsidized electricity for the poorest households.

The government established a Solidarity Fund to provide financial support for households impacted by COVID-19. The fund prioritizes cash transfers by electronic payment. This emergency program is the largest social program the government has ever implemented in urban areas. The government has also put in place a COVID-19 Support Fund (FCFA 100 billion) to help the informal sector. Finally, the government has established two dedicated funds to support formal private sector enterprises. These are a specific fund for SMEs and a separate fund for large enterprises. The funds are endowed with FCFA 150 billion and FCFA 100 billion, respectively. Both funds aim to ease liquidity constraints, protect productive assets and avoid layoffs.

Sustainable and Green Economy. According to Climate Chance, Côte d'Ivoire estimated a growth in greenhouse gas (GHG) emissions of approximately 4.3% on average per year from 2012-2030. In particular, GHG emissions from the transport sector could rise by 25% over this period, from 2,389.36 kilotons of CO2 equivalent (ktCO2) in 2012 to 6441.27 in 2030, which is an average annual increase of 5.7 %. The transport sector thus constitutes the second largest source of potential emissions growth after electricity production and plays an important role in the climate mitigation strategy for Côte d'Ivoire. The government aims to reduce emissions 28% by 2030 compared to 2012.

From 2013 to 2016, the annual average growth rate of imported vehicle registrations reached 17.6%, with an average vehicle age of about ten years. The significant increase in car registrations can be explained by the high cost and limited network of public transport. The poorest households spend on average 20% to 30% of their income on public transport and spend 200 minutes per day on transport. Natural gas and butane are used in some public transport, for example by the public transport company, SOTRA, and city taxis respectively, in particular in Yamoussoukro.

According to the Ministry of Oil, Energy and Renewable Energy, electricity produced in Côte d'Ivoire currently emits 501 gCO2/KWh. While there is significant hydro energy production, hydrogen and biofuels are not yet produced locally on a large scale.

While on the one hand the country is striving to expand its renewable energy sources, it is also currently building two 350-MW coal power units in San Pedro to help keep up with rapidly growing energy consumption, the first is expected to be completed in 2020 and the second in 2021. By 2030, other renewable energy sources, such as solar power and biomass, are expected to comprise 16% of electricity generation.

2. Sector Investment Potential

This section identifies sectors that offer opportunities for investment that will also help in accelerating growth and employment creation. While the impact of the COVID-19 pandemic will decrease growth by up to 2.7%, the National Development Plan is aligned with the IMF's 2020 forecast for a strong growth rebound 2021. The PND guides Côte d'Ivoire's development objectives, policies and programs. It also informs the priorities of international development partners and financiers. It calls for an increase in agricultural output, the promotion of the manufacturing sector, and improvement in the standard of living. The strategy was designed around five pillars that include enhancing the quality of governance and institutions; investing in development of human capital and social welfare; accelerating the structural transformation of the economy through industrialization; developing infrastructure across the economy as a whole, while protecting the environment; and strengthening regional integration.

Using the methodologies outlined in the overview, and based on government's strategies, including the National Development Plan, and development partner approaches, the selected sectors with strong investment potential and likelihood to support strong economic growth, particularly jobs include **agriculture, crafts and transport**. These three sectors were identified as attractive because of the opportunity to create jobs and modernize key sectors of the economy. Agriculture represents 19% of the country's GDP, and in 2019 accounted for more than 40% of total employment, but value chains need to be further developed and productivity increased. The crafts sector is often overlooked in such analysis, but it offers enormous opportunities for jobs, training, and wealth creation. It is mainly composed of individuals and SMEs, hence the SME sector can be further formalized through reforms in this sector. And finally, the transport sector, including roads, ports and urban transport, must be rapidly improved or they will become a drag on economic growth. As noted above, there is significant opportunity to also expand mobility infrastructure while reducing impacts on climate.

Sector Ranking for Côte d'Ivoire

Sector	Average index (four dimension)	Ranking		Average index (without institution)	Ranking
Agriculture	71.78	1	Handicrafts	74.10	1
Handicrafts	63.90	2	Agriculture	62.37	2
Transport	38.44	3	Transport	42.40	3
Banking and financial sectors	35.80	4	Tourism	38.57	4
Tourism	29.36	5	Banking and financial sectors	36.63	5
Construction	25.60	6	Construction	34.13	6
manufacturing	23.21	7	manufacturing	30.95	7
Energy	22.63	8	Energy	26.29	8
Mining	19.30	9	Mining	25.73	9
ICT	16.58	10	ICT	22.11	10
Education	8.12	11	Education	10.82	11

Source: Author calculation

Agriculture. Agriculture holds significant potential for economic growth of the country. In 2018, agriculture represented 19% of the country's GDP, and in 2019 accounted for more than 40% of total employment. It is by far the country's largest source of foreign exchange, accounting for approximately 60% of exports in 2018.

Further development of the agricultural sector is essential for the country to succeed in its structural transformation through job creation along agricultural value chains. These value chains are particularly important for export-oriented cash crops such as cocoa, coffee, rubber, oil palm, cotton and cashews; and important food crops for domestic consumption, such as plantains, yams, cassava, maize, and rice.

There is an opportunity to strengthen agriculture's role in the economy by establishing a strong link between agriculture, agribusiness and broader industry. However, to realize its potential there is a need to remove constraints to productivity and to promote the exploitation of the potential for niche markets, such as organic agriculture. Constraints to greater agricultural productivity are mainly related to access to land; land rights issues; and difficulties for smallholders and small enterprises to access technology, information, training, financing, and markets. In addition to these market constraints, agriculture also faces inadequate infrastructure, including rural tracks, roads, storage warehouses, and refrigeration facilities. These constraints increase costs, affect quality, and generate post-harvest losses.

To further develop the agricultural value chain, it will be critical to support the ongoing technological revolution to increase yields, promote reforestation and improve producers' incomes. There is also a need to develop the local processing industry to meet local demand, develop a more attractive label of origin (especially for cocoa) and take advantage of the growing Asian demand for intermediate products.

While agriculture plays an important role in the country's economy, it should also be noted that expanding crop production may contribute to the destruction of the overall forest coverage if not managed well. It is therefore necessary to find ways of improving production by increasing yields rather than only expanding land under cultivation. Likewise, for sustainability purposes there is increasing demand for natural fertilizer, as it is now being used in the production of export crops such as cocoa and coffee.

Côte d'Ivoire also must attract investors in the coffee and cocoa sectors. Côte d'Ivoire's cocoa production meets more than 40% of world demand, i.e. two million tons of beans per year. In addition, coffee and cocoa from Côte d'Ivoire are of high international quality, yet domestic processing is very limited. In 2016-2017, 576,994 tons were processed representing 29% of production against a target of more than 50% for 2020.

There are also opportunities in rice sub-sector. One aspect of this could be a public (or public-private) investment for a domestic or regional research center to improve varieties of rice and to promote the adoption of technology to improve productivity in cultivable areas. The country faces a lack of rice processing factories to make milled rice, which also offers investment opportunities.

Another opportunity is the local processing of Ivorian cotton. Practiced more widely in the north of the country, cotton cultivation developed in the 1960s thanks to the work of the Ivorian Textile Development Company (CIDT) and is mainly destined for export to European countries. And there is also rubber, another traditional export crop from Côte d'Ivoire. From a production of 720,000 tons in 2018, the country expects to triple its rubber production by 2023 to two million tons. Considering strong demand in West Africa for a wide range of rubber products, Côte d'Ivoire is a potential location for the development of the regional rubber industry. Investments opportunities also exist for moving into higher industrial value-added finished products.

Handicrafts. While the craft sector is a somewhat non-traditional "economic sector", it occupies an important place in the country's economy. It is a broad and complex sector that is divided in eight branches of activity, 40 trades and 245 different occupations. The eight branches of activity characterizing this sector are: (i) food processing, traditional food and restaurants; (ii) mining and quarries, construction and building; (iii) metals and metal constructions, mechanics, electricity and small transport activities; (iv) wood and related furniture and furnishings; (v) textiles, clothing, leather and skins; (vi) audiovisual and communication; (vii) hygiene and personal care; (viii) decoration, electromechanics, and electronics.

The share of the handicraft sector in GDP was 15% in 2018 against 12% in 2017. This compares with more traditional sectors such as industry (agri-food and manufacturing) and export agriculture that were 13.4% and 8.1% of GDP in 2018, respectively. For the most part, the handicraft sector is domestic, although there are products such as clothing, cultural items, masks and drums that are exported. Nearly all sales are made by individuals rather than traders, which makes official data more difficult to ascertain, particularly for exports, and for trade across Côte d'Ivoire's immediate borders.

The sector is poorly structured, but engages about 40% of the working population as it is composed of small activities in the secondary sector and the tertiary sector which employs respectively 13% and 47% of the active population, respectively. Thus, this sector is important because it offers enormous opportunities for jobs, training, and wealth creation. As it is mainly composed of individuals and SMEs, there is also opportunity for formalization of a large portion of the economy. The government policy is to support the handicraft sector to increase income by strengthening the quality of craft services and products, ensuring the financing and professionalization of the sector, and creating dedicated spaces for the exercise of craft trades in the regional capitals.

However, the crafts sector lacks adequate organization and regulation, and although the government passed a Crafts Code in 1994, it is still hampered by the weak organization of artisans; the inadequacy of infrastructure dedicated to handicraft activities; the lack of reliable statistical information for the development of a clear development strategy for the sector; poor financing mechanisms; and inadequate promotion and marketing of products and services in the sector.

Artisans can attain more economic power by working together in an increasingly formalized and structured way. Organization will also help craft artisans benefit from training, coordinated marketing and access to credit. There is a need to establish a statistical information base that will facilitate the establishment of a clear development strategy for the sector.

Given that the actors of the handicraft sector have limited access to credit to develop their activity, investors can help in the establishment of financial instruments or microcredit lines for the handicraft and related sectors. Also, capacity is needed, for example, to establish virtual galleries and platforms that allow craft artisans to benefit from e-commerce. Partnerships to create markets and promotes handicraft products in developed countries could be excellent opportunities for private trading companies, with benefits for local producers. There are also opportunities to invest in the construction of adequate infrastructure that can accommodate the sector, for example, spaces for mechanics, carpenters, and makers.

Transport Sector. In 2018, the share of the transport sector in GDP was 12% compared to just 5% in 2014. Côte d'Ivoire has one of the most developed infrastructure networks in the West African region. This advantage is the result of numerous interventions both in terms of reforms and physical construction that has contributed to modernization and development, particularly in three sub-sectors which are highlighted here: roads, urban transport and ports.

The road network was 82,883 km in 2018 with 7,146 km (8.6%) of paved roads and 75,737 km of dirt roads. Although some has been done by the government to rehabilitate roads, there are still enormous challenges to be met. The maintenance needs in this sector are immense given that 4,500 km of paved roads are in poor condition, and 1,500 km in very poor condition. 75% of roads have not been rehabilitated for up to 35 years. These problems slow down traffic and lead to road insecurity and higher business costs. There are tremendous opportunities for the private sector to support road rehabilitation through construction contracts, and provision of equipment and engineering services.

Urban transport is dominated by the use of informal or small-scale public transport, which is a substitute for the lack of mass transport in the cities. For example, in the capital it is estimated that 36% of daily trips are made by individual or collective taxis and minibuses, compared with only 6% by SOTRA buses, and 4% in personal vehicles. As for the remaining 53%, people often walk to their destination. To improve the public road transport sub-sector, a vehicle fleet renewal mechanism has been established. Private operators were able to benefit from the initiative, and in total, more than 200 "new generation" taxis were put into service and 541 ASHOK LEYLAND brand trucks have been purchased. However, the sector is unable to meet demand and there are significant opportunities to further support to, and investment in, the public transport sector.

The Port of Abidjan ranks first in West African and ninth in Africa according to the ranking of the 2018 Hub Attractiveness index from PwC. An increase in volume of sea freight transported is partly explained by the Vridi Canal Development project. This work started in 2015 and ended in 2019. It allows the Autonomous Port of Abidjan to accommodate ships without limitation of length with 16 meters of draft (TE) against a previous limitation of 260 meters in length and 12 meters of TE. The widened and deepened Vridi Canal will also help consolidate Côte d'Ivoire's position as a port hub on the African Atlantic coast and strengthen the country's role in the economic development of the sub-region.

Traffic at the port of Abidjan, which accounts for 90% of Côte d'Ivoire's foreign trade, increased from 24 million tons in 2018 to 25.2 million tons in 2019. Traffic to hinterland countries, which do not have direct access to the sea (Burkina Faso, Mali, Niger) and whose goods transit through the Port Autonome d'Abidjan (PAA), had grown by 3% in 2017, but was starting to decline in 2018 due to the weakening of economies of these hinterland countries.

Given the population and recent economic growth, existing transport, particularly roads, urban transport and port facilities cannot meet future demand. Investors can help the country to renew its public transport fleet through, for example, a private sector public transport vehicle (minibus) assembly factory. Likewise, while the port plays an important role in the country's economy, investors are needed to help improve the performance of Ivorian ports in order to reduce transport costs. Compared to Ghana, the cost at the port of Abidjan is 59% higher for exporting and 44% higher for importing a container, according to the World Bank.

Risks Across Sectors. As would be expected, each sector has inherent and complex risk factors for both investors and development partners. In most cases such risks are well known and documented, but in some cases they are more nuanced. For example, the agriculture sector is heavily dependent on cocoa and the sub-sector has a complicated history and the current institutional framework leading to inefficiencies and poor incentives. The international community is helping Côte d'Ivoire address these issues, but until resolved the entire agriculture sector will underperform. Likewise, while agriculture is a priority in the National Development Plan there has historically been an underinvestment in rural infrastructure that perpetuates an under-development sectors, continuation of smallholding farmer, large post-harvest losses and lack of product value chains.

As noted earlier, the crafts sector is often overlooked by investors and development partners, although it holds immense potential for improving the incomes and quality of life of artisans. Some of the key risks in the sector relate to the lack of “voice” artisans have in the policy-making process. Given there is little data for the sector, policies and programs are generally not well informed. An important role for the international community is to provide a platform for artisans to inform policies and programs. Likewise, the sector is very diversified and sometimes difficult to understand fully, hence it is more difficult to develop holistic and inclusive programs of support. Finally, the nature of the sector mean that markets are opaque, hence market identification and promotion are more difficult.

Finally, for the transport sector a primary risk is simply the huge infrastructure gap that exists, particularly for roads and urban transport. It is difficult for the government to effectively identify priorities and scale both maintenance and new infrastructure. The sector has historically suffered from poor governance and corruption, although it has improved in recent years. The urban transport sub-sector suffers massively from underinvestment and the governance arrangements for cities and municipalities vis-à-vis the national government leads to complications and delays in urban transport modernization.

3. Current Reform Agendas

The National Development Program guides Côte d'Ivoire's development objectives, policies and programs. It also informs the priorities of international development partners and financiers. Having run from 2016-2020 the overarching aims is to make Côte d'Ivoire an emerging country with a strong industrial base while reducing poverty. It calls for an increase in agricultural output, the promotion of the manufacturing sector, and improvement in the standard of living. The strategy was designed with lessons learned from the 2012-2015 PND, and it is organized around five pillars:

- enhancing the quality of governance and institutions;
- investing in development of human capital and social welfare;
- accelerating the structural transformation of the economy through industrialization;
- developing infrastructure across the economy as a whole, while protecting the environment; and
- strengthening regional integration and international cooperation.

The analysis that was used in developing the PND reinforced the idea that Côte d'Ivoire needs to base its growth on a structural transformation brought about by expediting industrialization. In a first phase, the 2012-2015 PND laid the foundations for this evolution. In a second phase, the pace of transformation was to be accelerated, bringing faster and inclusive growth thanks to a consciously chosen strategy ("une stratégie volontariste"). That strategy was designed to ensure a state in which this population as a whole is better-off everywhere in Côte d'Ivoire; and translating into significant reduction of poverty and a concomitant rise of the middle class to ensure that growth will be sustained.

The strategy also focuses on the evolution of a dynamic economy driven by rapid industrialization, which will bring about a structural transformation and many more opportunities for decent jobs. This industrialization will also support Côte d'Ivoire's further integration into the regional and global value chains. The strategy was also based on assumptions of political stability and a robust level of both public and private productive investment. These assumptions have largely been met, albeit with challenges, with significant investment geared toward stimulating industry.

The PND also endeavors to support key pillars necessary for Côte d'Ivoire's transition to an emerging economy. These include quality institutions and governance; capacity and skills develpment needed for a prosperous Côte d'Ivoire; changes in production and consumption patterns; development of strategic infrastructure while abiding by environmental sustainability principles; and tapping into regional and global trade and other networks.

For the agriculture sector, a program of modernization and reform was launched in 2012. The National Agricultural Investment Program (PNIA) aims for overall growth of the agricultural sector of nine percent per year. Government is in the process of implementing phase two of the program (PNIA 2) running through 2025 at an estimated total cost of CFAF 11,905 billion. PNIA 2 focuses on the mobilization of private investments through the improvement of the business climate and the promotion of synergies between small producers, SME agricultural enterprises and large agro-industrial concerns.

Côte d'Ivoire has also adopted the National Rice Development Strategy (NRDS) with a view to developing the rice sector and achieve rice self-sufficiency by 2025. The NRDS covers the period 2020-2030 and endeavors to ensure integrated rice projects, expand irrigated rice cultivation, improve the use of rice plots, increase the production of high-yield seeds and move towards mechanization of the rice value chain.

Over the period 2016-2020, raw material processing strategies were implemented for cashew nuts, cocoa, cotton, rubber and fruits and vegetables. Regarding cocoa processing, the objective is to increase the processing rate to 50% of production. Thus, the government has taken measures to improve the competitiveness of the milling companies and promote private investment. Some reform initiatives and programs include fiscal arrangements to support industrial cocoa milling units; reserving of a proportion of export duties for milling enterprises; guaranteeing cocoa beans to processors at affordable prices; and a system of Single Exit Duties differentiated according to the degree of processing of the bean.

For the cotton-textile subsector, the reform objectives are to increase the cotton processing rate to 25% of production. The aim is to make the sector more attractive and more competitive throughout the value chain in order to create jobs, especially for young people and women. Regarding fruits and vegetables, the strategic objective is to increase processing rates, especially for mangoes and pineapples through promoting the preservation and production of fruit juices and dried fruits; ensuring fruit supplies to product processing units; and improving storage and preservation capacity.

Reforms in the craft sector, following from the Crafts Code, have included adoption of an official nomenclature of crafts and its subsectors. To make the artisanal sector more visible and gradually migrate artisanal activities from the informal to the formal sector, a virtual gallery project is underway to allow artisans to benefit from the advantages of e-commerce and easily sell their products, but this needs significant support to be successful. To strengthen the quality of craft services and products, the government, through the Department of Management, Apprenticeship and Continuing Education has been updating a directory of the handicraft sector and has some limited capacity building for artisans.

Through the National Chamber of Trades of Côte d'Ivoire, a number of projects have been initiated with the aim of strengthening the capacities of handicraft tradespeople. These include a support program for small craft enterprises with the West African Economic and Monetary Union; training that leads to qualifications with the Youth Employment Agency (500 young people to be trained in various craft trades) and a project for training young miners.

The reform agenda in the transport sector includes both infrastructure development and strengthening the legal and regulatory frameworks for transport services and for land access and use. Government has also established the Inland Transport Regulatory Authority and is creating a National Road Safety Commission. The Ministry of Transport is developing a platform for all information relating to road transport; and establishing a regulatory mechanism for supervision of transporters and bus drivers.

Since 2015, Abidjan has developed the Greater Abidjan Urban Development Master Plan and the Greater Abidjan Transport Master Plan. The reform plans focus in part on improving the transportation of goods between the port (as well as the airport) and industrial areas by widening of roads. It also tackles the problem of lagoon crossings with proposals for bridges, such as the fourth bridge between Yopougon and Plateau, which is currently under construction. A by-pass road (the Y4 road) is also under construction. An intelligent traffic management system for road safety and traffic management has been implemented and government has undertaken numerous reforms to revitalize maritime transport, better linking the port to the city, road networks and industrial areas. These also include the adoption of a new maritime code, creation of maritime companies providing cabotage and lagoon transport by water taxi.

4. Development Partners Assistance

Technical and financial partners are engaged across sectors of the Ivorian economy, with support primarily from the World Bank, European Union (EU), International Monetary Fund (IMF), African Development Bank (AfDB), International Fund for Agricultural Development (IFAD), United States Agency for International Development (USAID), France, Germany, other Organization for Economic Cooperation and Development (OECD) countries and China.

The agriculture sector is benefitting from numerous ongoing development partner support programs. For example, the AfDB funded Cocoa Sector Governance Support Project was launched in 2018. The overall cost of the project is US$6 million, of which ADF loans are UA 5 million, with a UA 1 million contribution from government. The project runs through September 2021. The overall objective of the project is to strengthen the governance of the cocoa sector in Côte d'Ivoire in order to improve its efficiency and ensure higher incomes for producers. The AfDB is also supporting the Agro-Industrial Pole Project in the Bélier region to increase food and nutritional security. The cost of the project is UA 97 million and is financed by ADF loans, ADF grants and by the government. It currently being implemented through 2021.

The European Union is also a partner supporting the agricultural sector in Côte d'Ivoire. Its interventions aim to improve the performance of the food sector through the dissemination of research results, improved water management, and also better availability of domestic food products in large cities with support to the "market gardening" sector in peri-urban areas. The EU also supports the "cassava and starchy sources" sector in rural areas through the Project to Support the Development of the Cassava and Vegetable Crops Sectors in Côte d'Ivoire. The cost of the project is CFA 11.5 billion. This fully EU-financed initiative focusses on 21 regions in the country and will run until 2021. It is expected to generate 7,500 direct jobs and 20,000 indirect jobs.

The International Fund for Agricultural Development assists the Ivorian government through the Program to Support the Development of Agricultural Commodity Chains. Its interventions are aimed at rehabilitating and maintaining 300 km of priority agricultural feeder roads, land filling of 18,000 hectares for rice production, and processing agricultural products. The project started in 2017 and is scheduled to end in 2025 with a total cost of US$71.04 million, of which US$37.48 million is from IFAD.

The World Bank has several projects aimed at strengthening the agricultural sector. Among them is the E-Agriculture Project which started implementation in 2018, at a cost of US$ 70 million and is intended to increase access to digital services and leverage digital platforms to improve farm productivity and access to markets. Another project, the Cashew Value-Chain Competitiveness Project, which also started implementation in 2018 at a cost of US$ 285.25 million aims to increases cashew productivity, quality and value-added, benefiting smallholder farmers and the cashew processing industry.

Germany already provides support to the Ivorian agricultural sector a part of the program “Agricultural Value Chains for Sustainable Development”. Another project funded by Germany, the Green Innovation Centres for the Agriculture and Food Sector runs from 2018-2023. The objective is to promote innovations that will sustainably increase income, diversification, employment, and productivity of small-scale cocoa producing families and augment small and medium enterprises in the cocoa value chain.

In the crafts sector, the European Union is the largest contributing development partner. Its primary project, "Support for the Empowerment of Craftsmen of Côte d'Ivoire" is co-financed EU) and implemented by the Italian NGO AVSI in partnership with the National Chamber of Crafts of Côte d'Ivoire. The cost of the project is FCFA 1.3 billion and is intended to support the Ivorian government's employment policy by helping to modernize the handicraft sector. Another three-year project entitled "One Craftsman: A Future to Build" is also funded by the EU and aims to help improve the living and working conditions of artisans in the informal sector, with particular attention to those infected/affected by HIV/AIDS in the areas of Abidjan, Yamoussoukro and Bouaké.

Côte d'Ivoire also benefits from support from the Chinese government through a contract to build modern craft centers that will bring together all artisans in a specific location on the same site. This project is in collaboration with the Chinese private consortium group "Weidong Cloud Education". The project involves the construction of 13 sites in different cities dedicated to the crafts. The locations are Adzopé, Grand-Bassam, Bondoukou, Bouaké, Daloa, Kong, Korhogo, Man, Odienné, Séguéla, San Pedro, Soubré and Yamoussoukro. These landscaped spaces, which will respect environmental standards, will promote crafts and businesses in the sector. They will be equipped with machinery and appropriate technologies that will allow production and marketing onsite, as well as training of artisans.

In the transport sector, the World Bank finances the Abidjan Urban Mobility Project which will operate through 2025 with financing of US$ 540million. The project aims to support implementation of the East-West Bus Rapid Transit corridor between Yopougon and Bingerville, and strengthen the Abidjan Public Transport Company. Another ongoing project financed by the World Bank in the transport sector is the Greater Abidjan Port City Integration Project which also runs through 2025 with financing of US$ 400 million. It supports the improvement of urban management, logistics efficiency, port accessibility, and urban mobility in the Greater Abidjan Area.

The AfDB is also supporting Côte d'Ivoire in financing the implementation of the Abidjan Urban Transport Project over the period 2016-2021. Costing a total EUR 769.78 million, it is financed with a EUR 566.99 million AfDB loan; a EUR 6.40 million grant from the Global Environment Facility (GEF), EUR 63.49 million by a JICA loan, and EUR 132.90 million by the government. This project intends to improve traffic flow in Abidjan, reduce atmospheric pollution, increase youth employment, and improve the income of the population, especially women-owned business. The AfDB's 2017-2023 "Air Côte d'Ivoire Project" is a PPP-type intervention that combines financing, knowledge, and policy development solutions. It also includes the acquisition of five Airbus 320 series aircraft through a leasing structure with a buy-back option, a technical assistance program aimed at strengthening the capacity of the aviation industry and a business plan for a center of excellence in aviation training.

5. Recommendations for BMZ

As outlined in earlier sections, there are many investment and reform agenda opportunities in Côte d’Ivoire, particularly in sectors recommended in this report: agriculture, crafts and transport. These are attractive because of the opportunity for job creation and modernizing key sectors, while supporting key priorities of the government and other development partners. Likewise there is broad development partner support across these sectors aligned with the National Development Plan.

This report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework. Focusing one or more of these sectors will also support priorities in the National Development plan focused on supporting Côte d’Ivoire as an emerging country with a strong industrial base while reducing poverty. As suggested below, German development cooperation can also be important in supporting Côte d’Ivoire to realize progress around key pillars of the strategy, in particularly enhancing institutional capacities, developing skills, frameworks for infrastructure investment and regional integration.

While providing opportunities for investment and supporting reform agendas, there are of course risks in each sector. These range from deep structural challenges in agriculture, particularly regarding cash crops to the ongoing low levels of productivity and limited value addition/food processing. For the crafts sector, there is little data and the sector is highly diversified, creating challenges to formalize, offer training, and create value chains. And the transport sector faces long term investment gaps which will take many years to address, and in the meantime the sector will continue leading to higher business costs and a poor investment environment. Each of these risks also presents opportunities for support reform programs. In the context of the Reform Partnership Framework, **this report recommends that German Development Cooperation provide advisory, technical and financial support in one or more of the sector(s) selected.**

For example, Germany can play an important role in helping to strengthen linkages between agriculture, agribusiness and industry, particularly through the introduction of technologies in agricultural manufacturing and process. As well, technical assistance and advisory services are needed to support smallholder farmers and small enterprises to access technology, information, training, financing, and markets.

While there may be fewer opportunities for corporate foreign direct investment in the crafts sector, there is need for support and technical assistance, both in organization (formalization) of the sector and for vocational training where Germany has strong expertise.

Finally, in transport, German development cooperation can support sector reforms, and particularly help to improve project management, efficiencies, and transparency, but there is also a need for continued financing for new and rehabilitated infrastructure. German infrastructure project expertise can lead to faster project timelines and world class construction.

Pathways to Accelerating Investment Opportunities in Ethiopia

ACET African Center for Economic Transformation

Summary

The report recommends the tourism and ICT sectors as holding significant promise for further support and investment. **And we have identified two enabling sectors, the financial and logistics sectors.** These sectors, taken as a whole, have the potential to grow significantly, offering new occupations more aligned with the evolving future of work in an expanding global economy after the pandemic. The financial and logistics sectors should be targeted with additional investment to encourage government reform of these sectors, given their critical role in Ethiopia's economic transformation.

Ethiopia's reform agenda, both the ten-year development plan and the Homegrown Economic Reform Agenda (HERA), has emphasis on these sectors. Generally, HERA seeks to upgrade policy and institutional frameworks and accelerate investment, and specifically the HERA reform agenda addresses tourism as a sector that has not yet been leveraged for economic growth. Likewise, it focuses on ICT, where mobile and internet penetration is limited by an array of constraints. It also points to poor export performance due in part to limited logistics, and expansionary fiscal policy that has crowded out the private sector's access to finance and limited development of the financial system.

Tourism was selected because of its huge future potential. In 2019, Ethiopia enjoyed over $3.6 billion in visitor spend, which represented the equivalent of 49.5% of total exports. And in 2019 travel and tourism contributed 6.7% to Ethiopia's GDP. On the other hand, ICT is an enabler for the productive sectors of the economy. Employment across ICT fields has been growing and there have been substantial investments in digital infrastructure in recent years. World Bank estimates indicate that more competition in the telecom sector is likely to reduce data prices by 25 percent in the short run and by 67 percent in the long run

The financial sector was selected in part because it is so underdeveloped, which provides significant opportunities. For example, in 2017 only 35 percent of adults in Ethiopia had a bank account, compared to an average of 43 percent in Sub-Saharan Africa. If the sector is opened and appropriate regulatory reforms are implemented, it can support broad-based and inclusive growth. Finally, the logistics sector holds promise to radically improve competitiveness, exports and manufacturing. Without reforms and investment in logistics, Ethiopia will not reach its potential.

The reform agenda in Ethiopia is already strongly supported by the development community, but particularly in these sectors will need ongoing technical assistance and financing, including

from German Development Cooperation. **This report recommends that Germany also provide technical and advisory support to one or more of these sectors**. For example, in tourism Germany could support policy design to accelerate tourism-related infrastructure. Likewise, German development experience in technical and vocational training could be leveraged to address a shortage of trained workers in the sector.

German development assistance could focus on advisory services to improve the digital regulatory environment, build digital skills, and develop robust policies to incentivize private sector involvement. German expertise can be central to expediting telecom reform and regulatory approaches to support technology startups. On the financing side, much more is needed to expand electricity and internet connectivity.

In the financial sector, German expertise can support Ethiopia in optimizing the allocation of capital and help grow SMEs by providing them with access to finance through an improved regulatory environment. While in the logistics sector, German development assistance can be instrumental in reforming the heavy bureaucratic customs process, facilitating finance for improvements in inadequate terminal facilities, and help Ethiopia increase the utilization of ICT systems for imports, exports and trade.

1. Economic, Political and Social Context

Context. Ethiopia, Africa's oldest independent country, is located in the conflict-affected Horn of Africa region and is experiencing significant political and economic change. Historically recognized as authoritarian and politically stifled, Ethiopia has been increasingly turning towards openness and democratic processes. Since 2018, Prime Minister Abiy Ahmed has launched a campaign of political liberalization at home and sought to end disputes with Ethiopia's neighbors. In particular, a peace agreement with Eritrea has been signed and the border reopened following two decades of conflict. The Prime Minister also pledged to bring more transparency to government and reconciliation to a country that had been torn by protests since 2015. However, open conflict between the central government and the Tigray region since November 4, 2020 resulting in the killing of countless civilians risks compromising recent gains.

While the violence from ethnic attacks appears to have largely ended, the political situation remains very fragile, and a humanitarian and geopolitical crisis. Political disruption, associated with social unrest, could negatively impact growth through lower foreign direct investment, tourism and exports. However, the new administration has opened new political space for dialogue and started to implement a range of economic reforms aimed at revitalizing the Ethiopian economy by expanding the role of the private sector. These changes could transform the economic and political landscape in the sub-region, but the deep and structural political challenges will need to be addressed before Ethiopia can be assured of peace and prosperity [developments continue at the time of publication].

Ethiopia is the second most populous country in Africa (112 million people, 2019) and has one of its fastest growing populations. With a per capita income of $790 it is also one of the poorest. A landlocked and predominantly agricultural country (80% of the population lives in rural areas) its geographical location in the Horn of Africa and close to the Middle East gives it a strategic advantage. It has been using neighboring Djibouti's main port for the last two decades to facilitate the majority of its imports and exports. However, with the recent peace with Eritrea, Ethiopia is set to resume accessing the Eritrean ports of Assab and Massawa for its international trade. Ethiopia is in the early stages of demographic transition, and while infant, child, and maternal mortality have fallen sharply over the past decade, a high fertility rate (5 children per woman) means its population continues to grow. More than 40 percent of Ethiopia's population is below the age of 15.

Macroeconomic. Driven largely by government investment, Ethiopia's economy enjoyed strong, broad-based growth (average of 9.8% a year from 2008/09 to 2018/19, compared to a regional average of 5.4%). Higher economic growth led to poverty reduction in both urban and rural areas. The share of the population living below the national poverty line decreased from 30% in 2011 to 24% in 2016. Prior to the pandemic and conflict, the government had set a target of reaching lower-middle-income status by 2025. Real GDP growth slowed to an estimated 7.4% in 2019 from 7.7% in 2018.

The relative output share of the different sectors of the Ethiopian economy has changed dramatically over the past twenty years. Agriculture remains important, but its share of total economic output has decreased from 66% in 1991 to just under 35% in 2018. In contrast, the service and industry sectors' shares of total output have increased to about 39% and 27%, respectively. Industry (mainly construction) and services have accounted for most of Ethiopia's growth. Ethiopia's foreign exchange earnings are led by the services sector - primarily the state-run Ethiopian Airlines - followed by exports of several commodities.

While coffee remains the largest foreign exchange earner, Ethiopia is diversifying its exports, and commodities. Gold, sesame, khat, livestock and horticulture products are becoming increasingly important. Ethiopia exports mostly to the United States (US$ 372 million), China (US$ 329 million), Saudi Arabia (US$ 186 million), Germany (US$ 166 million), and Netherlands (US$ 163 million), and imports mostly from China (US$2.53 billion), France (US$ 722 million), India (US$ 713 million), United Arab Emirates (US$ 681 million), and the United Kingdom (US$ 362 million).

Ethiopia has had a long tradition of central planning given its socialist history, and today state-owned enterprises (SOEs) represent an important part of the Ethiopian economy and dominate strategic sectors. There are 40 wholly state-owned public enterprises in Ethiopia. The nine largest SOEs contribute 16% of GDP. The country's rapid growth over the past decade has been driven by large public investments in critical infrastructure, including transport, energy, and social services, and the share of public investment in GDP has grown from five percent in the early 1990s up to an average of about 15 percent in recent years. While hundreds of SOEs have been privatized over the years, they continue to feature prominently in key areas of the

Ethiopian economy, including in telecommunications, finance, energy, logistics and transport, as well as in manufacturing. This leaves little space for the private sector and has crowded out credit markets and access to foreign exchange.

Despite the significant presence of the public sector in the economy, FDI has trended strongly upward for the past five years. According to the UNCTAD World Investment Report (2018), Ethiopia became the destination for the largest amount of FDI in Sub-Saharan Africa, with an inflow of $3.6 billion in 2017 and $4.9 billion in 2018. The country is perceived as an attractive investment destination, and major investors have taken the opportunity to set up production facilities in industrial parks.

In spite of Ethiopia's strong economic performance, structural transformation has been slow. The state-led, centrally-planned model of development has shown severe limitations, as external competitiveness has eroded and imbalances have increased. The World Bank's Doing Business ranks Ethiopia 159th out of 190 countries, a 52-spot drop since its 2010 ranking of 107th. Promoting faster and more inclusive structural transformation in Ethiopia requires productivity-enhancing activities across the board. This is being addressed, in part, by ongoing infrastructure projects in power, roads, rails, airports and industrial parks, which should enhance the logistics and efficiency conditions of the economy.

Investment recently has been primarily in infrastructure, construction, agriculture/horticulture, agricultural processing, textiles, leather and leather products. With adequate investment, Ethiopia has the potential to become a major global tourist destination as the sector continues to grow significantly. The government anticipates up to 5 million international tourist arrivals by 2025, generating expenditure of US$ 6.2 billion, although the pandemic may affect these projections.

Human Development. Sustainable job creation is a critical challenge if Ethiopia is to meet its development objective to become a middle-income country by 2025. More than 70% of Ethiopia's citizens are under 30, and more than 40% are under 15 years of age. There is thus an urgent need to create productive jobs to drive inclusive economic transformation and ensure that Ethiopia's youth can become a dynamic force for economic growth. Ethiopia's main challenges are sustaining its positive economic growth and accelerating poverty reduction. These both require significant progress in job creation as well as improved governance. The government is devoting a high share of its budget to pro-poor programs and investments, with large scale donor support. Key challenges include limited competitiveness, an underdeveloped private sector, and political disruption.

Rapid economic growth between 2004 and 2018, together with a six-fold increase in GDP per capita have led to a 15 percent decline in the rate of poverty in Ethiopia. Ethiopia's human development index score increased from 0.33 score in 2004 to 0.47 score in 2018 growing at an average annual rate of 2.67%. Approximately 19 % of Ethiopians live below the poverty line today compared with 45.5% in 1994 and 29.6% in 2011. There has been notable progress in health outcomes and access to education. Between 2005 and 2018, the under-5 mortality rate fell from 123 to 55 per 1,000 live births, life expectancy improved from 56 to 66 years, school enrollment grew from 79% to 100% at primary level and from 25 to 75% at secondary level. There have also been improvements in access to electricity, potable water and roads.

In spite of generally improving human development indicators, a large number of Ethiopians still live in chronic poverty and are vulnerable to climate shocks. Significant progress has been made in improving access to primary health care services, particularly for the rural poor, and basic service gaps in antenatal care and reproductive health have narrowed. However, inequitable access to quality health services, particularly for the bottom 20 percent, is an obstacle to further improving health outcomes. Huge challenges remain in the education sector. These include high dropout rates (over 80 percent in rural areas during the first four years of schooling), especially among the poorest 20 percent of households; and learning outcomes are weak, especially for girls. Ethiopia performs poorly on early childhood indicators, particularly stunting and lack of early stimulation and learning, which result in cognitive and health deficits, and in turn lead to lower productivity and earning capacity.

Access to safe water in both rural and urban areas is critical for improved health and nutrition outcomes, better labor productivity and for benefiting women, who disproportionately bear the burden of fetching water. In 2015 only 39% of the Ethiopian population had access to basic drinking water services – a long way from the 85% targeted in the country's reform agenda. Similarly, only 44% of the population has access to electricity, compared with the target of 86%. Ethiopia needs to provide electricity and water for an additional 40-45 million people to reach the current coverage rate of lower-middle income countries. In addition to addressing the challenges of health, education and access to water and electricity, the government's ten-year reform plan gives priority to ensuring gender equity in the economic and social sectors, including the participation of women at all levels of education and asset ownership by women. It also calls for fair participation of women and youth in leadership and decision-making, and aims to create awareness of the role of women and youth in the country's overall development.

COVID-19. The COVID-19 pandemic has further constrained growth, and real GDP growth in 2020 is now projected to decline to between 2.6 % and 3.6%. Ethiopia is one of only seven countries worldwide expected to maintain GDP growth of more than 3%. While a partial recovery is projected in 2021, the pandemic is expected to hit commodity prices and trade, travel and tourism, and financial flows, reduce export revenues and foreign exchange earnings, and lower remittances and FDI flows. Reduced economic activity could lead to huge job losses estimated at between 1.4 and 2.5 million. The pandemic has already led to the postponement of national elections which were scheduled for August 2020. The most direct economic impact, so far, has been on the service sector, particularly transport, travel, and hospitality services. The pandemic has severely affected passenger transport (both air and land) which, in turn, has shaken the hospitality industry, resulting in closures of many large hotels.

The government prepared a $1.6 billion emergency pandemic response plan focusing on the health sector, social protection, and sustaining economic activities. This effort is being supported through emergency pandemic funding from the World Bank, AfDB and the donor community, including Germany. The government has also prioritized policy action to support food security and sustain supply chains in face of the pandemic, as well as social protection in the form of food assistance to the vulnerable. There is also an employee protection scheme in place – the Urban Productive Safety Net Program – and various programs to provide tax forbearances and exemptions. Finally, Ethiopia has received debt payment forbearance through the G20-endorsed Debt Service Suspension Initiative (DSSI). With just over 120,000 coronavirus cases and under 2,000 deaths as of the end of 2020, Ethiopia appears to have escaped the worst of the pandemic. However, a second and third waves in many parts of the world gives cause for concern, and the ultimate impact on the economy is uncertain. In addition to recent warfare with Tigray and the COVID-19 pandemic, Ethiopia has been experiencing the worst invasion of desert locusts in decades. This could undermine development gains and threaten the food security and livelihoods of millions of Ethiopians [developments continue at the time of publication].

Sustainable and Green Economy. The Climate Resilient Green Economy strategic pillar of Ethiopia's Ten-Year Plan, which has been implemented since 2011, aims to increase efforts to fight land degradation and reduce pollution while improving productivity, reducing greenhouse gas emissions and increasing forest protection and development. It also promotes increasing electricity production from renewable sources and focusing on modern and energy-saving technologies. Ethiopia's National Green Development program included a four billion tree planting effort in 2019; another five billion trees were expected to be planted in 2020. The proposed Grand Ethiopian Renaissance Dam on the Nile is currently under development and will be the largest hydroelectric dam on the continent when fully operational. Ethiopia is also part of the World Bank's Scaling Solar program, and plans to increase fuel efficiency standards, promote the use of electric vehicles, construct a renewable energy rail network, improve public transportation in the capital, and increase the use of biofuels.

2. Sector Investment Potential

The two sectors identified as holding the most promise for further support and investment are the tourism and ICT sectors. The methodology used for selection assessed the economy's sectors based on a list of criteria that incorporate economic, employment, growth and structural dimensions, and scoring each sector on the basis of each criterion. While the selected sectors currently make relatively small direct contributions to output and employment compared to the more traditional sectors, they have the potential to grow significantly, offering new occupations more aligned with the evolving future of work in an expanding global economy.

Tourism was selected because of its huge potential. In 2019, Ethiopia enjoyed over $3.6 billion in visitor spend, which represented the equivalent of 49.5% of total exports. In 2019 travel and tourism contributed 6.7% to Ethiopia's GDP, and prior to the pandemic, the sector employed almost two million people, representing about seven percent of total employment. 77% of employees in the accommodation and food business are women, also making it a strongly inclusive sector.

The strongest argument for ICT's selection is its effectiveness as an enabler for the productive sectors of the economy. Employment across ICT fields has been growing and there have been substantial investments in infrastructure in recent years, including those supported by a $3.1 billion series of loans from China EXIM Bank, have improved connectivity and accessibility.

In addition to the tourism and ICT sectors, we have identified two enabling sectors, the financial and logistics sectors, that should also be targeted for additional support and investment to encourage government reform of these sectors given their critical role in Ethiopia's economic transformation. These two sectors are important for providing a platform for the modernization and improved efficiency of other traditional sectors of the economy.

The financial sector was selected in part because it is so under-developed, which provides significant opportunities. For example, in 2017 only 35 percent of adults in Ethiopia had a bank account, compared to an average of 43 percent in Sub-Saharan Africa. Progress has been slow in mobile money, as only 0.3% of adults have an account with mobile financial service operators -- well below the African average of 20.9%. And there are similar challenges for the private sector, where only 30% of SMEs have access to credit.

And the logistics sector holds promise to radically improve competitiveness, exports and manufacturing. Currently Ethiopia is ranked among the worst in the world at "Trading Across Borders". As an example, the cost of shipping a twenty foot container to Germany from Ethiopia is 247 percent higher than from Vietnam. Structural and regulatory changes are being planned, and the sector is ripe for investment that will accelerate growth and prosperity.

These sectors are also strongly supported by the ten year development plan which aims to promote quality-based economic growth, increase production and competitiveness and build a green and climate-resilient economy; and is supported by the Home Grown Economic Reform Agenda (HERA). HERA seeks to upgrade policy and institutional frameworks and accelerate investment. The reform agenda addresses tourism as a sector that has not yet been leveraged for economic growth. It likewise, focuses on ICT, where mobile and internet penetration is limited by an array of constraints. It also points to poor export performance due in part to limited logistics, and expansionary fiscal policy that has crowded out private sector's access to finance and limited development of the financial system.

The HERA focuses on a wide array of policy actions, including for example, enhancing operational efficiency, transparency, and governance of SOEs such as the Ethiopian Shipping and Logistics Services Enterprise (ESLSE). It also focuses on the financial regulatory framework to meet international standards, the creation of longer-term saving instruments, and allowing banks to pay competitive interest rates. Other pillars of the reform agenda are promoting exports and tourism. The sector rankings are shown below.

Sector Ranking for Ethiopia

Sector	Score	Ranking
Tourism	**60**	**1**
ICT	**54**	**2**
Agriculture	**48**	**3**
Transport/Logistics	**43**	**4**
Financial sector	**42**	**5**
Manufacturing	**41**	**6**
Construction	**39**	**7**
Education	**39**	**7**
Energy	**37**	**9**
Mining	**31**	**10**

It is important to note that the four sectors reinforce one another. An improved ICT sector will help to modernize and digitalize the tourism, financial and logistics sectors, thus expanding access to finance and reducing supply chain delays, providing business opportunities for small and medium enterprises and creating jobs for a growing population. Improved access to finance will drive entrepreneurship in the tourism and ICT sector while also easing the constraints inherent in Ethiopia's logistics sector. A modern logistics sector will benefit from digitalization to lower the cost of trade, and attract more private financing, both local and foreign. The ICT sector also has the potential to absorb high school and university graduates in technology-related start-ups if given access to venture capital. The tourism sector provides a very strong linkage to the passenger services of the successful national airline which is one of Ethiopia's largest sources of foreign exchange earnings

Tourism. The tourism sector is a large contributor to worldwide economic activity and has an important role to play in supporting growth, development and employment generation. While the global economy grew by 2.5% in 2019, travel and tourism grew significantly more at 3.5%. Its contribution to economic activity worldwide is estimated at 10.3% total contribution to global GDP (higher than agriculture, mining and automotive; and generates 330 million jobs globally).

While the tourism sector has collapsed with the COVID-19 pandemic, it will return. And with its nine UNESCO world heritage sites, Ethiopia could become a major tourist destination. Nature-based tourism, taking advantage of Ethiopia's rich variety of geography and climate is also of increasing interest to international tourists; and if managed sustainably can help to preserve the nation's rich cultural heritage. The number of international visitors grew by 10% from 2007 to 2017. This trend was expected to continue prior to the pandemic, with up to five million international tourist arrivals projected by 2025, generating expenditure of $6.2 billion. Tourism's contribution to GDP has grown consistently over time and has indirectly led to the growth of other sectors. The average expenditure of $1,119 per tourist is one of the highest on the continent

In 2019 travel and tourism contributed 6.7% to Ethiopia's GDP, which represented a 0.7% growth from the previous year. Prior to the pandemic, the sector employed almost two million people, representing about 7% of total employment. 77% of employees in the accommodation and food business are women. In 2019, Ethiopia enjoyed over $3.6 billion in visitor spend, which represented the equivalent of 49.5% of total exports.

Ethiopia has a number of comparative advantages as a tourist destination. It is a relatively untapped resource with a mix of unspoiled culture and nature-based green and sustainable ecotourism resources, and its position as a center for regional development and diplomatic institutions offers opportunities for conferences and business tourism. It has a reputation as a safer and more secure destination than many of its close competitors. Its closeness to regional destinations such as Kenya allows it to tap into regional and international tourism demand and it enjoys good accessibility and competitive airfares with Addis Ababa serving as a major regional hub for its flag carrier Ethiopian Airlines – Africa's and the world's fourth largest in number of countries served, thanks to its affiliation with Germany's Lufthansa and other Star Alliance member airlines.

A strong economic recovery after the pandemic and an increase in foreign investment are expected to positively impact corporate demand for the hotel sector. The opening up of the economy is an opportunity to stimulate this recovery as this could expand the number of multinationals based in the country and thus increase hotel demand. There was also an anticipated increase in corporate, NGO and diplomatic demand over the next few years. Furthermore, Ethiopia currently has 21 internationally branded hotels under development which could add 4,30w0 rooms.

In general, however, Ethiopia's tourism industry remains well below its potential and faces a number of challenges. Ethiopia has not been able to shake off a poor international image as a tourist destination mostly based on lack of destination awareness and a lack of promotion. The conflict in Tigray, which is home to many heritage sites will only exacerbate the image problem. The general public's understanding of tourism is weak and domestic tourism is still at an early stage. Tour operators have limited capacity in terms of knowledge and skill. There is low capacity of domestic air transportation. Tourism-related infrastructure is poor: availability of accommodations and services remains a challenge; ICT usage is low, as is road density. There is a shortage of trained workers in the sector, and little private sector investment goes into tourism-related training.

Across different stages of the value chain awareness of job opportunities in the sector is low and the government does little to incentivize investors in the sector; tour operators and craft makers have limited access to finance, jobseekers lack soft skills, and training institutes do not offer practical capacity building for the industry. Not surprisingly, the COVID-19 epidemic has had a devastating effect on Ethiopia's tourism industry. The number of international arrivals in Ethiopia dropped due to flight cancelations by the Ethiopian Airlines Group which flies to over 80 destinations worldwide from Addis Ababa. Addis Ababa has seen 88% of hotels either fully or partially closed.

Information and Communications Technology. ICT is increasingly used as a key enabler and transformational tool to foster economic growth, accelerate knowledge transfer, develop local capacities, and raise productivity in a variety of sectors. Its impact goes beyond productivity gains and it can be a driver of economic and social transformation. To take advantages of this potential, Ethiopia will need to focus on improving access to services, enhancing connectivity, creating business and employment opportunities, and changing the ways people communicate and interact among themselves and with their government. The Networked Readiness Index (NRI) reveals an almost perfect correlation between a country's level of ICT uptake and the economic and social impacts ICT has on its economy and society.

ICT should be seen in the broader context of Ethiopia's socioeconomic development, and the Government can use today's most innovative technologies to accelerate economic growth and alleviate poverty. Leveraging ICT in the public sector can lead to improved performance by lowering costs and improving service delivery and governance. The use of ICT could improve the quality of health care through, for example, the use of digital patient records with mobile applications. Innovative ICT solutions in the agriculture sector can increase output and efficiency by facilitating access to information about the state of the markets and weather patterns. In manufacturing, ICT can improve information-sharing, decision-making and staff management. Ethiopia can use digital technologies to open up its tourism sector, and ICT could make education more accessible in remote, underserved rural locations.

The strongest argument for ICT's selection is its effectiveness as an enabler for the productive sectors of the economy. While its direct contribution to job creation is likely to be modest, the sector has the potential to absorb high school and university graduates in ICT-related start-ups with the right policies and incentives, and with donor support.

The ICT sector comprises telecommunications, IT services, and IT enabled services (those that are not directly IT-related but merely performed via information technology infrastructure), including business process outsourcing. Over the last two decades Ethiopia has enjoyed broad-based growth, but its ICT sector ranks among the bottom decile in most international indices. The Ethiopian National ICT policy recognizes the catalytic potential of ICT, both as an industry in itself, and as an enabler of socioeconomic transformation. However, the ICT Index of the International Telecommunications Union ranks Ethiopia as 162nd out of 166 countries in 2016 (34th out of 38 Sub-Saharan African countries), while the World Economic Forum ranks it 137th overall in ICT adoption, with internet users representing 18.6% of the adult population.

Constraints in the digital ecosystem include a poor digital business environment, a lack of digital skills, and the nascent nature of the industry. Sector regulation and oversight are constrained by poor management processes within government institutions, limited incentives for private sector involvement, and a lack of openness to new ways of working. Major connectivity and power issues, including both energy and internet blackouts, affect the ICT sector. IT enabled services, including business process outsourcing are limited by legal restrictions placed on voice over internet protocols (VOIP), lack of language skills, and restrictive labor laws. Adequate capacity and skills are a challenge for Ethiopian workers. While both workers and consumers have a lack of exposure to the digital environment. In addition, restrictive import and customs processes for component parts affect all aspects of ICT.

Ethio Telecom maintains a monopoly over telecommunication services although a privatization process is underway. In 2019 the government approved legislation that opened the market to competition and provides much needed foreign investment; and tariffs were reduced by up to 50% in 2018, resulting in an increase in data and voice traffic. The government also launched a mobile app as part of its e-Government initiative to build a tech city. Export of IT-enabled services is small, with only four firms providing such services. Infrastructure is the most binding constraint, while globally, online labor is growing at 26% per year with developing economies leading supply while more developed ones dominate the demand side.

While job creation in the ICT sector remains low, it has been increasing in recent years. Approximately 60,000 people were employed across ICT fields in Ethiopia in 2013, growing to an estimated 78,000 in 2018. Substantial investments in infrastructure in recent years, including those supported by a $3.1 billion series of loans from China EXIM Bank, have improved connectivity and accessibility. However, penetration remains limited and Ethio Telecom faces efficiency challenges. The digital economy offers broad development benefits in terms of faster growth, more jobs, and better services but this requires closing the digital divide, especially for internet access. This is particularly acute in Ethiopia, where the internet penetration rate is just 15 percent compared with 85 percent in Kenya, for example. Ethiopia continues to levy high import tariffs (an average of 14.4 percent, with some taxes as much as 30 percent) on ICT and digital products, compared with other countries in the region. In Kenya, the average tariff on these products is just 3.75 percent. The government is seeking to make Ethiopia a prime regional IT hub, for which digital infrastructure will be essential.

The effects of COVID-19 could have an impact on Ethiopia's technology sector, including disruption to the electronics value chain and inflationary risk on products. However, the disruption is also causing an acceleration of remote working and distance learning, with potential advantages for communities in remote locations. However, the limited internet connectivity remains a constraint.

Financial Sector. The development of the financial sector can play a significant role in Ethiopia's transformational journey. A developed financial sector can stimulate economic growth through capital accumulation and technological progress by increasing the savings rate, mobilizing and pooling savings, producing information about investment, facilitating and encouraging the inflows of foreign capital, as well as optimizing the allocation of capital. Financial sector development can also help with the growth of SMEs by providing them with access to finance. SMEs are typically labor-intensive and create more jobs than do large firms.

The Ethiopian financial sector remains underdeveloped and is largely concentrated in banking. With total assets of 52 percent of GDP, Ethiopia's financial system is shallow and currently does not adequately support economic transformation. Forty percent of firms identify access to finance as the main obstacle to doing business, and credit to the private sector was just 13 percent of GDP in

2018. Most businesses and households lack access to long-term finance, and the banking system provides a limited range of traditional financial products and services. In 2017 only 35 percent of adults in Ethiopia had a bank account, compared to an average of 43 percent in Sub-Saharan Africa.

Ethiopia's financial sector comprises 18 banking institutions (16 private and two public). Of the 4,757 banking outlets in Ethiopia, more than a third (35.3%) are in the capital, Addis Ababa. The country has 37 microfinance institutions (MFIs) and 17 insurance companies (16 privately owned). The Development Bank of Ethiopia (DBE), a non-deposit-taking institution established to provide medium and long-term loans for investment in the government's priority areas, runs 107 branches throughout the country. The financial sector - including the banking sector – remains open only to local investors. This is unlikely to change anytime soon. The National Bank of Ethiopia recently reaffirmed its policy to leave the banking sector closed to foreign investors as it seeks to strengthen local banks. However, Ethiopia has allowed some foreign banks to open liaison offices in Addis to facilitate credit to companies from their countries of origins. Chinese, German, Kenyan, Turkish, and South African banks have opened liaison offices in Ethiopia, but the market remains completely closed to foreign retail banks. Foreigners of Ethiopian origin are now allowed to hold shares in financial institutions.

The credit market is skewed toward SOEs as their credit as a percentage of GDP more than tripled from 5.2 percent in 2007 to 17.2 percent in 2016. This policy preference for financing SOEs means the credit market has tended to crowd out the private sector. The banking sector is concentrated, with the two state-owned banks (Commercial Bank of Ethiopia, CBE and DBE) dominating the sector. CBE represents about 60% of total banking assets. The sector's equity capital is $3 billion, of which just over 60% is held by public banks. With a capital adequacy ratio above the regulatory minimum of eight percent, Ethiopian banks are generally liquid and well-capitalized. Bank profitability has continued to remain positive, albeit trending downward. The ratio of non-performing loans is below the five percent statutory ceiling, indicating a generally high asset quality. The quality of DBE's assets has gradually deteriorated, however, and the bank's bad debt ratio stood at 39% in 2017/18, well above the maximum threshold of 15% set by the supervisory authorities. The high level of non-performing loans combined with the effects of the COVID-19 pandemic, could be a threat to the financial sector.

Ethiopia issued its first Eurobond in December of 2014, raising US$ 1 billion at a rate of 6.625 percent. The ten-year bond was oversubscribed, indicating continued market interest in high-growth sub-Saharan African markets. According to the Ethiopian Ministry of Finance, the bond proceeds are being used to finance industrial parks, the sugar industry, and power transmission infrastructure. Due to its increasing external debt load and the terms of its IMF program, the Ethiopian government has committed to refrain from non-concessional financing for new projects and to shift ongoing projects to concessional financing when possible.

The National Financial Inclusion Strategy (NFIS) adopted in 2017 is expected to help fill gaps in credit supply and thus promote investments that will create jobs and contribute to poverty reduction. Financial inclusion improved substantially between 2014 and 2017. At 34.8%, the share of adults with an account rose by 13%, compared to 2014, although lower than the Sub-

Saharan average of 42.6%. Progress has been much slower in mobile money, however, as only 0.3% of adults have an account with mobile financial service operators - well below the African average of 20.9%. This is in spite of the relatively high use of mobile phones in the country (59 subscriptions per 100 inhabitants in 2017).

Although digital financial services have emerged, their use remains minimal, and physical payment instruments (cheques, payment orders, etc.) remain most widely used. Thirty-seven microfinance institutions operate in the country. As of 2018, savings mobilized by the sector amounted to $1.2 billion, an increase of approximately 26.2% year-on-year. Total outstanding loans also increased by 38.9% to about $1.6 billion, suggesting the growing role of these institutions.

The main operators in the mobile money sector are M-Birr and HelloCash. Constraints remain in the subsector such as limits on daily transactions (USD$ 208) and mobile bank account balances (USD$ 868). Furthermore, restriction of international fund transfers directly to mobile accounts, and a monopoly maintained by Ethio Telecom constrain innovation and limit the scope of services offered. Access to finance is a major challenge for Ethiopia's business environment. Most SMEs and large companies have access to traditional financial services to manage their liquidity. But access to credit is more limited, especially for SMEs: only 30% have access, compared to 68% for large companies.

In addition to modernizing the state-owned banks, the private banking sector also needs to expand to make banking services accessible to a growing share of the population and ensure equal access for women. The insurance sector, which traditionally would be large institutional investors, has 17 insurance companies, but innovation is limited by the lack of openness in the sector since international insurers are not allowed to do business in Ethiopia. Ethiopia's nascent capital market mainly deals with treasury bills and government bonds, hence insurance companies as institutional investors have less impact in Ethiopia. Government bonds are issued to finance budgetary operations and/or absorb excess liquidity in the banking system. While there is still no equity market, a commodity exchange operates through a public auction system and has 346 members, including 33 agricultural cooperatives, and connects 3.5 million small Ethiopian farmers to markets.

The impact of the COVID-19 pandemic on the financial sector has been significant. To respond to the pandemic, the National Bank of Ethiopia set aside a USD$ 450 million liquidity facility for private banks to support businesses adversely affected by the pandemic. New laws have been introduced facilitating ease of mobile payments and an increase in mobile transfer limits. Credit has been made available to medium and small businesses via a quick-disbursing special window at the Development Bank of Ethiopia. Tax exemptions and foreign currency has also been made available for importation of products related to curbing the outbreak.

Logistics. This sector can be described as a network of services that support the physical movement of goods, trade across borders, and commerce within borders. It consists of an array of activities beyond transportation, including warehousing, brokerage, express delivery, terminal operations, and related data and information management. Logistics performance is key to economic growth and competitiveness. Inefficient logistics raises the cost of doing business and reduces the potential for both international and domestic integration. Logistics is both a sector in its own right and also an input to most other activities, and reform of the sector could have significant sector-wide and economy-wide impacts for Ethiopia.

World Bank analysis indicates that opening up of dry ports for private participation could create over 29,000 direct and indirect jobs. While not likely to be a huge job creator, Ethiopia's logistics sector, if reformed effectively, has the potential to boost competitiveness. In key export sectors, such as textiles and fresh products (particularly floriculture and horticulture), speed is essential to competitiveness. Slow and expensive imports are bad for all businesses. Regulatory coordination is essential for addressing efficiency in the sector and preventing fragmentation of supply chains.

High logistics costs in Ethiopia undermine the competitiveness of export-driven light manufacturing and agriculture. Ethiopia has the least efficient trade logistics system in the East African region. On average, goods take 20-30 days to reach an Ethiopian customer from the port in neighboring Djibouti. The cost of shipping a 20- foot container to Germany from Ethiopia is 247 percent higher than from Vietnam and 72 percent higher than from Bangladesh. Ethiopia was ranked 156th out of 188 economies on the "Trading Across Borders" indicator in the Doing Business 2020 report and 131st out of 167 in the World Bank 2018 Logistics Performance Index, behind other potential competitors in garment manufacturing such as Lesotho, Kenya, Tanzania, and Uganda.

In addition to its landlocked nature, Ethiopia's poor performance can be explained by several constraints arising from the existing regulatory and institutional setup. In particular, the Ethiopian Shipping and Logistics Services Enterprise is the sole provider of shipping services, multimodal services, and transfer of goods between Djibouti and Ethiopia. It is also the only operator of dry ports for Ethiopia. ESLSE, a de facto monopoly, constrains the provision of efficient logistics services consistent with international standards. In addition, investment in the provision of services in the road transport sector, packaging, warehousing, and freight-forwarding is still exclusively reserved for Ethiopian nationals and obtaining operating licenses for newcomers remains very difficult.

The corridor connecting Ethiopia and Djibouti is Ethiopia's main trade route. It carries over 95 percent of Ethiopia's international trade traffic by volume. Road transport carries over 90 percent of Ethiopia's trade traffic on the corridor. The recently constructed railway line is underutilized because of freight allocation policy by ESLSE. More recently, the reopening of the access route through the Eritrean ports of Assab and Massawa offers a second trans-shipment option for Ethiopia. Eritrea is upgrading its ports as in anticipation of increased traffic as regional peace brings more business from Ethiopia. However, about 95% of Ethiopia's goods are still shipped through existing routes. Ethiopian firms face higher inventory costs and longer lead times, resulting in supply chain delays that make it especially difficult to succeed in modern manufacturing. Poor quality logistics also limits exports of key products, such as sesame and coffee, and a move into exports of processed food. Logistics reform will be needed to allow Ethiopia to fully capitalize on the opportunities generated by the public investments that are being made in road, railways, energy, and industrial park facilities. These supply chain delays have been exacerbated by the COVID-19 pandemic which has further exposed inefficiencies throughout industry value chains. The pandemic could, however, encourage local firms to adapt new technologies and upgrade their business models.

The challenges faced by businesses, exporters, and manufacturers include a heavy bureaucratic customs process and inadequate logistics services, under-developed transport systems, inadequate terminal facilities, limited utilization of ICT systems, and an inefficient regulatory framework. Customs processes and procedures are burdensome and lengthy. As a result, on average, document preparation and customs clearance account for 77% of the time required to trade internationally. Ethiopia requires twelve documents for export compared to nine in Kenya and six in Vietnam. Moreover, there is a high physical inspection ratio, as 32% of goods are physically inspected, while the target is 20%. Customs agents are poorly trained and lack the necessary technical knowledge and professionalism to provide services. As a result, it takes an average of three days to inspect and classify one container.

The current multimodal system designed and led by ESLSE lacks transparency and efficiency. Because there is no cargo assignment system in place to facilitate the multimodal transition, truckers prefer to wait in Djibouti for cargo. This prevents the possibility of contracting round trips, which would eliminate some of the empty back-haul trips. In addition, there is a shortage of truckers and transports. Most trucks are general-purpose vehicles that lack modern amenities such as cold-chain facilities to transport perishable goods. As a result, companies (e.g., in the horticulture industry) currently invest in their own cold chain facilities. Moreover, trucks are not utilized at full capacity both in terms of distance traveled and load carried. Finally, railway lines in Ethiopia have limited geographic coverage and efficiency, as the Addis-Djibouti railway line ends prior to reaching Djibouti port, requiring trucking services to deliver goods to the port.

A key issue that needs to be resolved, within a context of greater private sector investment in the sector, is reforming ESLSE. Reform of the logistics sector will help reduce time and associated costs to import and export; and will attract private (including foreign) investment in the logistics sector. Improved performance of the logistics sector will ultimately contribute to an increase in exports, and reduced poverty through the generation of new job opportunities. Opening the dry ports for private sector participation is expected to reduce the cost of logistics. Estimates suggest that the cost of exporting would decline by 7 percent if the dry port is opened to other service providers and by an additional 8 percent if freight transport is shifted from road to rail.

Risks Across Sectors. There are a number of risks that could constrain the ability of these sectors to deliver the impact anticipated. Some of these are general, economy-wide risks that have the potential to affect all the sectors as a whole. There are also some sector-specific risks as outlined below. From an economy-wide perspective, one obvious risk which has been discussed throughout this report relates to the COVID-19 pandemic. The longer the effects of the pandemic last globally, the more damage will be inflicted on the entire Ethiopian economy as demand dwindles for its exports, creating foreign exchange constraints and putting the economic reform agenda in peril, with far-reaching consequences for all sectors. A second general risk relates to Ethiopia's commitment to implementing its ambitious reform agenda. With a long central-planning tradition, the government's capacity to meet its reform targets will be severely tested, especially if the current economic downturn is protracted. A slow pace of reform could have implications for funding support from Ethiopia's development partners and limit the transformational potential of the selected sectors.

From a sector-specific perspective, the tourism industry is especially sensitive to the negative effects of the pandemic. Ethiopia's airline industry is already suffering the effects of reduced passenger traffic which is reflected in lower demand for hotel rooms, with adverse consequences for job creation and private investment. While a second or third wave of the pandemic is cause for concern globally, the good news is that the development of multiple vaccines could mean a resumption of some leisure travel during the first half of 2021. The high-growth scenario target of 5 million international visitors by 2025 leading to the creation of 4.8 million jobs envisioned in the Sustainable Tourism Master Plan may prove to be ambitious in the circumstances. The ICT sector also faces specific risks, and its transformation will depend on Ethiopia's commitment to liberalize the telecom sector, promote privatization, and introduce competition. In particular, the private sector is observing with great interest the ongoing partial privatization of Ethio Telecom to gauge the government's seriousness about reforming the sector. A successful transaction would go a long way towards inspiring confidence in the sector.

The effective modernization of Ethiopia's financial sector will determine to what extent the sector can drive the country's transformation. If the current model of restrictive financial regulation does not give way to a more market-oriented approach, the powerful transformational effect of the financial sector on the economy risks being constrained. Likewise, with the logistics sector, the risk of failure is increased if the planned strategic investments in infrastructure and the establishment of an appropriate regulatory framework do not materialize. Ethiopia's development partners, including German Development Cooperation, have a critical role to play in ensuring that the government maintains the momentum of reform through funding support, policy advice and capacity building.

3. Current Reform Agenda

The Ethiopian government has shown a serious commitment to reform all four sectors. This is an indication of the priority accorded to these sectors and the recognition that they can play a vital role in the transformation of the economy. The government has been implementing the second phase of its Growth and Transformation Plan (GTP II) which ran through 2020. GTP II aimed to continue expanding physical infrastructure through public investments and to transform the country into a manufacturing hub. It targeted an average annual growth rate of 11%, with the industrial sector projected to grow by an average of 20%, creating more jobs.

Ethiopia recently unveiled its ten year development plan which follows GPTII. It aims to promote quality-based economic growth, increase production and competitiveness and build a green and climate-resilient economy. It also aims to bring about institutional transformation while ensuring fair and equitable opportunities for women and youth and guaranteeing private sector-led growth. These recently announced reforms, including the prioritized opening of key economic sectors in telecommunications, energy, aviation, and logistics for private foreign participation signal a new phase in Ethiopia's economic transformation.

GPTII is supported by the Home Grown Economic Reform Agenda (HERA) from the Prime Minister's office. HERA seeks to upgrade policy and institutional frameworks and accelerate investment. The reform agenda addresses tourism as a sector that has not yet been leveraged for economic growth. It likewise, focuses on ICT, where mobile and internet penetration is limited by an array of constraints. It also points to poor export performance due in part to limited logistics, and expansionary fiscal policy that has crowded out private sector's access to financeand limited development of the financial system. The HERA focuses on a wide array of policy actions, including for example, enhancing operational efficiency, transparency, and governance of SOEs such as ESLSE. It also focuses on the financial regulatory framework to international standards, the creation of longer-term saving instruments, and allowing banks to pay competitive interest rates. While these reforms strategies are welcomed, Ethiopia is implementing these reforms in the face of an extreme shortage of foreign exchange and an increasing debt challenge.

Specific to the tourism sector reforms, the Ministry of Culture and Tourism prepared the Sustainable Tourism Master Plan (STMP) in 2016, which aimed to establish a national framework for sustainable tourism development with a view to contributing to socio-economic development and poverty alleviation. It includes ten strategic pillars, priority projects and activities in a long-term implementation framework covering 2015-2025. In line with the projections of GTPII, the STMP has a growth target of five million international visitors by 2025. Based on this high-growth scenario, receipts from international arrivals are projected to increase from a baseline of ETB 14.197 billion in 2012 to ETB 180 billion in 2025, with the corresponding number of tourism-related jobs rising from 985,500 to 4.8 million.

ICT reform is incorporated in the strategic pillars of the government's ten year plan. The plan aims to create technological competences needed for long-term growth, and a greater focus on innovation and research. The Government's Homegrown Economic Reform Agenda prioritizes ICT and the creative industries as a new source of productivity and job growth, leveraging a rapidly growing, young, educated labor force. The agenda will focus on building an inclusive digital economy through expediting telecom reform; regulatory approaches to support technology startups; scaling up ongoing government ICT initiatives; promoting e-commerce and digitalization of the financial and logistic sectors; developing ICT parks and fostering the development of the ICT ecosystem; and investing in ICT literacy and advanced vocational and tertiary education. The Ethiopian government expects to fund the implementation of its ambitious reforms by mobilizing domestic savings and privatization proceeds, complemented by external concessional financing from multilateral and bilateral development partners.

Additionally, the Ethiopian Ministry of Innovation and Technology has developed a digital economy strategy to support Ethiopia's development which adopts an inclusive approach from which other sectors and institutions can draw, mobilizes critical stakeholders and strengthens current initiatives to ensure an international approach that will enhance Ethiopia's place in regional and global value chains and pathways to digitization. The strategy takes into consideration current economic drivers, strategic sectors, and national objectives to identify relevant pathways to pursuing digital growth.

Ethiopia has made a commitment to liberalize the telecom sector, promote privatization, and introduce competition. A new Communications Service Regulation Proclamation has established an independent regulator for the communication sector, the Ethiopian Communications Authority. The Ministry of Finance is hiring a transaction adviser for Ethio Telecom in preparation for the partial privatization. The actual award of two new full-service telecom licenses is now expected to take place in Spring 2021. The issuance of two new full-service telecom licenses will effectively bring the existing state monopoly to an end as 40 percent of Ethio Telecom stakes will be transferred to the two winning companies and five percent sold to Ethiopian nationals.

Liberalization of the telecom sector is expected to have poverty-reducing effects as well as transformative indirect effects resulting from increased connectivity. World Bank estimates indicate that more competition in the telecom sector is likely to reduce prices by 25 percent in the short run and by 67 percent in the long run. The introduction of competition in the sector, if done in a transparent manner, will bring improved quality of access, lower costs, and new digital products and expansion of mobile money. This an encouraging sign of the government's commitment to liberalize the telecom sector. For the ICT transition to succeed the Ethiopian Government will need to change its role from that of direct implementation to one of creating an enabling environment; and from that of a risk-manager to a development enabler. The Government will also need to adopt a trust-based relationship with the private sector.

For the financial sector reform agenda, a notable move away from the public financing model, the NBE removed the 27 Percent Rule in November 2019. Private commercial banks in Ethiopia had previously been required to buy five-year NBE Bills equivalent to 27 percent of all loans disbursed. The proceeds mostly went to fund the Development Bank of Ethiopia, which provides lending for private sector projects. The removal of the 27 percent rule should free liquidity for private banks to increase private sector credit, with an increase in lendable funds estimated at about ETB 19 billion or 11 percent of outstanding loans in FY20. This can help financial institutions diversify their portfolios and manage liquidity. Some banks have already announced a reduction in their lending rates as a result of the removal of the 27 percent rule. Banks have partially channeled the funds freed by the abolition of the 27% rule to government treasury bills whose yields have become more attractive than the bonds they bought from the DBE prior to the policy change. This redirection of funds was necessary as the level of borrowing from the private sector would have been inadequate to absorb the newly available funding quickly. Since the change there have been liquidity fluctuations in the banking system, shrinking early on and growing more recently.

DBE has embarked on a comprehensive reform program aimed at achieving financial sustainability. The role of the CBE, a major constraint on efforts to modernize the financial sector, is under review. The model of restrictive financial regulation may have served its purpose early on in Ethiopia's remarkable growth period. However, its efficiency and sustainability are now questionable in the current environment of high inflation, negative interest rates on loans to the public sector, and concentration of risks in SOEs. To meet the economy's financial needs and limit the government's financial exposure to SOEs and state-owned financial institutions, financial regulators must adopt a more market-oriented approach that promotes the efficient allocation of scarce financial resources more appropriately.

In November 2019, the Government approved the issuance of new treasury bills under market-determined interest rates and has started public auctions of the new T-bills twice a month. For FY21, the Ministry of Finance is expected to make public a calendar of auctions under this new instrument to enable private sector participants and investors to better plan their portfolios. The Board of the NBE has approved financing through instruments at market-determined rates, and the first auction of treasury bills was conducted in December 2019.

As the Ethiopian Government seeks to generate jobs, increase the size of the manufacturing sector, and to drive export growth, the financial sector needs to be modernized to channel financial resources to private sector investments in productive activities. As the sector grows and becomes more sophisticated, the regulatory framework and supervisory practices will need to be upgraded. Key reforms are required to enable wider access to cheaper resources. Current foreign exchange restrictions for exporters, as well as the ability to borrow in a foreign currency for the non-exporting domestic private sector will need to be eased as should caps on interest rates for FDI entering the country. There is also the need to expand the credit registry to microfinance institutions and leasing companies.

In addition to modernizing the state-owned banks, the private banking sector also needs to expand to make banking services accessible to more of the population and ensure equal access for women. This means amending regulations to remove constraints to the development of private banking, such as maximum shareholding thresholds, and limitations on foreign investment and diaspora shareholdings in financial institutions. Similar opportunities exist in insurance to increase access to a wider range of products. These finance sector reforms should enable labor to transition from agriculture to the expanding non-agricultural sectors and help develop instruments and services tailored to the rural economy if they are to have a positive effect on net job creation. In September 2020, the Ethiopian government introduced a set of new bank notes as a part of its efforts to curb hoarding, illegal trade activities and illicit financial flows while also reducing counterfeit production. It is hoped that this will reduce the liquidity problems commercial banks have faced as 113 billion Ethiopian birr stays outside the formal banking system.

Regarding the reform agenda in the logistics sector, Ethiopia adopted a National Logistics Strategy (NLS) in 2017, currently under implementation. The NLS outlines the key challenges that need to be addressed to transform the logistics sector in Ethiopia. Ongoing reforms, as part of the strategy, include liberalization of the sector, as well as opening it to foreign investors; part-privatization of the state-owned ESLSE; digitalization of the customs process; and improving the logistics infrastructure. The government recently announced that foreign companies would be allowed to invest in Ethiopia through joint ventures (up to 49 percent stake) with local companies in areas including packaging, forwarding, and shipping agency services, as well as the provision of bonded warehouse, consolidation, and deconsolidation services. This has already led to some high-profile investments involving DHL, Bollore Transport and Logistics, and CMA/CGM, who are partnering with Ethiopian Airlines and domestic private logistics operators.

The government aims to transform ESLSE into a world-class international logistics service provider. Packaging, warehousing, freight-forwarding, and other logistics areas that were previously reserved for Ethiopian nationals can now be undertaken by firms with 49 percent or less foreign participation. This will, for instance, enable investments in an export cold chain, that would allow the country to export large volumes of horticultural products by leveraging the railway. Ethiopia is becoming a more active player in regional economic integration, through the Common Market for Eastern and Southern Africa.

Transformation of the logistics system from one focused on transportation and customs clearance to a modern multi-service sector that delivers efficient intermodal connectivity and provides a wide range of logistics services will require the participation of a variety of logistics providers beyond ESLSE. SOE reform must be preceded by the establishment of an appropriate regulatory framework. Regulation should be focused where it is most needed to correct market failures or achieve public-policy objectives. There is also a need for clear separation between the state's ownership and regulatory functions, and for the Ethiopian Maritime Affairs Authority to be a completely independent regulator.

4. Development Partners Assistance

Ethiopia's engagement with its development partners is critical for the success of its reform agenda, and the government has been effective in leveraging financing and non-lending support from a broad spectrum of partners for its activities in the selected sectors. The IMF's $2.9 billion Extended Credit Facility to Ethiopia, while addressing fiscal, monetary and exchange rate management reforms will include a component focused on financial sector reforms. The IMF program complements the World Bank funded 2nd policy lending project with a special focus on increasing private sector participation, for which both Germany and France have provided parallel funding. Development partners have also provided emergency assistance to address the impact of the COVID-19 pandemic. Other partners with active engagement in Ethiopia include IFC and the African Development Bank, and the UK, the US, the European Union and Japan. In addition to providing financing, Ethiopia's partners have provided technical and capacity building in such areas as public-private partnerships, domestic revenue mobilization, government bond market, public investment management, investment climate, logistics reform, financial sector reform and SOE reform. The table below provides a stakeholder mapping and a list of selected recent partner engagements in Ethiopia.

Stakeholders Across Selected Sectors

	Economy	Tourism	ICT	Finance	Logistics
Government	Ministry of Finance & Economic Development	Ministry of Culture & Tourism	Ethiopian Ministry of Communications and Information Technology	Central Bank of Ethiopia	Ministry of Transport and Communications
	Ethiopian Investment Agency		Ethiopian ICT Capacity Building Program Development Agency	Ethiopian Insurance Corporation	Maritime & Transit Services Enterprise
	Central Privatization & Public Enterprises Supervising Agency				
World Bank Group	Ethiopia Country Office				
Germany	GIZ/ KFW Addis				
State-owned Enterprises		Ethiopian Airlines Group	Ethio-Telecom	Commercial Bank of Ethiopia	Ethiopia Shipping & Logistics Service Enterprise
		Hotels Development S.C.		Development Bank of Ethiopia	Dry Port Service Enterprise
		Ethiopian Tourist Trading Enterprise		Ethiopia Insurance Corporation	The Ethio-Djibouti Standard Gauge Railway Transport S.C.
		Ghion Hotels Enterprises			
Private Sector		International Hotel Chains; Restaurants; Tour Operators		Commercial Banks (Awash, Dashen, Abyssinia, Oromia Hibret, Nib, etc.); Insurance companies; credit bureaus	Logistics and shipping companies (DHL, Maersk)
Professional Associations	Ethiopian Chamber of Commerce; Ethiopian Entrepreneurs	Ethiopian Tourism Professionals Association;	Ethiopian Information Technology	Ethiopian Bankers Association; Association of Ethiopian	Ethiopian Logistics and Supply Chain Professionals; Ethiopian Freight

	Association; Ethiopian Women Entrepreneurs	Ethiopian Tourist Guides Professional Association; Association of Ethiopian Tourism Experts	Professionals Association;	Microfinance Institutions	Forwarders and Shipping Agents Association

Selected Recent Partner Support in Ethiopia

Institution	Program	Areas of Focus	Amount	Year
IMF	Extended Credit Facility (ECF) and Extended Fund Facility (EFF)	FX shortages and external imbalances; reform SOEs; financial sector reform; strengthen domestic revenue mobilization	USD 2.9b	2019
	Emergency Assistance	Coronavirus epidemic	USD 411m	2020
	Catastrophe Containment and Relief Trust	Suspension of debt service payments	USD 12m	2020
World Bank/IDA	Second Ethiopia Growth & Competitiveness DPF	Boosting economic transformation in Ethiopia by increasing private sector participation and promoting good governance practices	USD 500 m	2020
	COVID-19 Emergency Response	Investment Policy financing under the Fast-Track COVID-19 Facility	USD 86.2m	2020
	COVID-19 Emergency Response	Supplemental financing to address pandemic	USD 250m	2020
	2nd Agricultural Growth Project – Additional Financing	Increase agricultural productivity and commercialization of small holder farmers	USD 80m	2020
IFC	ETG Term Facility	Unsecured loan to vertically integrated agricultural supply chain manager firm	USD 10m	2020
	PPP Transaction Advisory	Support to MOF to issue 2 new full-service telecoms licenses, to liberalize the sector	USD 3m budget	2020
AFDB	Ethiopia COVID-19 Response	To address pandemic	USD 240m	2020
Germany	New Reform Partnership	Industrial parks, tax system, investment climate; vocational training & economic development; agricultural value chains.	EUR 352.5m	2019
	Pandemic Support Program	Pandemic support	EUR 120m	2020
France	Economic Reform Program	Budgetary support for economic reform	EUR 100m	2019
	Pandemic Support Program	Pandemic support	EUR40m	2020
UK	Productive Safety Net Programme Phase 4	Safety net	GBP 48.3m	2019
	Building Resilience in Ethiopia (BRE)	Resilience	GBP 45m	2019
	Sustaining and Accelerating Primary Health Care in Ethiopia	Health care	GBP 44.2m	2019

US	Development Partnership Agreement	Health, education, agriculture, economic growth, governance, and strengthened resilience of Ethiopians	USD 230m	2020
Japan	Emergency Relief Assistance	COVID-19, Locusts, drought and flooding	USD 30.24	2020
	Pandemic Assistance	Medical equipment	USD 13.6m	2020
European Union	Humanitarian Aid		EUR 44.29	2020
	Emergency Assistance	Flooding and landslides	EUR 0.9m	2020

5. Recommendations for BMZ

Ethiopia provides significant opportunity for investment, but also needs significant international support, particularly in some sectors which are relatively new on the reform agenda. The sectors recommended in this report are particularly attractive given their transformational potential and linkages across other segments of the economy. For example, tourism already contributes nearly seven percent of Ethiopia's GDP, but is largely undeveloped. For ICT, the sector has been growing but needs significant additional investment. If those investments are made, then the ICT and telecom sectors can be highly competitive. The financial sector is under-developed and provides significant opportunity for investment and expansion of banking services to 65% of the population that is now un-banked. Finally, the logistics sector holds promise to radically improve competitiveness, exports and manufacturing. Without reforms and investment in logistics, Ethiopia will not reach its potential. **This report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework**.

These sectors are also supported by the government's development plan and the related Homegrown Economic Reform Agenda but will need continued international development assistance. **The report also recommends that German Development Cooperation provide advisory, technical and financial support in the sector(s) selected**. For Germany, this could include, for example in tourism to support investment in tourism infrastructure development to address domestic transport, lodging and technology bottlenecks through public-private partnerships. There is also a need to provide advisory services on ecotourism and technical assistance to the Ministry of Culture and Tourism to prioritize the preservation of Ethiopia's environment and culture, including by involving local communities. German development Cooperation and German companies could finance a comprehensive marketing and branding effort for leisure and business tourism with a strong linkage to Ethiopian Airlines, while also providing hospitality training and capacity building to existing and potential workers in the tourist industry.

In the ICT sector, Germany can help promote investment in ICT infrastructure and German companies should be encouraged to participate in the partial privatization of Ethio Telecom and bring innovation and management skills to the organization's operations. German Development Cooperation can also provide technical assistance and reputable transaction advisers to design and implement a credible, transparent and competitive bidding process for future privatization exercises. Likewise, German companies can encourage innovation in the tech industry by arranging for companies to provide venture capital and patient capital for digital start-ups. Finally, there is a need for international development organization to support programs for vocational and tertiary training for workers in all ICT related areas.

To support the financial sector reforms and development of the sector, German financial institutions can provide lines of credit and other financial instruments to local commercial banks (preferably in local currency) for lending to SMEs and micro enterprises. Likewise, German insurance companies and asset management companies, with the help of KfW, can develop de-risking instruments and hedging mechanisms that can stimulate long-term financing from institutional investors for quality infrastructure. Germany can also support investment by firms in the establishment of credit bureaus that can help relax the very onerous collateral requirements for receiving loans will provide much-needed stimulation to Ethiopia's financial sector and encourage greater private sector activity. Finally, there is a role for German Development Cooperation to provide advisory services for future reforms of the banking sector to permit the operation of regional and international commercial banks; as well as co-finance initiatives and provide technical assistance for continued digitalization of the sector and expansion of the use of mobile money and mobile banking.

In logistics, Germany can promote and support private participation in the sector. For example DHL recently entered the Ethiopian market and can lead the way, along with other German entrants in establishing high standards of service and efficiency which local logistics companies can emulate. In addition, DHL could partner with the domestic private sector across the supply chain to provide ancillary services. German Development Cooperation can also support programs to advance the digitalization of the logistics industry to address the logistical delays that constrain the growth of the economy; and advocate for international investment in quality logistics infrastructure, such as ports, railways and rolling stock. Finally, Germany, with other development partners, can providing training and vocational support for customs officers.

Pathways to Accelerating Investment Opportunities in Ghana

ACET African Center for Economic Transformation

Summary

For Ghana, the report recommends manufacturing and agriculture/agribusiness as sectors holding high potential for accelerated investment, growth, and employment. Mining also ranked high but has particular environmental, social and geopolitical challenges that may make it more difficult as a focus sector. Further analysis and political economy considerations should be undertaken before the sector is selected. Manufacturing and agriculture/agribusiness are attractive because of the opportunity to create jobs and modernize key sectors of the economy. For this analysis, the agriculture sector includes both the downstream and upstream activities of the agribusiness value chain which include the production, marketing, production and distribution of agriculture products and therefore agroprocessing is a key component.

These sectors are also central to the Coordinated Programme of Economic and Social Development Policies (CPESDP) which is a medium term national developmental strategy for the period 2017-2024. That strategy seeks to modernize key sectors and has objectives of doubling GDP per capita by 2024; achieving an average annual growth rate of 7.2% from 2017 to 2024; improving the share of GDP in the manufacturing sector; ensuring stable energy and power supply; and promoting exports; particularly in high-valued manufacturing. The sectors are also highlighted in the Ghana Beyond Aid Ghana charter and strategy, which outlines a national transformation agenda. As part of the Ghana economic transformation agenda, government seeks to move away from an economy based largely on natural resource abundance (oil, gold, and cocoa) to one driven by high value-added exports in both manufacturing and agriculture. The sectors are also well aligned with existing development partner support as discussed below.

The manufacturing sector grew annually at an average rate of 11.8% from 2015 to 2019 with an average share of GDP of 10.8% (2015-2019) and shows strong prospects for continued growth with a robust reform program. Government also intends to increase the share of the industrial sector from its current level of 31% of GDP to an average of 35%, with particular focus on manufacturing, raising its share from 12.2% in 2017 to 20% of GDP. Significant investment opportunities exist, such as vehicle components in the automotive industry; marketing and distribution, and technological services in the textiles sector; or petrochemicals and polymers, inorganic chemicals, and consumer chemicals.

In agriculture, currently only five percent of food products harvested in Ghana are processed; and there are few linkages with marketing and financial services, partly due to the small firm sizes and underdeveloped processes which lead to many of these firms operating below

capacity using inefficient technologies. The sector is a major focus of government's development plan and it contributed 18.5 percent to GDP in 2019. Ghana suffers generally from low agricultural productivity, and key challenges to the sector include climate impacts, inefficient land tenure arrangements, the negative impacts of the activities of artisanal miners, lack of access to credit, and poor value chains such as storage facilities. There are many investment opportunities that will also help meet the government's target to cut the food import bill by at least a half by 2024. In agro-processing these include dairy products, cereals, starchy crops, vegetables, fisheries, industrial crops and fruits. There are also opportunities in agricultural financing and insurance; production and distribution of agrochemicals, agriculture engineering and training; as well as in non-traditional exports, particularly cashew nuts, shea nuts, banana, yam, mangoes, pineapples, medicinal plants, fresh or chilled tuna; and for cocoa processing into butter, powder, cake, and paste.

The reform agenda is strong, and will be bolstered after the recent re-election of President Akufo-Addo, but needs further support from the international community, including from German Development Cooperation. There are of course risks across these sectors, including very importantly, Ghana's recent lower rankings in global comparisons regarding corruption, governance and competitiveness. **That said, this report recommends that in those sectors selected, Germany also provide robust development advisory services.** For example, the key manufacturing sectors are areas with strong German corporate expertise, particularly automotive, pharmaceutical and chemicals. German Development Cooperation can endeavor to expand investment promotion and provide policy advice resulting in world class regulatory environments. Likewise, for agriculture and agro-processing, Germany has extensive experience in helping countries improve access to credit, and upgrade value chains, introduce new agricultural technologies, and develop capacities. As well, German corporate expertise in food processing is well-known globally, whereby twinning arrangements between German and Ghanaian firms, supported by German Development Cooperation, can lead to joint ventures, PPPs and increased FDI.

1. Political, Economic and Social Context

Context. Although never having been affected by war, Ghana's post-colonial political history was characterized by violent seizures of power staged by the military, until the country returned to democracy in 1992. Since then, Ghana is regarded as one of the most stable multiparty democratic countries in sub-Saharan Africa, having conducted several peaceful presidential and parliamentary elections and transfers of political power. The 2019 Freedom House Index ranked Ghana as the third freest country in Africa. The recently concluded election (December 2020) reaffirms its exemplary political stability in Africa.

Prior to the onset of the COVID-19 pandemic, Ghana was among the best performing economies in Africa with annual GDP growth averaging 6.2 percent from 2000-2019, topping 14.4% in 2011, and estimated to be 6.3% in 2019. This has allowed the country to attain a high GDP per capita of US$2,202 in 2019, and Ghana has joined the ranks of lower-middle income countries. This impressive growth performance has generally been supported by high international cocoa and gold prices and oil windfalls from the production of crude oil in commercial quantities from 2011.

Macroeconomic. While Ghana has benefitted from strong economic growth, that growth has not been uniform across sectors. The services sector stagnated between 2015 and 2018, hovering around 3% growth per year, increasing in 2019 to 5.4%. Propelled by the petroleum and mining subsectors, industrial overall growth increased from an average of two percent per year during 2015-2015 to 15.7% in 2017, returning to just below 10% on average in the last two years. The primary agriculture sector (excluding agroindustry) which saw its growth rate accelerate from 2.3% in 2015 to 6.1% in 2017, declined to 4. 8% in 2018, only to pick up again to 6.4% in 2019, the highest in the last five years.

Sector differentiated growth was the result of some structural change that saw the services sector becoming the leading contributor to Ghana's GDP. Services sector average share of GDP increased from 42.2% in 2014 to over 46% by 2018, at the expense of agriculture, which decreased to 22% in 2014 and to 19.7% by 2018. Likewise the industrial share decreased from 38% in 2014 to 34 % in 2018.

However, the structural shift from agriculture to the services sector has not been matched with productivity growth in services. Much of the shift in employment from agriculture is characterized by self-employed, low-productivity, and low-earning jobs in informal trading and the distribution services sector. The growth in gross valued added in the service sector, averaging at 3.4% per annum from 2015 to 2019, has been low compared to the industrial and agriculture sectors, which averaged 8.1% and 4.5% annually respectively over the same period. The agriculture sector experienced its lowest growth in more than two decades in 2011, the same year Ghana begun to produce oil in commercial quantities. Recovery of the sector since then has been marginal explaining the decline in the sector's share of GDP. The low productivity growth witnessed in the agriculture sector has been linked to the decline in output growth in the cocoa and fishing subsectors which according to a 2018 Ghana Statistical Services report, declined from 9.2 percent to 3.7 percent for cocoa and -1.4 percent to -6.8 percent for fishing.

In 2019, employment in the services sector accounted for 49 percent compared to the 22.8 and 29.2 percent employment share in industry (including agroindustry) and agriculture (excluding agroindustry) respectively. As part of the economic transformation agenda, the Ghana Beyond Aid plan aims to increase the share of the industrial sector to an average of 35%, with particular focus on the manufacturing sector, raising its share from 12.2% in 2017 to 20% by 2028.

Employment growth in Ghana has generally been slower than overall economic growth, raising concerns about the quality of the country's economic growth. According to World Bank data, Ghana's GDP growth has been associated with a job creation rate of about four percent per year, implying a 0.5 percent growth in jobs for every one percent growth in GDP. Employment growth has been weaker in agriculture and manufacturing sectors compared to services sector, which is consistent with patterns of sector growth

With a population in 2020 estimated at 31.2 million with 56.7 percent living in urban areas, the population is projected to double by 2060. Unemployment is a key social challenge in Ghana that the government needs to urgently address. Only 64% of Ghanaians above 15 years are employed. Females constitute about 51.2 percent of the population but are less likely to be employed compared to males. According to the World Bank, the country is faced with 50 percent underemployment. Urban unemployment continues to be high due to lack of job opportunities in the private sector and poor public infrastructure to support job creation. The Ghana labor market is strongly segmented, with the private sector in Ghana as the largest employer of the labor force. But employment is predominantly informal and self-employment constitutes the largest share of total employment (60%). The Ghana Living Standards Survey 6 estimates that formal private sector jobs account for about two percent of total employment in Ghana. According to the Global Competitiveness Index 2019, employers in Ghana consider the Ghanaian labor market as moderately effective, ranking 93rd out of 141 countries

Trade Flows and Investment. Ghana's investment and trade are deeply dependent on primary commodities, with cocoa, gold, and petroleum as the country's major export commodities. Petroleum and crude oils constitute about 97.93 percent of total exports and contribute substantially to income growth in Ghana. Non-traditional exports such as pineapple, banana, shea butter, and mangoes form a small percentage of goods exported. Ghana's net import position makes the economy susceptible to international price shocks, contributing to its persistent current account deficits and increased reliance on international credit portfolios, including Eurobonds. Since 2017, the current account deficit has narrowed as a result of surpluses in the trade balance and increased private remittances.

According to the Ministry of Finance, the trade balance in 2020 is expected to record a surplus of US$1.76 billion despite the impact of COVID-19 on trade flows. From the ATLAS of Economic Complexity Index, between 2008 and 2018, the composition of Ghana's goods exports shifted from exports of services, such as travel and tourism and ICT to exports of goods including gold, crude petroleum and oils, and cocoa beans. By 2018 Ghana's largest goods exports are in low to moderate complex products, mainly mineral and primary products, and therefore reinforcing the need for economic diversification. Since 2003, Ghana has succeeded in diversifying into only ten new major products compared to some peers in West Africa that have diversified much more.

The private sector in Ghana is notable as the engine of growth and receives most foreign direct investment. The major subsectors attracting FDI inflows include the energy sector (including electricity, oil and gas and renewable energy), cocoa, real estate and construction, telecommunication, and the financial sector. In 2018, Ghana committed to three reform frameworks (macroeconomic, finance, and business) under the G20 Compact with Africa (CwA) initiative to attract FDI and increase international trade. While modest achievements have been made in the macroeconomic framework, the business and financial regulation reforms have been sluggish. In 2018, Ghana also joined the African Continental Free Trade Agreement (AfCTA) and is the host to the AfCTA Secretariat in Accra. This serves to boost the perception of the country as a destination for international trade and investment. From the World Investment Report (2019), Ghana was the 2nd highest recipient of FDI in West Africa, the 7th in Africa, and the 4th best place to invest in Africa. The Ghana Investment Promotion Centre (GIPC) promotes FDI, and the government provides a variety of business incentives and tax expenditures including tax holidays, capital allowances, locational incentives, customs duty exemptions and other inducements in critical sectors of the economy and for specific consumption and capital goods. Some of the key challenges facing private sector development in Ghana includes poor property rights, corruption, and perennial energy crises.

Financial and Fiscal. A number of financial sector reforms have led to increased capital injections and financial innovation that has increased the service portfolios and competition among financial institutions. In 2017, Ghana's financial sector crisis saw the closure of many financial and non-bank financial institutions for lack of liquidity, corporate governance breaches, and regulatory failures. This resulted in further reforms and strengthening of regulation by the Bank of Ghana. The minimum capital requirement was increased from GHc 120 million to GHc 400 million in 2018. The Central Bank also increased its surveillance and regulatory powers with the enactment of the new Banks and Specialized Deposit-Taking Institution Act in 2017 with the aim to safeguard investments in the sector. Credit to the private sector declined from 14.89 percent of GDP in 2015 to 10.7 percent of GDP in 2018, partly due to the growth in non-performing assets and the financial crisis. Credit to the private sector recovered to 11.5 percent of GDP in 2019 and is expected to increase further in 2020 despite the economic impact of COVID-19.

Ghana has significant challenges in narrowing the government budget deficit. Government spending continues to grow due to high public sector wage bills and debt financing, and now with COVID-19 support packages; and outpaces the growth in government revenue. Weak domestic revenue mobilization coupled with recent falling prices of key export commodities means that the government has resorted to additional borrowing to close the persistent fiscal gap. The consequence has been the high public debt levels and debt servicing burden. This restricts the government ability to invest in social and infrastructure projects and crowds out private sector investment due to the high cost of borrowing. The budget deficit has declined to an average of 4.8 percent of GDP following the IMF Extended Credit Facility and fiscal consolidation. The IMF Extended Credit Facility to Ghana's ended in March 2019, having helped to improve fiscal and debt sustainability by promoting fiscal discipline and efficient use of tax revenue.

Human Development. Ghana is currently ranked 142 out of 189 countries by the UNDP on human development, and since 2000 the country's Human Development Index rose from 0.483 in 2000 to 0.596 in 2018, indicating social gains from economic growth and development. This positions the country among the medium human development group. Although the poverty incidence rate in Ghana has declined from 51.7 percent in 1991/92 to 23.4 percent in 2016/17, poverty remains a development challenge as income and material inequalities continue to widen.

On labor, while the unemployment rate remained relatively low, there has been somewhat limited progress in further reducing unemployment and more importantly, improving the quality of and addressing underemployment. This issue is heightened in the context of COVID-19 impact on jobs.

Regarding gender, according to the African Development Bank, Ghana has achieved the MDG target of gender parity in primary enrolments but is still faced with challenges in addressing gender differences at higher levels of education, employment and political representation. For example, the literacy rate among the population aged 11 years and above shows a wide gender differential between male and female students. There is a similar trend on employment, where the labor force is seven percentage points lower among women and vulnerable employment is highest among women at more than 68 percent.

According to UNICEF, the health and nutrition agenda is making progress, albeit slowing. For example, there is stagnation in reducing under-five and maternal mortality due to the premature birth, infections and complications during and after delivery. Similarly, one child in every five in Ghana experiences stunting caused by inadequate nourishment and frequent illness. And in spite of the progress Ghana has made in ensuring children are immunized, many children, especially those who live in inner cities do not get vaccinated.

There are similar trends related to water and sanitation. While there has been progress, nearly three million people rely on surface water to meet their daily water needs, leaving them vulnerable to water-related illness and disease. At the same time, 31 percent of Ghanaians lack access to improved sanitation or are entirely without toilet facilities.

Governance. While growing fast and making substantial advances in social development, Ghana is faced with governance and transparency challenges. Positioned as 80^{th} out of 180 countries, Ghana fell two places in the 2019 Transparency International ranking on corruption perception compared with the previous edition. Its highest score in the last eight years was reached in 2014 at 58, sliding down to 41 by 2017 and remaining at 41 in 2018 and 2019. In 2019 Ghana scored 64.3 in the newly recalibrated Ibrahim Index of African Governance. Still this represented a regression when compared to the highest ranking in 2016 of 65.6. Ghana also slightly declined in the 2019 Global Competitiveness Index, ranking 111/141 against 106/10 in the 2018 edition. In Doing Business 2020, Ghana ranked 118/190, declining 0.4 points since 2018. The marginal loss in the overall score was due to the category of paying taxes. Finally, according to the International Budget Partnership's Open Budget Index, Ghana provides limited information to the public about its budget, soring 53/100. These declines in global rankings are relatively small, but point to an overall trend that may impact the perception of Ghana as a good investment location.

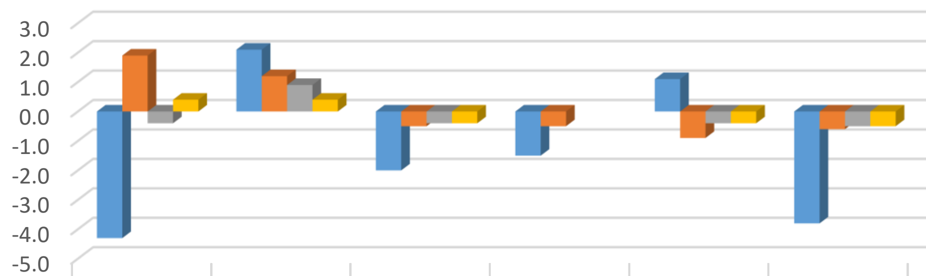
COVID-19. The government has implemented a number of policy measures to contain the spread and negative impact of COVID-19 pandemic in Ghana. Since the first reported case in the country in March 2020, more than of 50,000 have been confirmed, with around 500 deaths and nearly 2000 active cases, amidst a second wave. The majority of the cases reported are around the coastal and middle belt with Greater Accra and Ashanti regions having the highest number of cases. COVID-19 in Ghana has had a severe economic impact on the economy. Projections from the IMF suggest that Ghana's economy would grow at only 1.5% rather than the 5.8% earlier projected for the year 2020.

This development accentuates the already persistent unemployment. The other primary economic impact of COVID-19 in Ghana has been the decline in trade volumes due to disruption in global supply chains, impacting particularly the manufacturing and agriculture sector. Also a slowdown in tourism and other hospitality activities is having a significant impact. Businesses responded to the crisis by reducing wages and laying off workers. According the Ghana Statistical Service (GSS), at least 5.1% of businesses surveyed in the hospitality industry, 4.3% in other services (incl. education), 2.4% in trade, 5.8% in agriculture/agribusiness and 4.5% in manufacturing laid off workers, resulting in more than 42,000 workers laid off due to the pandemic, and another 770,000 workers accepting reduction in pay to stay in employment. Some businesses have responded by adapting technologically, with at least 8.5 percent of all firms surveyed indicating that they either adopted or increased the use of digitization in doing business. This is deemed to have helped limit the negative impact of the pandemic on both activity and employment.

To mitigate the impact of the crisis on business and the economy, the Government of Ghana instituted a variety of programs under the Coronavirus Alleviation Program, including the COVID-19 Alleviation and Revitalization of Enterprises Support (CARES) Program and the Coronavirus Alleviation Business Support Program. Under the Coronavirus Alleviation Business Support program for instance, the government launched a GHc 1.2 billion stimulus package to support 180,000 businesses where 50% of the funding was disbursed as soft loans to micro, small and medium enterprises, with a one-year moratorium and two years repayment scheme at an interest rate of 3 percent per-annum.

Under the Ghana CARES program, government provided funding to medical research institutions, supported the construction of additional isolation centers, provided utility (water and electricity) subsidies and food assistance to the general public, and provided incentives to health workers including income tax cuts. The Bank of Ghana also lowered the reserve requirements for commercial banks from 10% to 8.5% as well as the conservation buffer for lenders from 3% to 1.5% in order to increase liquidity. [COVID-19 developments continue at the time of publication.]

Ghana: Medium Term Macro Fiscal Effects of COVID-19, 2020-2023



	6. Annual GDP growth rate (%)	7. Annual Inflation	8. Total governmet revenue , including grants (% of GDP)	9. Tax revenue (% of GDP)	10. Total expenditure (% of GDP)	11. Primary fiscal balance (% of GDP)
2020	-4.3	2.1	-2.0	-1.5	1.1	-3.8
2021	1.9	1.2	-0.5	-0.5	-0.9	-0.6
2022	-0.4	0.9	-0.4		-0.4	-0.5
2023	0.4	0.4	-0.4		-0.4	-0.5

Sources: IMF Staff reports (2019 ARTICLE IV Consultation, December 2019; Request for Rapid Disbursement under the Rap[id Credit facility, April 2020)
Note: The Staff Report on the Request for Disbursement under the RCF does not provide projections for tax revenue beyond 2021, therefore it is not possible to calculate deviations compared with pre-COVID-19 projections for this item.

Sustainable Development. Ghana's economic growth rate has had a high costs to the environment, including deforestation and rising water pollution. In response to this problem the government has instituted a number of policy reforms to mainstream green economy in its development and poverty reduction strategies. These reforms have prioritized poverty reduction in the context of climate change and natural resource degradation, while simultaneously providing new and sustainable pathways to inclusive economic development and prosperity. For instance, policies such as the National Climate Change Policy, National Environmental Policy, Environmental Fiscal Reform Policy, National Climate Change Adaptation Strategy, Renewable Energy Act, Ghana National Low Carbon Development Strategy, among others, have embedded green economy initiatives across sectors of the economy.

Ghana has launched the National Adaptation Plan in an effort to build nationwide resilience to climate change impacts with support from the UN Environment Programme (UNEP), and implementation by Ghana's Environmental Protection Agency. Principles of green economy were included in prior development plans including the Ghana Shared Growth and Development Agenda II (2014-2017). Other initiatives geared towards developing a sustainable and green economy include initiatives such as Planting for Food and Jobs; Mechanization for Food and Jobs; One Village, One Dam; and Operation Vanguard. Government is also increasing efforts to improve energy efficiency through the promotion of energy saving appliances, and clean energy at the household and industrial level. Ghana has increased its electricity installed capacity, including increasingly from solar energy. Also, small scale businesses have been encouraged to install solar panels to reduce demand on the national grid. There are also plans to develop wind energy. According to the Energy Commission of Ghana, there is potential to generate wind energy, particularly along stretches of Ghana's eastern coastline and on the hill tops around the Volta Lake and the border with Togo. Currently, there about five companies who have acquired sites to establish wind farms in Ghana. One of them, Upwind Akplabnya Ltd has established a 225 MW wind farm at Nigo Prampram in the Greater Accra region. Another firm, VRA also intends to develop 150MW of wind power in the southern part of Ghana including Anloga, Anyanui, Lekpogunu and Akplabany. eleQtra is also developing a 50 MW wind energy project in Greater Accra. And the Swiss company Nek has also announced its plans to generate 1,000 MW of electricity from several wind farms in Ghana.

Projections show that green economy policies and investment can bring about additional economic growth and lead to a five percent drop in poverty by 2030, and green economy initiatives, if implemented well, could create up to 400,000 more jobs in Ghana.

2. Sector Investment Potential

This section assesses the key sectors with high potential for investment, growth and employment creation in Ghana. Using the methodologies outlined in the overview, and based on Ghana's development strategies, including the Ghana Beyond Aid and the COVID-19 Alleviation and Revitalization of Enterprises Support (CARES) Program; as well as development partner approaches, the selected sectors with strong investment potential and likelihood to support robuts economic growth and job creation include **manufacturing and agriculture/agribusiness.** Mining also ranked high but has particular environmental, social and geopolitical challenges that may make it more difficult as a focus sector. Manufacturing and agriculture/agribusiness were identified as attractive because of the opportunity to create jobs and modernize key sectors of the economy. For this analysis, the agriculture sector includes both the downstream and upstream activities of the agribusiness value chain which include the production, marketing, production and distribution of agriculture products and therefore agroprocessing is a key component.

The government seeks to move away from an economy based largely on natural resource abundance (oil, gold, and cocoa) to one driven by high value-added exports. The manufacturing sector grew annually at an average rate of 11.8% from 2015 to 2019 with an average share of GDP of 10.8% (2015-2019) and shows strong prospects for continued growth with a robust reform program. Government also intends to increase the share of the industrial sector from its current level of 31% of GDP to an average of 35%, with particular focus on the manufacturing sector, raising its share from 12.2% in 2017 to 20% of GDP by 2028. Significant investment opportunities exist, such as vehicle components in the automotive industry; marketing and distribution, and technological services in the textiles sector; or petrochemicals and polymers, inorganic chemicals, and consumer chemicals.

In agriculture, currently only five percent of food products harvested in Ghana are processed; and there are few linkages with marketing and financial services, partly due to the small firm sizes and underdeveloped processes which lead to many of these firms operating below capacity using inefficient technologies. The sector is a major focus of government's development plan and it contributed 18.5 percent to GDP in 2019.

Ghana Sector Ranking

Sector	**Average score per Sector**	**Rank**
Manufacturing	15	1
Agriculture/Agribusiness	12.5	2
Mining sector	12.5	3
Education sector (TVET)	10	4
ICT sector	8.8	5
Construction sector	8.8	6
Real Estate	6.3	7
Health Sector	6.3	8
Note: The quartile approach was used to identify high, medium and low performing sectors based on contribution to the economy, vulnerability to shocks and potential for policy reforms. High performing sectors were awarded a value of 15 whereas medium and low performing sectors were assigned a value of 10 and 5 points, respectively. The total points for each sector were then averaged to determine which sectors are areas for potential investment.		

Manufacturing. The manufacturing sector has received significant government attention in recent years. It is one of the fast-growing sectors in Ghana particularly after the discovery of oil in 2007. Manufacturing will be central to plans to move away from an economy based largely on natural resources to one driven by high value-added exports. Within the sector, significant support has been geared towards the automotive industry, manufacturing of pharmaceuticals, and the textile industry in particular. These industries have been identified as carrying greater developmental impact than some others. The current health crisis posed by COVID-19 has also heightened the government's attention to the pharmaceuticals industry, where Ghana currently imports 70% of all drugs. The domestic pharmaceutical manufacturing sector was estimated at US$ 1 billion in 2018, which ranked Ghana as the tenth most attractive place in Africa for investment in the pharmaceutical industry. In spite of growth potential, the pharmaceutical industry is under-exploited with less than 55% of production capacity fully utilized prior to the pandemic. Opportunities also exists for other chemical industries including petrochemicals and polymers, inorganic chemicals, and consumer chemicals. Key constraining factors for investment in these industries include high competition from foreign firms, limited supply of qualified personnel, inadequate access to capital, and high interest rates.

In the automotive industry, vehicle assembly and automotive components manufacturing provides strong investment opportunities. The sector is identified as a strategic anchor industry by the Ministry of Trade and Industry. It is estimated that over 100,000 vehicles with an estimated value of US$ 1.14 billion are imported annually into Ghana. This figure accounts for about 12 percent of the national import bill and represents the largest single import item for Ghana. Ghana's automobile market is expected to grow at the rate of more than six percent. Both commercial and passenger vehicles are forecasted to grow. Vehicle per population ratio, which stood at 50 vehicles per 1000 population in 2010 and had increased to 73 vehicles per 1000 population in 2017.

The automotive industry also has strong investment opportunities for vehicle components (auto ancillaries, engines, and tires). Given the large potential, the Ghana Automotive Development Policy was introduced in 2019 to attract investment from leading Original Equipment Manufacturers (OEM) and in particular, investment partners from France, Japan, and Germany. Volkswagen AG has already started vehicle assembly in Ghana. Nissan Motor Company, Toyota Motor Company and Suzuki Motor Company have all signed agreements to build assembly plants in Ghana. Kantanka Automobile Company Limited is the only local company in the sector. There is government support for investment in the sector. For example a Customs Amendment Act, 2020 (Act 1014), was passed in April 2020 to provide corporate tax holidays; import tax exemption; and tax waivers on plants, machinery and equipment for registered automobile assemblers. This is expected to boost investment in the automotive sector. Key challenges in the sector are the lack of adequate skilled personnel, weak regulations, and competition from second-hand vehicles. However, significant opportunities exist driven by the fast-growing urban youth population and increasing middle-income class.

The textile industry has significant investment opportunity and can be a vibrant sub-sector, but has experienced high volatility over the past two decades. Employment in the sector dropped from more than 25,000 in 1975 to under 2000 in 2016. Due to Ghana's trade liberalisation policies, the industry has seen a significant decline with the importation of cheap products, including second-hand clothing. The number of large textile companies in Ghana has declined from more than twenty in the 1960s to about four major players. Total export value in the sector fell from $285 million in 2011 to a low of $24 million in 2016. A consolidation of some existing companies in the sector led to the creation of a niche production market and helped to expand the export value to $98 million by 2017. Notwithstanding this decline, it is one of the sectors for which the government has prioritised in its industrialisation drive.

The textile industry has a high potential for creating employment, particularly for clothing production. In 2019, the government provided a range of measures intended to support the industry through lowering costs, improving the investment environment, and tightening regulation of unfair trade practices. Promotional strategies such as the Made-in-Ghana Goods Committee and traditional dress "Friday Wear" have yielded few changes in domestic purchase trends or brand switches. The COVID-19 pandemic response has provided an opportunity to engage in local production of Personal Protective Equipment (PPE), particularly masks, which has been a boost to the sector. In April 2020, the government facilitated a Ghana Exim Bank loan of US$10 million for some local companies to produce face masks, scrubs, and protective gowns. Key challenges confronting the textile industry include competition from relatively cheap imports, high costs for overheads, changing consumer preferences, and a lack of technical skills. Investment opportunities available in the textile industry include production for export, marketing and distribution, raw material, and technological support services.

Agriculture. The agriculture sector is made up of four subsectors: crop sector, livestock, forestry and logging and fishing sector. Agriculture is a key supplier of raw materials to the industry and services sectors as well, and is responsible for ensuring food security for the nation while supplying high valued surplus commodities, such as cocoa, to regional and international markets. The agriculture sector used to be the mainstay of Ghana's economy, but over the past two decades, its contribution to GDP and employment has declined significantly. The share of agriculture sector employment was 29.2 percent in 2019; which is lower than the 55.09 percent in 2000 and 35.18 percent in 2015. The sector contributed only 18.5 percent to GDP in 2019, a reduction from 22.1 percent in 2015. Ghana suffers generally from low agricultural productivity, and key challenges to the sector include climate impacts, inefficient land tenure arrangements, the negative impacts of the activities of artisanal miners, lack of access to credit, and poor value chains such as storage facilities.

In spite of the large potential development impact of agribusiness, several challenges confront its growth. For instance, difficulty in meeting food safety and quality standards for domestic, regional, and international markets; slow rates of sustainable agriculture intensification; logistical challenges and access to markets, competitiveness and a poor business climate for investment in the sector. A study by Arndt and Hartley (2017) suggested that between 2009 and 2013, agriculture imports tripled in Ghana with agro-processed products constituting 47% of agriculture imports. This has affected the competitiveness of food processing firms in Ghana with a many start-ups folding between 2014 and 2017. That said, there are significant investment opportunities in the processing subsector, particularly for dairy products, cereals, starchy crops, vegetables, fisheries, industrial crops and fruits. According to a Owoo & Lambon-Quayefio (2017), the agro-processing industry was estimated to constitute about 54.6 percent of total manufacturing value-added in Ghana, while food and beverages was estimated to constitute about 32.4 percent of total manufacturing value added in 2003, the last time an industrial census was conducted in Ghana.

Agroindustry links the agriculture sector to the industrial sector, particularly regarding transformation of raw and semi-processed products from the forestry, livestock, aquaculture and crop sector into commercial and industrial products. In Ghana, currently 85% of all the agroindustry activities are dominated by small businesses; with food and beverages representing the largest component of processed commodities. In Ghana, agro-processing may vary from simple preservation operations such as drying products in the sun to more complex, capital-intensive processes. According to the Ministry of Food and Agriculture, only five percent of food products harvested in Ghana are processed; and there are few linkages with marketing and financial services, partly due to the small firm sizes and underdeveloped processes which lead to many of these firms operating below capacity using inefficient technologies. In the broader agro-industrial subsector there are opportunities for investment in agricultural financing and insurance; production and distribution of agrochemicals, agriculture engineering and training; as well as in non-traditional exports, particularly the export of cashew nuts, shea nuts, banana, yam, mangoes, pineapples, medicinal plants, fresh or chilled tuna; and for cocoa processing into butter, powder, cake, and paste.

Government is implementing numerous schemes to support the sector. The Planting for Food and Jobs (PJF) is a flagship agricultural campaign of the government. The PFJ is operated using different models to ensure cross-cutting gains ins different sectors of the economy including initiatives such as Planting for Export and Rural Development, Rearing for Food and Jobs, Greenhouse Technology Development and Mechanisation for Food and Jobs. To support agro-processing activities the government is providing funding for agro-based start-ups while also removing import duties on agroprocessing plants and equipment and providing tax incentives to support agro-processing, packaging and market access for farmers. There are also programs focused on financing sustainable agriculture and crop insurance for farmers. Likewise, the One-Village One-Dam initiative is a community owned process to help address irrigation problems and increase crop production. To finance these initiatives, the government has been increasing budget allocation to the agriculture sector, rising from GHc 226.3 billion in 2014 to GHc576.9 billion in 2020 in nominal terms. In addition a number of development partners are involved in providing additional technical and financial support to the sector. For example, other projects and initiatives that have been pursued by government include Ghana Agricultural Sector Investment Programme, the Ghana Commercial Agriculture Project, the Programme for the Promotion of Perennial Crops in Ghana, the Northern Rural Growth Programme as well as the Export Marketing and Quality Assurance Project.

In the context of sustainable development, Ghana's overdependence on primary cash crops and timber has led, in some cases, to poor environmental practices. Low use of modernized agricultural methods and technology has intensified soil degradation and deforestation, which have food security and poverty reduction implications. Ghana is considered a net carbon emitter due to the deficit in forest recovery, and while current medium-term development plans intend to modernize agriculture to ensure a sustainable environment, there are significant investment opportunities to help ensure Ghana's agriculture contributes to the green economy.

Mining. The mining sector ranked high in the analysis due to the large potential economic impact, but the sector is complex with significant environmental impacts, social and land-rights challenges, and emerging geopolitical tensions. We have indicated the sector given its ranking, but further analysis and political economy considerations should be undertaken before the sector is selected.

Ghana has rich mineral endowments including gold, bauxite, manganese, and diamonds. Gold accounts for 95% of Ghana's mineral exports. The country is one of the world's top ten gold producers and became the largest in Africa in 2018, surpassing South Africa. The mineral sector grew at 10.85% on average from 2013 through 2018, and attracts more than half of all foreign direct investment, generates more than one-third of all export revenues, is the largest tax-paying sector, therefore making a significant contribution to GDP. On average, the mining sector employment constitutes about 1% of total employment in Ghana with gold mining accounting for 90% of total mining employment. Moreover, 60% of Ghanaian mining employment are small scale and artisanal miners.

The Ghanaian mining sector undergone significant reforms in the past decades. These reforms have been targeted at promoting sustainable mining activities and increasing transparency in the sector. The mining sector has significant environmental impacts, with many mining communities in Ghana experiencing pollution and environmental degradation. Illegal artisanal mining has destroyed many agricultural lands with implications for health, exports and food security. Attempts have been made to tackle issues relating to community development, environmental degradation and property rights, but key constraints in the sector includes land disputes, access to capital, a weak regulatory framework for small scale mining and lack of qualified workers.

If selected as a focus sector, key areas for investment in the mining sector include construction of processing facilities, exploitation of granite to provide high quality floor tiles, production of materials for the building industry, and production and supply of clinker that is used as the binder in many cement products. There are also opportunities in geological consultancy and other support services to the mining sector, construction of downstream facilities to manufacture products.

Risks Across Sectors. The risks in the mining sector have been highlighted and may suggest that it is not an appropriate sector of focus. If it is selected, the local and global political economy and the "association risk" with environmental concerns should be fully assessed. For manufacturing and agro-processing, there is an emerging risk that global perceptions about Ghana as an investment destination could start to change. As noted above, Ghana has fallen in many global rankings, including those related to corruption, governance, and competitiveness. Likewise as outlined in the Overview, the African Transformation Index shows that Ghana's economic transformation has largely stagnated since 2010, and over past two decades has suffered losses across almost all dimensions of economic transformation, although substantially more so in technological upgrading and export competitiveness, while improving in human wellbeing.

There are also more policy oriented risks, such as a failure to accelerate skills and capacity building for technology-centric manufacturing and processing. As noted below, land tenure clarity will be critical to ensuring a strong agricultural sector. This is a complex and deeply societal risks that government must manage carefully with traditional leaders. Likewise, if adequate value chain infrastructure investments are not made in agriculture, to include warehousing, cold storage, and efficient transport, there is a risk that high quality food products will not be readily available for processing.

3. Current Reform Agenda

The national development agenda in Ghana is laid out in the Coordinated Programme of Economic and Social Development Policies (CPESDP) which is a medium term national developmental strategy (2017-2024) envisaged to ensure a resilient economy, modernize key sectors and set up the nation towards economic transformation whilst creating opportunities and wealth for all Ghanaians. The objectives of the medium-term development plan include doubling GDP per capita by 2024; achieving an average annual growth rate of 7.2% from 2017 to 2024; improving the share of GDP in the manufacturing sector; ensuring stable energy and power supply; and promoting exports; particularly in high-valued manufacturing.

Under the CPESDP the government also seeks to strengthen fiscal and monetary discipline to support its efforts in revamping economic and social infrastructure, transformation of agriculture and industry, social development, reforming institutions of governance and leveraging science, technology and innovation for development.

The CPESDP is supplemented by the Ghana Beyond Aid Ghana charter and strategy, which outlines a national transformation agenda. The strategy, published in April 2019, is more than an economic strategy as it focuses on developing broad aspirations and key societal changes in values, attitudes, and behavior. But it outlines key policy priorities and a reform agenda with specific objectives. For example, the strategy targets 9.5 percent average annual GDP growth, requiring that Ghana raise substantially the level of national investment from the current level of around 12.2 percent of GDP to as much as 30 percent of GDP. Ghana Beyond Aid also addresses issues such as domestic resource mobilization, noting that domestic revenue to GDP in Ghana in 2018 was 15.6 percent, one of the lowest across the ECOWAS sub-region which has an average of 19.1 percent. Government plans to find innovative ways to widen the tax net and to bring in the huge informal sector, which employs over 80 percent of workers. The strategy seeks to increase revenue from taxes to about 23 percent of GDP by 2028.

To support the manufacturing sector, the Ghana Beyond Aid strategy emphasizes strengthening and better coordinating investment promotion efforts so as to significantly raise the level and quality of FDI into Ghana, particularly in manufacturing, including agro-processing and ICT-based technology sectors. Likewise, government will provide incentives for large foreign firms to engage Ghanaian businesses as suppliers of goods and services. To complement this, Government is also putting in place assistance programs to strengthen the capacity of Ghanaian SMEs to become competitive suppliers to the foreign firms. Likewise, the Ghana Beyond Aid strategy supports rationalization of all Government entrepreneurship programs to support manufacturing. Government is bringing all entrepreneurship programs under a single entity (Enterprise Ghana) to coordinate support programs such as finance, training and business development services.

Specific to the automotive subsector, under the Ghana Automotive Development policy, a five-year tax holiday is available for producers partially based in Ghana, while companies building complete vehicles in the country are eligible for a 10-year tax holiday. The import duty for new and used vehicles was raised from the current 5%–20% range to 35% in November 2019 to encourage the purchase of locally-assembled cars. Ghana also enacted the Iron and Steel Development Authority Act which oversees the availability of raw materials to feed the production in the automotive industry.

Textiles is a strategic anchor industry in the CPESDP, and the textile sector is a key area of focus under the One-District-One-Factory initiative. In 2019, the government provided a range of measures intended to support the industry through lowering costs, improving the investment environment, and tightening regulation of unfair trade practices. The Ministry of Trade and industry is developing further policy positions to challenge cheap textile imports. One option is to find means of increasing productivity which will lower costs and make the domestic textiles competitive. In this respect government policy and plans include TVET support to the sector.

To support the agriculture sector, the Ghana Beyond Aid strategy includes addressing land tenure that allows for transforming Ghana's agriculture from one that is mainly peasant and subsistence-based to one that is a modern and a high-productivity commercial enterprise that will attract investors. To do so, government plans to work with Chiefs and Traditional Authorities to find feasible and systemic solutions to land tenure. Government is also moving ahead with digitalizing land records and establishment of agricultural parks for viable commercial farms with the necessary infrastructure and support services. The Ghana Beyond Aid strategy also envisages the Ghana Incentive-Based Risk-Sharing Scheme for Agricultural Lending, which will provide guarantees to commercial banks to partially cover the risks of their lending to agriculture, in order to encourage them to lend to farming and other agricultural value-chain activities.

As noted above, under the umbrella of the Planting for Food and Jobs (PJF) flagship agricultural campaign of the Government there are numerous initiatives to support the agriculture sector. These policies and reform programs in the agriculture sector have also focused on poverty alleviation; and are critical to addressing the still high poverty rate in the rural areas. But they are also, in large part, designed to address import substitution of food, which is a key them of the Ghana Beyond Aid strategy. Ghana imports almost US$ 2.5 billion in food annually, including more than US$ 1 billion of rice; over US$ 800 million of sugar; over US$ 400 million of poultry, and large volumes of other products such as oils, tomatoes and vegetables. The target of the Ghana Beyond Aid strategy is to cut the food import bill by at least a half by 2024.

Policy initiatives in the mining sector has been geared towards ensuring sustainable mining activity in Ghana particularly in small scale and artisanal mining sector. Policies such as Operation Vanguard were developed to stopping illegal mining activities and streamlining operations in the sector. However, there are still numerous challenges in the sector; particularly in illegal mining. Other past policy initiatives support the sector, for instance, the Minerals Income Investment Fund Act (Act 978) to manage mineral receipts and invest in strategic assets within mining communities; and the Ghana Integrated Aluminum Development Corporation (GIADEC) to develop a competitive and well-integrated aluminum industry.

4. Development Partner Assistance

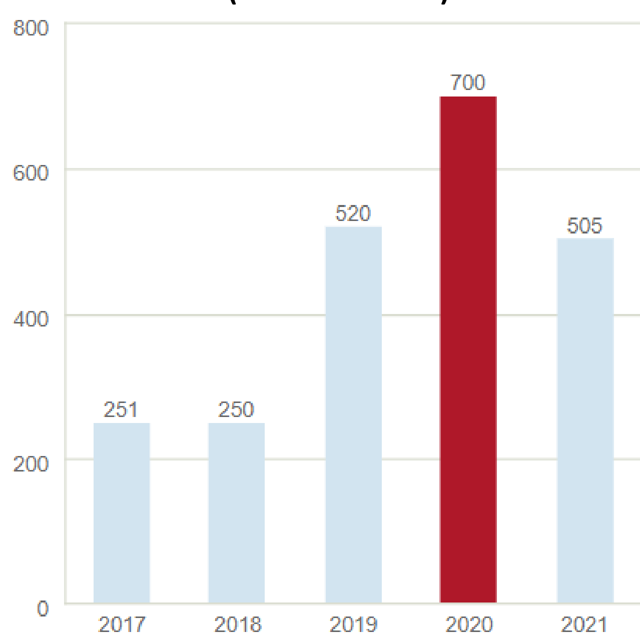
Based on OECD data (2015-2019), 27 percent of ODA in Ghana went into economic infrastructure and services, followed by the productive sector (23 percent) and health and population (22 percent). The United States is the largest source of bilateral ODA to Ghana for the while the World Bank is the largest source of multilateral finance to Ghana. Highlights of development partner support are presented below. According to the African Development Bank there are twenty-two development partners active in Ghana where data is available. They collectively provide financing and technical support across fifteen sectors and themes, providing loans, grants, budget support, guarantees, technical assistance and investment.

Development Partner Activity in Ghana (2019)

	Budget Support	Private Sector	Financial sector	Energy	Transport	Agriculture	Environment /Natural Resources	Education (including TVET)	Health	Decentralization	Social Protection	Governance	Water and Sanitation	Public Sector Reform	Public Financial Management
African Development Bank		x	x	x	x	x	x	x				x		x	x
Canada						x	x		x	x	x	x	x		
Denmark		x	x		x				x	x		x			x
European Union						x	x			x	x	x			
France				x	x	x		x		x		x			
Germany		x	x	x		x	x	x		x		x	x		x
Japan		x		x	x	x			x						
Netherlands		x	x			x			x			x	x		x
Norway							x					x			x
South Korea				x		x		x	x						
Switzerland	x	x	x	x	x					x		x			x
United Kingdom		x				x	x	x	x		x	x			x
USA-USAID-MCC		x	x	x		x	x	x	x	x		x	x		
FAO						x									
ILO		x									x				
IOM												x			
UNDP				x			x						x		
UN-HABITAT											x		x		
UNICEF								x	x		x		x		
IFAD		x	x			x									
World Bank	x		x	x	x	x		x	x		x	x			x
WHO									x						
Total no. of Donors	**3**	**10**	**8**	**9**		**13**	**8**	**8**	**10**	**7**	**7**	**13**	**8**	**0**	**8**

The World Bank, as the largest donor, has exposure in Ghana of USD 5.091.5 billion, with a current portfolio of $2.1 billion of credits and grants from the International Development Association (IDA). The current IDA portfolio consists of 23 national operations with a total commitment of $2,057.57 million, and two regional operations with additional net commitment of $84 million in higher education. Of this, 42.3% has been disbursed with $1.125 million undisbursed. The World Bank is developing a new strategy that seeks to help Ghana consolidate its transition to the status of a lower-middle-income country, address sources of inequality, improve human capital services and build stronger economic and management institutions and increase agriculture productivity and improve the business climate for industrialization. The new strategy will be based on three pillars: improved human capital especially in lagging areas; job intensive and sustainable economic growth and more effective and transparent governance and service delivery. These are anchored in the Ghana's own economic and social strategies, including the Coordinated Programme of Economic and Social Development Policies and Ghana Beyond Aid. Lending in 2020 reached USD 700 million, including support for COVID-19 response, and is expected to return to approximately USD 500 million in 2021.

World Bank Commitments by Fiscal Year: Ghana (millions of USD)



The African Development Bank's strategy for Ghana focuses on enhancing productivity (specifically, micro, small and medium-sized agribusinesses) and improving the business environment by supporting economic and structural reforms. AfDB focuses on improving infrastructure and regional integration, particularly on energy and developing skills and technology for private sector growth, and supporting vital economic policy-oriented and oversight institutions. Between 2015 and 2019, the total disbursements from the AfDB amounted to USD 1.1 billion. The AfDB's active portfolio in Ghana includes 21 operations with a total commitment amount of UA 607.3 million. The portfolio includes 11 sovereign, 10 non-sovereign and one multinational operation, and is concentrated in agriculture, transport and social sectors. Under its current strategy, which runs from 2019 to 2023 the AfDB expects to provide UA 280 million for 13 projects.

On the bilateral side, the United States, through USAID, focuses on helping Ghana to improve food security, sustainable natural resource management, and health and basic education outcomes; bolster economic growth; and advance good governance. Total USAID support to Ghana in 2020 was more than USD 215 million, with the top sectors being education, agriculture and health.

Other key examples include the United Kingdom through its UK Aid strategy focused on strengthening governance, promoting economic growth, and enhancing the social sector. UK Aid seeks to improve jobs and livelihood, education and health care for Ghanaians. The UK committed £2.8 billion to Ghana between 1998-2017. Likewise, Japan has also assisted the country with its aim of supporting industrial development and hasten rural development. Japanese aid averages Yes 4.7 billion per year since 2000, focused on projects to promote agriculture development, enhance social services in underprivileged areas, improve private sector development as well as improve human resource development to aid the industry sector of the economy.

German Development Cooperation's aim is to lessen poverty as well as improve inclusive growth and sustainability. From 2018-2020, German development cooperation has committed Euro 145.2 million to strengthen the agriculture sector, sustainable economic development, good governance and renewable energies and energy efficiency to promote private investment which is in line with their current reform which makes Ghana a member of the G20 Compact with Africa (CWA) with the vision to promote private sector investment.

Canada's bilateral development assistance aim to promote inclusive growth in Ghana by supporting the agriculture sector, particularly supporting resilient agriculture practices and climate smart agriculture. It also supports projects related to water, sanitation, and hygiene services to improve health and nutrition among the vulnerable. It also seeks to promote gender equality and women and girls' empowerment.

Denmark's development cooperation with Ghana is based on programs such as the Right to Services and Good Governance Program which ran from 2014-2018; a Tax and Development Program that ran from 2015-2019, and the Support to Private Sector Development phase III project from 2016-2020. Combined, the total commitment was DKK 620 million.

5. Recommendations for BMZ

Ghana provides excellent opportunities for investment, and particularly in the manufacturing and agriculture/agroprocessing sectors. The manufacturing sector is attractive as it is central to transforming Ghana to an exporting of high quality products. The sector grew annually at an average rate of 11.8% from 2015 to 2019 with an average share of GDP of 10.8% (2015-2019) and shows strong prospects for continued growth with a robust reform program. Government seeks to increase the share of the industrial sector from its current level of 31% of GDP to an average of 35%, with particular focus on the manufacturing sector. The agriculture sector contributes nearly 20% of GDP, but only five percent of food products harvested in Ghana are processed. The sector is a major focus of government's development plan and there are extensive investment opportunities from processing dairy or cereal products to industrial crops to rural finance and insurance.

This report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework. Ghana has a strong reform program in place with support from the international community. In particular the Coordinated Programme of Economic and Social Development Policies and the Ghana Beyond Aid Ghana strategy While these sectors provide investment opportunities, there are risks as identified above. Generally there is a risk that global perceptions about Ghana as an investment destination could change if it does not continue improvement in global rankings, particularly those related to governance and transparency. To do so will require strong development partner support from Germany and others. In the context of the Reform Partnership Framework**, this report recommends that German Development Cooperation provide advisory, technical and financial support in the sectors selected.**

In particular, it is recommended that German Development Cooperation can further support improvements in the business and investment climates for manufacturing and agriculture. In both cases German can provide policy advice resulting in world class regulatory environments for the sectors generally, and sub-sectors in particular. Likewise in both sectors, there is an urgent need for training and capacity building, particularly in support of new technologies.

In manufacturing, subsectors need technical assistance to upgrade to appropriate technology and Fourth Industrial Revolution approaches, as well as to improve marketing and distribution. This support is needed in the highlighted subsectors including automotive and textiles, but also is needed in additional industries such as chemicals

For agriculture and agro-processing, Germany has extensive experience in helping countries improve access to credit, and upgrade value chains, introduce new agricultural technologies, and develop capacities. As well, German corporate expertise in food processing is well-known globally, whereby twinning arrangements between German and Ghanaian firms, supported by German Development Cooperation, can lead to joint ventures, PPPs and increased FDI. Also German experience on land rights technical assistance in other countries can be highly valuable as government addresses this complex problem.

Pathways to Accelerating Investment Opportunities in Morocco

Summary

This report recommends the **food industry, trade and distribution**, and **renewable energy** as top sectors that are likely candidates for new investment, and where reforms will have a particularly high chance of improving the business and investment. These are particularly attractive because sectors proposed for investors are characterized by high production multipliers and strong employment potential. The three sectors are large creators of added value and jobs in Morocco. These sectors also support important spill-over effects across the economy; and the food and trade sectors show high labor productivity.

These sectors are also attractive as there are efforts to bring in new technologies which can serve as a catalyst for structural transformation. The creation, adoption and improvement of technologies contribute to productivity growth and added value in the food industry and renewable energy sectors in particular. Finally, these three sectors are highly integrated with each other. For example, the expected growth of the food industry in Morocco is dependent on the access to and competitively priced energy.

This **report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework**. Morocco continues to benefit from strong international support aligned to the Government's Program and Medium-Term Strategy 2017-21. Likewise, the King has outlined ambitious plans for a roadmap to boost recovery from the COVID-19 pandemic and spur inclusive growth. The King's vision includes a reform of state-owned enterprises and an investment fund worth US$ 4.8 billion to help enterprises and individuals recover from the impact of the COVID-19 pandemic, both of which can support accelerated investment in Morocco

Although these sectors provide significant opportunities, there are also risks including, for example, a lack of domestic investment in technology in the food industry, a state dominated logistics subsector, and unclear regulatory frameworks for renewables energies. As well, the impacts of the COVID-19 pandemic will significantly slow growth prospects for Morocco. In the context of the Reform Partnership Framework**, this report recommends that German Development Cooperation provide advisory, technical and financial support in the one or more of the sectors selected**. Such development cooperation support could include, for example in the food industry, Germany may support strong investment promotion to crowd in food processing technology to upgrade the sector. In trade and logistics, there are dual approaches for German development. On the one hand technical assistance is needed to craft policies that lead to greater job creation, while Germany can also support investment in

infrastructure projects that will improve logistics. Finally, in renewables, a key role for German Development Cooperation is to support government in rationalizing the industry with clear regulations, bringing off-takers to financial sustainability, and ensuring a strong investment environment.

1. Economic, Political and Social Context

Context. During the 1990s Morocco implemented a series of major institutional and economic reforms that made the country more stable and helped it to withstand the potential negative effects of the Arab Spring. Political reforms resulted in the adoption of a new constitution in 2011, and this was followed by initiatives to improve justice, public administration, the fight against corruption, and to strengthen governance, transparency and ethics in public life. The country also embarked on a regionalization of public policies and decentralization of administration to ensure integrated and durable regional development. This reform momentum was further emphasized by the King of Morocco when in his 2019 throne speech he stressed that *"… the stake is thus to rebuild a strong and competitive economy, by encouraging the private initiative, while launching new productive investment plans and by creating new job opportunities…"*.

In the coming years, the political scene will be defined by the legislative elections of 2021. The evolution of the current social context of Morocco will depend on the effectiveness of new development policies, including an increase in social expenditures in the 2021 and 2022 budgets. It will also hinge on the King's call to review the development model of Morocco, the launching of the third phase of the National Initiative of Human Development, and increased attention to the social and economic integration of young people. For example, in the framework of the 2021 budget, a special account entitled "Mohammed VI Fund for Investment" has been endowed with 15 billion dirhams, which can lead to strong development impact if well targeted.

Macroeconomic. During last two decades Morocco recorded relatively solid economic and social gains due to significant public investments and structural reforms. In particularly government policies have endeavored to stabilize the macroeconomic framework by reducing domestic and external vulnerabilities, in particular through the gradual reduction of subsidies for energy products and some foodstuffs. Government has also worked to improve the management of public finances through the adoption of the Organic Law of Finance in 2015; and in general support the diversification and the competitiveness of the national economy. These reforms led to an acceleration of aggregate real GDP growth from an annual average of 3.1% during the 1990s to nearly 4.2% on between 2007 and 2018. This growth has however come with substantial volatility. Thus from a peak of 10.7% in 2008, GDP annual growth came down to an average 4.5% between 2008 and 2011, then ranged from between 6.0% and 2.6% between 2012 and 2016, and back to an average 4.5% during 2018-2019.

Morocco has also reinforced its sectorial policies through plans for enhancing the economic growth potential and the creation of jobs, including in the manufacturing sectors, particularly automotive, aeronautics and pharmaceuticals. Generally the tertiary, secondary and primary sectors have all contributed to GDP growth. The Moroccan economy has overall demonstrated resilience in the face global economic uncertainty prior to the COVID-19 pandemic. However, job creation has remained variable. In the last two decades there was a rise of employment in the construction and the tertiary sector at the expense of the other sectors.

The generally favorable performance the economy is largely driven by domestic demand, in particular household consumption, which remained, between 2007 to 2018, by far the main growth driver with a contribution of 2.4 percentage points of GDP. Meanwhile, external demand has lagged as the contribution of net foreign trade was negative, with a reduction of 0.3 percentage points of GDP - and this despite an increase of exports of six percent between 2007 and 2018. This situation reflects a strong import propensity in the national economy, with a tripling of the value of imports since 2007. For example, state imports of equipment and other products added to the budget deficit which reached an average of 4% between 2007 and 2018.

During the last ten years the supply side of the economy was quite volatile - slowing down over the last three years and has not been strong enough to generate sufficient employment in the formal economy. There are about 1.1 million unemployed people in the country, or approximately ten percent of the working age population. Worryingly, the youth unemployment rate (15-24 year olds) is 19.9%; and 21.7% for technical schools graduates; and 24.6% for university graduates. In urban areas, the youth unemployment rate is almost 40%.

Human development. Morocco recorded a significant reduction in poverty between 2007 and 2014. Poverty, as measured by the national poverty line, fell from 8.9% in 2007 to about 4.8% in 2014. Using the international extreme poverty line (USD$1.9 in PPP terms), poverty was approximately one percent by 2014. While using the poverty line for lower-middle-income countries (USD$ 3.2 in PPP terms) it fell below eight percent. Overall, inequality has declined slightly, but not in all regions. The Gini coefficient decreased slightly between 2007 and 2014, from 40.7 to 39.5.

Based on surveys and perception analysis, 39.3% of households believe that poverty has increased and 63.9% believe that inequalities have increased. The perception of poverty is clearly high among poor and vulnerable households, but also among the middle class. 44% of middle class households perceive themselves as poor. This reflects a widespread sense of economic insecurity among middle class households who see their incomes growing more slowly than their expenses, and they perceive a gap between what they pay in taxes and the services they receive.

There are indications that the COVID-19 pandemic is leading to a reversal in the gains in the fight against poverty in Morocco. Updated estimates of the impact of COVID-19 on global poverty by the World Bank, suggest that the incidence of poverty in the country could reach 6.6%, based on projected per capita income in 2020. The proportion of people vulnerable to poverty could rise from 17.1% of the population in 2019 to approximatively 19.87% in 2020, specifically 1.058 million additional people.

In education, despite substantial investment over the last two decades, learning outcomes remain low and inequalities in educational attainment are still widespread. As noted above, the unemployment rate for technical school and university graduates are particularly high. Morocco is in a demographic and epidemiological transition impacting its overall health indicators. Citizens are facing a double burden of disease, with both an increase in communicable diseases and an increased share of non-communicable diseases, which now account for 75% of deaths. It is estimated that human capital contributes 41% to per capita wealth, a level well below that of countries at a similar level of development. Indeed, low human capital performance hampers productivity in Morocco. With a Human Capital Index of 0.5, Moroccans born today will only reach 50% of their productivity potential. The future social and economic trajectory of Morocco therefore depends on its capacity to accelerate progress in the accumulation and distribution of human capital.

Although substantial reforms of the legal framework have been adopted to promote gender equality, women continue to face significant obstacles. Indeed, the country's labor market is characterized by major gender disparities, including low female labor force participation, high unemployment and a persistent gender pay gap. Although substantial reforms of the legal framework have been adopted to promote gender equality, women continue to face significant obstacles in the labor market resulting in low female labor force participation, high unemployment and a persistent gender pay gap. More than half of the working-age population (53.3%) is excluded from the labor market, the majority being women. In 2016, the labor participation rate was about 26.3% for women, compared with 71.6% for men.

Sustainable Development. Morocco is a leading proponent of green development in the global South. It is a leader in renewal energy, with the Green Morocco Plan guiding policy and budgetary decision making. The Green Morocco Plan has enabled a strong increase agricultural GDP and agricultural exports, as well as an increase in the volume of green investments. The Green Morocco Plan has enabled the creation of jobs and improved food security. The Plan also guides sustainable water management, particularly for irrigation water, agricultural climate resilience and integration of small and medium-sized agriculture into more sustainable agriculture value chains, benefiting 2.7 million farmers.

Morocco is already a low-carbon, resource-efficient economy that facilitates social integration and protects biodiversity and ecosystem services. But Morocco could reduce its dependence on imported fossil fuels by half and the renewables sector could increase from 4% of GDP now to 8% of GDP by 2030. That said, the Moroccan environmental context is facing several challenges to include increasing desertification, pressure on forested areas and water resources, degradation of ecosystems, and loss of biodiversity.

With a strong political commitment to sustainable development, Morocco is promoting the green economy. In addition to the Green Morocco plan for agriculture, a National Charter and a Framework Law on the Environment and Sustainable Development have been adopted in order to place all public policies within the framework of a national sustainable development strategy.

COVID-19. Similar to many other countries, the COVID-19 pandemic has triggered an abrupt recession, the first since 1995. The government has taken quick action to address the economic impacts of the pandemic. A Special Fund for the management of the Coronavirus pandemic was launched on March 15, when there were only 28 cases and one death in the country. It is open to contributions from citizens, companies and development partners. The fund has covered the expenses of upgrading medical equipment, supporting the national economy to cope with the shocks induced by the pandemic and preserving jobs and mitigating the social repercussions of the pandemic.

Ten days after the first case of Coronavirus appeared on March 4, borders and schools were closed and a containment order was issued on March 20, together with a state of health emergency. Health personnel have not been returning home since March 25, but are rather staying in hotels. 570 hotel units and accommodation centers have been mobilized by local authorities. The capacity of these hotels is nearly 32,000 beds for health workers, executives and others.

Government instituted economic measures quickly, with more than 800,000 individuals in the formal sector who had lost their jobs receiving compensation. Households are allowed to request banks to extend the maturity of their real estate or consumer loans. Informal sector workers identified through the Medical Assistance Scheme also receive assistance depending on household size. A credit line, Damane Oxygène, was introduced on March 26, with a state guarantee to ensure working capital of businesses and enabling them to pay salaries. A government Monitoring Committee was set up in March, under the supervision of the Ministry of Economy and Finance. It brings together the key ministries (Interior, Foreign Affairs, Agriculture, Health, Industry, Tourism and Transport, Labor), Bank Al Maghrib and the La Confédération Générale des Entreprises du Maroc.

2. Sector Investment Potential

This section identifies sectors that offer opportunities for investments that will also help in accelerating Morocco's growth and employment creation. Investment in these sectors will support government's Program and Medium-Term Strategy 2017-21, which includes a focus on strengthening competitiveness and improving the business climate, with the aim of achieving a Doing Business ranking among the top 50 by 2021. It also supports implementation a dedicated incentive tax regime for new companies, upgrading the Morocco 2020 Digital Strategy, and simplification of the legal framework for public-private partnerships.

The analysis identified sectors for investment that have strong reform support from government development partners and the likelihood to support strong economic growth, particularly jobs. **The recommended sectors for further support and investment are: 1) food industry; 2) trade and distribution; and 3) renewable energy.**

To select sectors with best opportunities for accelerated investment and growth an initial set of 20 sub-sectors was considered and a methodology based on production and employment multipliers was applied. This methodology combines sectorial demand in the Moroccan economy, employment elasticities of growth, sectorial contribution in the total added value, productivity of labor, sector contribution to total exports, and foreign investments attracted during two periods 2007-2012 and 2013-2018. This considers the same set of indicators and dimensions as the other country sections of this report, but with some additions given data availability.

The multiplier approach is based on input-output theory. A series of Morocco input-output tables at constant prices, for the years 2007, 2012 and 2018 were used to estimate the impact of changes in one or the other component of the final demand. The multiplier shows the production (or employment) effect in the sector concerned where the investment is made (direct effect), and the production (or employment) effect generated in the other sectors related to the same investments (indirect effect). The production multiplier of demand in the Moroccan economy has fallen from 1.74 in 2007 to 1.58 in 2018. That means that in 2007 the production of the whole of the economy, on average, increased by 1.74 million dirhams in response to an increase of a one million dirhams of demand, and that this effect declined to 1.58 million by 2018.

The multiplier analysis applied in the Morocco report is complemented by the elasticity analysis. From the review of multipliers and employment elasticities, the sectors with the greatest employment potential are not necessarily those which have greatest growth potential. Two additional dimensions that capture well the recent dynamics and potential of the economy to generate growth and employment, and which were considered in coming up with the proposed priority sectors for investment acceleration, are Foreign Direct Investment (FDI) and the exports. Morocco's FDI inflows totaled 3.6 billion dollars in 2018, ranking the country fourth in Africa in terms of recipients of FDI, behind Egypt, South Africa and the Democratic Republic of Congo. At the same time, Moroccan exports have generally been on a positive trend, increasing by 10.3% in 2017 against 10.6% in 2018, accompanied by diversification in the numerous sectors, with the number of exported products increasing by 1.6% on average annually between 2007 and 2018, and from 2,580 to 3,405 products. The change in the composition of Moroccan exports favored the industrial sub-sectors with strong value added such as automotive. Exports from the sub-sectors of agriculture, the mechanical engineering industries and other manufacturing industries also experienced high average annual growth rates between both 2007-2012 and 2013-2018.

Hence based on the inputs-output model, employment elasticity values, the business climate and foreign direct investment, and export diversification, the following three sectors are recommended for further investment acceleration: 1) food industry; 2) trade and distribution; 3) renewable energy. The other candidates are finance and banking but these are excluded from the recommendation by virtue of already being areas of focus of the current Reform Partnership Framework between Germany and Morocco.

The three sectors recommended are characterized by high production multipliers and strong employment potential. The three sectors are large creators of added value and jobs in Morocco in that they support important spill-over effects across the economy. Also, the sectors of food and trade show potential for high labor productivity. Furthermore, efforts to diversify and bring in new technologies has been underway since 2007 in these three sectors, partially reflected in the sustained export demand.

Moreover, the technological progress recorded in these three sectors can serve as a catalyst for structural transformation. The creation, adoption and improvement of technologies contribute to productivity growth and added value in the food industry and renewable energy sectors in particular. Also, these three sectors are structurally integrated with each other. In fact, the expected growth of the food industry in Morocco is dependent on the access to and competitively priced energy. In Morocco, energy often constitutes the first or second highest expenditures in the food industry, which may represent up to 20% of financial turnover.

Food sector. Agriculture and food have always been a priority sector in Morocco, owing to their relationships with other sectors, its importance in foreign trade and its role in food security more generally. Including food processing, agriculture’s contribution to GDP and employment amounts to 15% and 50%, respectively. In this important sector, the Morocco Green Plan was launched in 2008 to modernize Moroccan agriculture and led to investments of approximately 3.7 billion dirhams on average per annum over a decade, totaling nearly 41 billion dirhams to date). However, even with strong government support mechanisms, the agriculture and food sector suffers from low productivity, low yields and high logistics and production costs. The sector enjoys tax exemptions to encourage and promote private and foreign investments, but in reality, the tax advantages have become a source of distortions and inefficient allocation of investments and resources.

Within agriculture, the fisheries subsector is highlighted for its significant progress with 96% of fisheries following national management measures. Likewise, the fishing and marketing infrastructure has been strengthened and has led to an export average annual growth rate of 6% since 2000. This can serve as a reform example for other food and agriculture sub-sectors.

To increase their profitability, the food industry will need to create more added value with fewer raw materials. To this end, companies must focus on more sophisticated processing technologies, but also more energy efficient equipment. For example, the modernization of mango drying units with high tech mixed ventilated dryers, powered by solar energy and gas, allows production units to offer very high quality products, to operate all year round and to diversify the range of dried products (coconut, tomato, papaya, aromatic herbs, etc.). In other words, energy and technology are competitiveness issues for the Moroccan food processing sector.

In the food sector, eight agreements were signed in November 2020 by the Ministry of Industry, Trade and Green and Digital Economy for the implementation of investment projects amounting to 620 million dirhams which will enable the creation of 1,630 new jobs and the generation of an additional turnover of more than 914 million DH by 2023. These projects include industrial units for agro-food processing for fish and dairy; a confectionery factory and a factory for the processing of fruits and vegetables. Again, such investments serve as examples of food and agriculture sector modernization, and the types of investments available to global corporates.

There is a wide range of potential investments in the sector, to include for example, the production of processed cheese, biscuits, and various cereal-based products. There are also opportunities in processing dried fruit, tomato preserves and sauces, and pressed fruit and vegetable juices. Likewise, there is currently investment demand for production facilities for canned olives and capers, olive oil, and frozen pizzas.

Trade and distribution. The trade and distribution sector is one of the pillars of the Moroccan economy, with the second largest provider of jobs at a national level after agriculture. It accounts for 13% of the working population. In terms of wealth generation, the trade and distribution sector is ranked third in terms of GDP, with an added value in 2017 of 84.2 billion dirhams. There are numerous investment opportunities in this sector, including for example, modernizing local commerce with world class labeling, central purchasing units, and trade and marketing networks. Significant investment demand exists for large and medium-sized stores (hypermarkets) and the construction of modern shopping malls; as well as factory and sales outlets for the growing middle class.

Transport and logistics are important drivers of the trade and distribution sector. Several projects have been implemented during these two last decades focused on improving roads, highways, ports and airports. The total public investment increased from 32 billion dirhams in 2005 to more than 66.6 billion dirhams in 2018, which was equivalent to 6% of GDP. At the same time there has been considerable development of new information technologies policies and investments in recent years that also support the trade and distribution sector. According to the Digital Report 2020, 59% of the world's population had access to the internet by the end of 2019. Morocco is well above the continental and global average, with 69% of Moroccans having access to the internet by the end of 2019. This was 2.9 million more people than in 2018. According the European Center for Digital Competitiveness Digital Riser Report 2020, Morocco ranks 4th in the Middle East and North Africa region in terms of digital competitiveness. Digital technology offers immense investment potential for expanded trade and distribution.

The government has a program to modernize local commerce, particularly aimed at ensuring quality, hygiene and safety standards that meets the requirements of modern consumers and international markets. This includes, for example, improving the attractiveness of the point of sale and strengthening the know-how of the retailers to be successful businesspeople.

Much of the trade and distribution sector is directly integrated into industry and manufacturing. Until 1990, the industrial sector in Morocco was marked by a strong concentration on traditional industries, but today it is characterized by a duality between traditional sectors such as textiles and clothing and new specializations such automotive and aeronautics, the processed food industry, metallurgy, and the pharmaceutical industry. The Industrial Acceleration Plan has succeeded in attracting several leading industrial groups to invest in Morocco, and contributed to improved manufacturing processes and product quality. By 2017 the share of exports with technological contents accounted for 55%, 17 percentage points higher than 2007.

To support the industrial strategy, the Moroccan government allocated 7.2 billion dirhams over the period 2015-2018. This was used for an industrial development fund, training of human resources and accelerating access to land for industrial endeavors. While there have been gains, the industrial strategy has not had the expected re-industrialization effects envisaged. This is in part because the sectorial support policies are not based on cross-cutting policies and hence do not support all stakeholders and market actors. Moreover, the government's objective of increasing manufacturing value added to 23% of GDP by 2020 and creating 500,000 jobs over the period 2014-2020 will likely not be met, particularly with the impacts of the COVID-19 pandemic. Industry generally makes a small contribution to job creation. In 2016, the industry sector created just 8000 jobs. In contrast, during the period 2009-2014, more than 130,000 net industrial jobs were lost. The ongoing re-structuring of the industrial sector is now creating jobs in new export activities, but on average more jobs are being lost over time in traditional labor-intensive industries. This net negative effect on employment is pronounced even more for unskilled workers because new industrial jobs often require advanced training and certification.

There are some promising trends, in particular for automotive and aeronautics. The construction in 2011 in Tangier of a large scale factory by Renault serves an engine of growth while creating an ecosystem of equipment manufacturers and related jobs. Even though a bright spot, in 2018 the contribution of the automotive industry did not exceed 2% of GDP.

Since 2014, automotive products have been the top exporting subsector in Morocco with 20% of total exports. But the industry is also subject to vulnerabilities. For instance, owing mostly to falling demand associated with the COVID-19 pandemic, the automotive industry expects a decrease of 20% to 25% in 2020, compared to that of 2019. In 2019, the exports of automobiles equaled approximately 80 billion dirhams. Before the onset of the COVID-19 pandemic the sector planned to generate between 110 and 120 billion dirhams in 2020.

Another encouraging subsector is the aeronautical cluster of industry established near Casablanca. This focuses on the production of engines for companies such as Bombardier, Safran and Boeing. These investments have resulted 11,000 jobs in aeronautics, and today more than 140 companies operate in the aeronautics sub-sector in Morocco. The sector's annual exports are approximately 18 billion dirhams. The Moroccan aeronautical industry is recognized globally for its capacity. It is nevertheless necessary to improve and develop new technologies to continue growth in the sub-sector.

Another important industrial sector is mining, and particularly the phosphates sub-sector, which has witnessed a major transformation over the last two last decades. The target for the sector is to double the mining capacity of Group OCP and to triple its capacity of phosphate processing by 2027. The OCP Group, formerly Office Chérifien des Phosphates, is a Moroccan based phosphate mining, phosphoric acid manufacturer and phosphate fertilizer producer and has grown into one of the world's largest producers of phosphate and phosphate-based products. It holds a 31% market share of the world phosphate product market. In 2008, the OCP Group became a limited company, with 95% of company owned by the Moroccan state and 5% by the Banque Centrale Populaire investment fund. The company employs nearly 23,000 people in Morocco and a has number of international subsidiaries. In 2018, its revenues amounted to more than US$5 billion. The subsector is a key contributor to trade and distribution, both for primary products, and the secondary market, particularly equipment and inputs.

Renewable Energy Sector. Morocco has abundant wind and solar resources which offers important opportunities for growth and job creation. According to a report by Dii (2013), the wind, photovoltaic and concentrated thermo-solar industry sectors could represent up to five percent of GDP by 2030 with the appropriate investments. Such projects will need to be developed in partnership with international firms. The development of renewable energies is at the heart of the national energy policy. And Morocco is increasingly asserting itself as an investment destination in the sector.

The potential benefits are very significant. With the right investments, Morocco can go from an energy dependence of nearly 88% today to 35% in 2040 and to less than 17% by 2050. In parallel, the average cost of electricity on the network could fall from 0.79 DH/kWh today to 0.61 DH/kWh in 2040 and 0.48 DH/kWh in 2050. The Moroccan energy potential in renewable energies represents a production capacity equivalent to the gas and oil of Nigeria or Venezuela. Multiple investment opportunities exist, for example, projects to set up a large capacity solar production on at least five sites in Ouarzazate, Ain Bni Mathar, Foum Al Oued, Boujdour or Sebkhat Tah. There is also strong demand for production and installation of solar water heaters, as well as solar powered water pumps and low consumption lamps lighting products.

For investors in energy efficiency projects, the Moroccan government provides subsidies from the Industrial Development and Investment Fund, the Morocco-SME fund, the ISTITMAR Program for SMEs, the Investment Promotion Fund, and the Energy Development Fund. There are also government programs for training aid and, in some cases, the government provides tax benefits to investors.

Energy efficiency, in parallel with the development of renewable energies, is a priority in the national energy strategy. The ambition is to reduce energy consumption by 15% by 2030. With this in mind, energy efficiency action plans have been put in place in all key sectors, particularly transport, industry and construction. Moreover, by diversifying its sources of electricity supply, Morocco could reduce its dependence on imported fossil fuels by half and the renewables sector could increase from four percent of GDP now to eight percent of GDP by 2030.

In view of the enormous potential in renewable energies (solar and wind) available to the Kingdom, the construction of a diversified energy mix favoring renewable energies is planned. This is intended to satisfy the growing demand for electricity, preserve the environment and reduce Morocco's energy dependence on the outside world. To meet these challenges, Morocco has launched a large-scale integrated program of electricity production from renewable sources. This is one of the largest projects in the world, which had expected power capacity of 4000 MW by 2020 through the construction of new wind farms and the construction of five solar power plants. This integrated project is a lever for economic and human development, including improved competitiveness, training, research, subcontracting, and industrial integration.

As an example of Morocco’s ambition, it is exploring the potential to develop Power-to-X (PtX) new technology for the production of synthetic fuels and raw materials from electrical energy. PtX, including the potential of green hydrogen opportunities, could be a potential sector for investment, and already has some bilateral cooperation support, including from Germany. The December World PtX Summit 2020 jointly organized by the Moroccan Research Institute for Solar Energy and New Energies and the Mohammed VI Polytechnic University featured high level speakers and participants from Morocco, The European Union, Germany, Portugal, as well as leaders of global corporations involved. The World Power-to-X Summit 2020 was sponsored by a number German organizations, including the Konrad Adenauar Stiftung, GIZ, and EDF Renewables.

According to studies carried by three German Fraunhofer Institutes in 2018, Morocco could capture a significant share of Power-to-X demand (estimated at 2- 4% of global demand by 2030) if it can exploit its strategic geographical position and exceptional wind and solar energy potential. Already Germany and Morocco have been addressing potential cooperation in the PtX sector in the context of the Moroccan-German Energy Partnership. If the related environmental risks, such as increasing the consumption of land, water and resources, can be carefully assessed and addressed for sustainability; and if the appropriate regulatory framework is established, Morocco could become an exporter of carbon-neutral energy sources and contribute to achieving the Paris Climate Agreement target. To this end, the Ministry of Energy, Mines and Sustainable Development has established a national task force supported by public and private actors to develop a PtX roadmap for Morocco. In the meantime, the Research

Institute for Solar Energy and Renewable Energies has started work on a dedicated platform for green hydrogen and ammonia with an investment in a partnership between IRESEN, Green Energy Park, OCP and the Mohammed VI Polytechnic University, as well as Fraunhofer Society partners from Germany.

Risks Across Sectors. There are significant risks across the sectors recommended. From a general perspective, a risk is related to labor market formality, in that only a minority of Moroccans hold a job in the formal private sector and the government has struggled to create jobs that Moroccans need - and ensuring those jobs contribute to meeting key development goals. A key risk is that there will be financial investments in food industries, trade and distribution and renewable energies, but that investment does not lead to the quality jobs needed. Over the past decade, Morocco has been successful at attracting investments and has done a better job of ensuring public investment supports infrastructure and industrial development, but it has not been very successful at supporting Moroccan companies to integrate into global value chains and create quality jobs. This risk in part will be mitigated by improved competitiveness and systematic support to entrepreneurs.

There are also continued risks to investment in food and agriculture given a worrying continuation of low productivity, low yields and high logistics and production costs. At the same time, there is a lack of domestic investment in processing technologies. Increased investment in trade and distribution is at risk due in part to the power of SOEs in trading sectors, while on the distribution side, cities lack capabilities to effectively manage urban transport projects, which leads to delays, while overall road infrastructure has deteriorated. In fact, road quality has declined significantly since 2002. As of 2015, almost half of the road network was deemed to be in poor state, directly impacting the efficiency of trade and distribution and leading to higher costs.

Regarding renewables, the risk likes in lack of clarity for IPPs on the integration of renewable energy into the grid. This is central to ensuring the FDI flows remain strong in the sector. Given the rise of renewable production, regulation of the sector has become more complicated and will need to be addressed by government, with support from global experts. If there is a not clarity on roles and responsibilities of different actors in the sector, there will be a lack of investor interest. Finally, a key risk to the renewable sector is long term financial sustainability. The finances of off-takers have deteriorated which creates uncertainty for IPPs.

3. Current Reform Agenda

In 2000 Morocco launched significant institutional and economic reforms across important sectors of the economy. These strategies included tax exemptions and other financial incentives, facilitation of access to land, simplification of administrative procedures, and launching of large public infrastructure projects. These programs collectively created new dynamics for investments in strategic sectors such as agriculture, industry and energy.

Since that time, there have been an array of reform strategies launched. These include, for example, the plan Azure Vision 2020 for tourism, the Green Morocco Plan for agriculture, Plan Halieutis 2020 for the fishing industry, Morocco Plus Export for trading, The National Pact for Industrial Emergence (2009-2015) and the New Industrial Acceleration Plan, 2014-2020. With the latter, the government earmarked grant support equal to approximately two percent of the GDP over six years. The government has also offered support to attract foreign investors into large projects likely to generate significant positive economic and social returns. On the social policy side, government's National Initiative for Human Development is in its third phase for the period 2019-23,which focuses on strengthening human capital through improved education, healthcare and social protection, and on enhancing youth economic inclusion.

The national development plan is encompassed in government's Program and Medium-Term Strategy 2017-21. The program focuses on five key themes, including supporting democracy and the principles of rule of law and advanced regionalization; as well as strengthening integrity, reforming the administration and anchoring good governance. The third pillar is focused on upgrading the economic model, employment promotion, and sustainable development. In particularly it supports strengthening competitiveness and improving the business climate, with the aim of achieving a Doing Business ranking among the top 50 by 2021. It also supports implementation a dedicated incentive tax regime for new companies, upgrading the Morocco 2020 Digital Strategy, and simplification of the legal framework for public-private partnerships. The fourth pillar strengthens human development, including educational reform, improving health services and reducing disparities in income. Finally, the Government's Program and Medium-Term Strategy 2017-21 aspires to deepen Morocco's relations with other African countries.

This medium-term outlook assumes sustained reforms including those to maintain fiscal restraint, strengthen tax revenues, improve governance and oversight of SOE's, enhance exchange rate flexibility, and reform the business environment and labor markets.

As outlined by the World Bank, the 2020 Budget Law emphasized the Kingdom's commitment to increase social spending financed by expanded efforts to mobilize revenue and controlling some recurrent expenditures. To control the wage bill, the government is rationalizing the creation of new public positions, which is envisaged to slightly improve the fiscal deficit, which is forecast to average 3.5 percent of GDP over 2020–2021. The Government's Program and Medium-Term Strategy 2017-21 supports the growth of manufacturing exports, especially automobiles, agribusiness, electronics and chemicals. And it is supporting a price easing of the main imported commodities and goods. The government's Program and Medium-Term Strategy targets FDI at two percent of GDP over period.

It is important to note that at the end of July 2020, the King announced a new roadmap to boost recovery and spur inclusive growth, inviting the government to develop a plan to meet its objectives. These include health coverage for all Moroccans within a 5-year timeframe; the expansion of social welfare to vulnerable segments of the population; the reform of state-owned enterprises; and measures to boost recovery, including the setting up of a strategic investment fund worth US$4.8 billion to help enterprises and individuals recover from the impact of the COVID-19 pandemic. In parallel, the Commission for the New Development Model, which was established in 2019 is continuing to work on forging a path for Morocco's long-term development.

4. Development partners assistance

A significant number of international organizations support Morocco's development agenda and are aligned with the Government's Program and Medium-Term Strategy 2017-21. The international financial institutions, and particularly development finance institutions, provide structuring and financial engineering necessary for infrastructure projects, in particular through public-private partnerships. International development partners provide technical assistance, grants and loans.

Currently the principal development partners supporting Morocco are the World Bank Group, the French Development Agency, the Islamic Development Bank, the African Development Bank, the European Investment Bank, and the European Bank of the Reconstruction and Development. Other development partners include the European Union, Germany, Japan, Belgium, United States, Switzerland, UNDP and UNEP.

In 2019, total development loans and grants to Morocco reached 16.3 billion dirhams, up significantly compared to dirhams 4.05 billion in 2018. This increase is mainly due to new financing agreements, notably with the World Bank (WB) under the new Strategic Partnership Framework (SPF), the European Union and the French Development Agency (AFD) for the financing of reform programs and investment projects in the agricultural sector, the Arab Fund for Economic and Social Development (AFESD) for infrastructure projects and the investments by KfW.

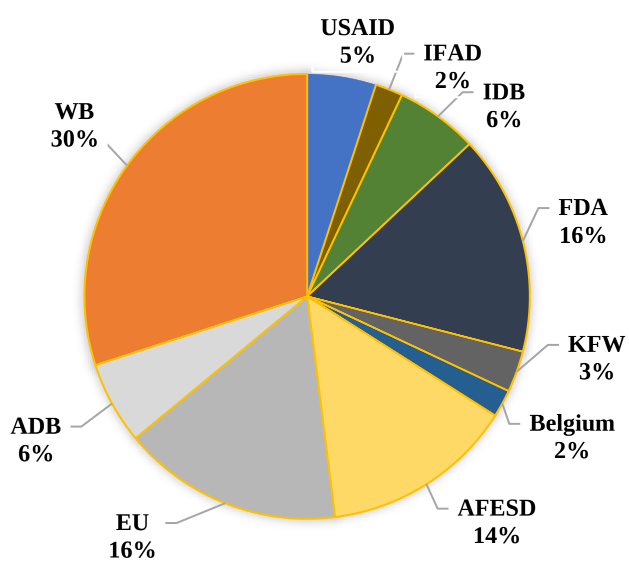
There is substantial development partner support in the suggested sectors. For example, in the food sector, the European Investment Bank (EIB) financed the agro-food program in Morocco in 2019 including grain storage facilities and chicken broiler farms located in the four main Moroccan consumption regions. The aim of the project is to support local private sector development in Morocco and provide additional capacity to grow and process agricultural produce in response to increasing domestic demand. The investment amount was USD 27.69 million with a total project cost of USD 76.43 million.

In renewables, a financing agreement was signed after COP25 between the National Office of Electricity and Drinking Water and EIB to support the development of safe alternative energy aligned with the goals of the Moroccan Solar Plan and Morocco's energy strategy, which aims to bring the renewable share of the country's energy mix to 52% by 2030. This project entitled "Noor Atlas" had guarantee financing of EUR 129 million for construction of seven photovoltaic power plants with a total installed capacity of 200 MW in the east and south of Morocco.

Related to both renewables and food sectors, the Arab Fund for Economic and Social Development (AFESD) contributed to the financing of the project aiming at heightening of Mohamed V Dam in 2019. The project is expected to be completed at the beginning of 2024. The project aims at improving the regulation of Wadi Moulouya's water, which will allow for intensification of agricultural production in the lands equipped for irrigation from the existing dam, meeting the demand for drinking water, as well as the generation of additional electricity from the dam's existing hydroelectric power station.

As Morocco has demonstrated credible sector/national development strategies and a stable macroeconomic policy framework, the country has benefitted from significant budget support from numerous development partners. In 2019, it accounted for 65% of the total development financing mobilized.

Development Partner Support to Morocco



Source : Budget Department Data/Ministry of Finance

The World Bank in 2019 established a new partnership framework with Morocco which covers the period to 2024. The total indicative financing envelope is US$ 5 billion. This new partnership framework was established on the basis of the priorities of the government strategies as well as the lessons learned from the previous partnership framework. The prime strategic objective of the partnership frameworks is contributing to social cohesion by improving the conditions for job creation and reducing social and territorial disparities. Likewise, the Morocco-AfDB cooperation for the strategy period through 2021 is focused on social protection, and employment; agriculture, agro-industry and digitalization; territorial governance and advanced regionalization; and financial inclusion.

The EU support, representing more than 15% of development support, focuses on economic development, innovation, climate change, justice, security, mobility, migration and good governance. Within the context of the European Neighbourhood Morocco gradually became a privileged partner of the EU in the field of political and economic cooperation as well as trade, technical and development cooperation. The European Neighbourhood Instrument (ENI) is the key EU financing instrument supporting the cooperation with Morocco. Bilateral aid from the EU was Euro 1.6 billion for the period 2014-2020. Likewise, Morocco can access loans through the Neighbourhood Investment Platform in the sectors of sustainable energy, water management, transport, skills and private sector development.

5. Recommendations for BMZ

As outlined in earlier sections, Morocco provides significant opportunity for investment, particularly in sectors recommended in this report, i.e. the food industry; trade and distribution; and renewable energy. These are particularly attractive because sectors proposed for investors are characterized by high production multipliers and strong employment potential. The three sectors are large creators of added value and jobs in Morocco. These sectors also support important spill-over effects across the economy; and the food and trade sectors show high labor productivity.

These sectors are also attractive as there are efforts to bring in new technologies which can serve as a catalyst for structural transformation. The creation, adoption and improvement of technologies contribute to productivity growth and added value in the food industry and renewable energy sectors in particular. Finally, these three sectors are highly integrated with each other. For example, the expected growth of the food industry in Morocco is dependent on the access to and competitively priced energy.

This report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework. Morocco continues to benefit from strong international support aligned to the Government's Program and Medium-Term Strategy 2017-21. Likewise, the King has outlined ambitious plans new for a roadmap to boost recovery from the COVID-19 pandemic and spur inclusive growth. The King's vision includes a reform of state-owned enterprises and an investment fund worth US$4.8 billion to help enterprises and individuals recover from the impact of the COVID-19 pandemic, both of which can support accelerated investment in Morocco

Although these sectors provide significant opportunities, there are also risks as outlined above, including, for example, a lack of domestic investment in technology in the food industry, a state dominated logistics subsector, and unclear regulatory frameworks for renewables energies. As well, the impacts of the COVID-19 pandemic will significantly slow growth prospects for Morocco. In the context of the Reform Partnership Framework**, this report recommends that German Development Cooperation provide advisory, technical and financial support in the sectors selected**. For example in the food industry, Germany may support strong investment promotion to crowd in food processing technology to upgrade the sector, which will both improve the investment environment and accelerate the modernization of companies.

In trade and logistics, there are dual approaches for German development. On the one hand technical assistance is needed to craft policies that lead to greater job creation in industry and trading. The ongoing re-structuring of the industrial sector is now creating jobs in new export activities, but on average more jobs are being lost over time in traditional labor-intensive industries. On the other hand, German Development Cooperation can support investment in infrastructure projects that will improve logistics and lead to more efficient trading. This may include roads, ports, urban transport, etc. Finally, in renewables, a key role for German Development Cooperation is to support government in rationalizing the industry with clear regulations, bringing off-takers to financial sustainability, and ensuring a strong investment environment.

Pathways to Accelerating Investment Opportunities in Senegal

African Center for Economic Transformation

Summary

The report recommends that **construction and real estate; smallholder agriculture; and agro-food industries** as top sectors that are likely candidates for new investment, and where reforms will have a particularly high chance of improving the business and investment. These are attractive because they are expected to provide contributions to jobs and economic growth. This is due in part to Senegal's young and growing population; the high percentage of labor force in agriculture, particularly smallholding; and Senegal's ongoing economic transformation.

Senegal has benefitted from a strong development vision and implementation of economic reforms as outlined in the Plan for an Emerging Senegal (Le Plan Sénégal Emergent, PSE) and as supported by the international community. That said, there are structural weaknesses such as a high level of informality in the labor market, and continued barriers to investment and business. Likewise, the COVID-19 pandemic will significantly slow growth prospects.

The reform agenda is strong, but needs further support from the international community, including from German Development Cooperation. **This reports recommends that in those sectors selected, Germany also provide robust development advisory services.** For example, in the construction and real estate sector Germany could provide technical assistance and policy advice to improve the governance and impact of public-private partnerships, which will crowd in global financiers. In agriculture - and particularly related to smallholder farmers - German Development Cooperation could include global experience, good practices and peer learning for culturally sensitive and inclusive policies would help accelerate the rural transformation, while at the same time protecting those who may be most impacted. And in the agro-food sector policy advice is needed on improving competitiveness, managing import/export policy, and improving food safety and quality standards.

1. Economic, Political, and Social Context

Context. Senegal is an open and rapidly expanding economy. It had a population of 15,726,037 in 2018, of which 50.2% were women and 49.8% men. The population growth rate is between 2.5% and 3%, which is lower than the average GDP growth rate of around 5% between 2010 and 2019, thus helping to ensure an increasing per capita income. Senegal has a substantial resource base for agriculture, including 3.8 million hectares of arable land, of which only 65% is cultivated and of which 98% of which is cultivated under rainfall rather than irrigation. The agro-ecological conditions allow for three cropping seasons for most crops. Senegal has a maritime area of around 198,000 km2, a wide continental shelf of 23,800 km2, and coasts that are productive for fisheries and seafood. The country also has to potential to produce a wealth of raw materials for processing, and there are forthcoming exploitations of oil and gas resources following identification of deep sea reserves.

Population growth and its youthfulness means that Senegal faces a strong demand for housing and public infrastructure, and there has been a rapid increase in the construction of new cities and utility infrastructure. The tourism sector is supported by natural endowments including accessible coasts and beaches, six national parks and five nature reserves. The digital economy and health sectors are also critical to Senegal's ongoing modernization and international integration of other sectors of the economy, making them also promising for investment.

Senegal has enjoyed political stability over decades, and is one of the few African countries that has been largely peaceful since independence. In recent times, it has experienced three peaceful and democratic changes in political power. The Global Peace Index ranks the country 6th in Africa and 47th in the world, among the most peaceful countries. The country has made progress on governance in general and on business governance in particular. The Mo Ibrahim Index ranks Senegal 10th in Africa in terms of governance. Similarly, Senegal has gained several places in the World Bank's Doing Business ranking. In 2018, the country, ranked 140th in the Ease of Doing Business Index, and was among the top five best reformers in Africa. In 2020, the country improved its ranking to 123rd. This performance also partially explains the increase in FDI inflows which increased from 1.55% of GDP in 2012 to 3.65% of GDP in 2018.

Macroeconomic. Senegal is the second largest economy in the West Africa Economic and Monetary Union (WAEMU), and has experienced strong growth over the past few years. In 2019, GDP was US$ 23.58 billion, against US$ 16.85 billion in 2008 and US$ 19.80 billion in 2014. Through 2019, the economy had grown for six consecutive years, at an average rate of approximately 6.6%, after an annual average of approximately 3.4% between 2010 and 2013. The average annual growth rate of GDP per capita accelerated from 0.56% between 2010 and 2012 to 2.97% between 2013 and 2019.

Prior to the outbreak of COVID-19, macroeconomic performance was strong, driven by policies outlined in the national development plan - the Plan for an Emerging Senegal. This strategy is built around the vision of "making Senegal, an emerging country by 2035, with a caring society under the rule of law". GDP per capita was estimated in 2019 at US$ 1,447, against US$ 1,397 in 2014. The debt ratio was 54.7% of GDP in 2019, well below the WAEMU norm of 70%. Inflation was estimated at 1.6% in 2019, and the budget deficit felt from 5.4% in 2011 to 3.7% in 2019.

The investment rate increased from 22.36% of GDP in 2008 to 23.48% in 2014 and then to 28.66% of GDP in 2019. Public investment increased from 9.2% of GDP in 2014 to 9.5% of GDP in 2019. After the COVID-19 pandemic, growth is expected to accelerate in the coming years owing, in part, to the exploitation of oil and gas reserves. The unproved reserves are large, placing Senegal with the 7th largest gas reserves in the world.

Senegal has experienced strong growth of its external trade volumes, but still suffers a chronic trade deficit. In 2019, merchandise imports were valued at CFAF 4,229 billion, and exports at CFAF 1,985 billion, i.e. a trade deficit of around CFAF 2,244 billion, against 2,246.3 billion FCFA in 2018. Exports are still dominated by manufactured products from natural resources and primary products, with manufactured products of medium and high technology products remaining in very low proportions in total exports.

The Senegalese financial sector is the second largest in WAEMU. Financial services are provided by 448 formal institutions, including 24 banks, 387 decentralized financial systems, 29 insurance companies, two electronic money issuers and the National Post Office. The bank penetration rate was estimated at 21.1% in 2019.

Regarding taxation, at 17.45% in 2019, the tax burden (ratio of fiscal revenue to GDP) remains low. According to Doing Business 2020, Senegal is one of the countries with a fairly restrictive tax system, with an average of 53 different tax payments per year, compared with an average of 36.6 in sub-Saharan Africa; and 416 hours required for tax payment formalities, compared with 280.6 hours in sub-Saharan Africa. For tax transparency and the fight against corruption, Senegal signed the multilateral convention on mutual administrative assistance in tax matters in 2016, which allows for exchanges of information, tax audits abroad, simultaneous tax audits and assistance in the recovery of tax debts.

Despite good growth performance in the past, the Senegalese economy has not undergone sufficient structural transformation. It has remained strongly informal and with the tertiary sector remaining a majority contributor to GDP (around 62.38% in 2019), mostly from the financial services and insurance sub-sectors, trade, transport and real estate. The industrial sector contributed 23.77% of GDP in 2019 and the primary sector contributed only 13.59% of GDP in 2019. While the primary sector contributes the smallest share of GDP, it is the second largest provider of employment, representing 30% of jobs in 2019. This percentage has been decreasing. For example, in 2008 it was nearly 40%. During the same period, the secondary sector was responsible for 12.5% of employment, while the tertiary sector, the leading supplier of labor, reached 56.45% in 2019, an increase from 47.41% in 2008.

Employment is predominantly informal, especially in the primary sector. For example, more than 90% of total non-agricultural employment is informal. In addition, there is a fairly high unemployment rate estimated at 16.9% in 2019. On the other hand, total factor productivity is still low, even though it has improved. Over the 2014-2018 period, its contribution to growth was 2.1 percentage points against negative 1% percentage point between 2009 and 2013.

Overall, Senegal has strong development and growth potential. The current development objective is to promote the transformation of the economy, in particular to overcome its high degree of informality. To achieve this, it will be necessary to identify growth sectors with the greatest potential to absorb the growing young labor force. The country also needs to rebalance its external trade which requires increased productivity and competitiveness, including by addressing the prevailing barriers to private investment.

Human Development. Senegal’s fertility rate has been declining since 1960, and was at 4.6 in 2017. Senegal's current population is extraordinarily young with a median age of 18, and with 30% of Senegalese under 10 years old, 42.1% under 15 years old and 52% under 20 years old. The working population was estimated at 54.25% of the total population in 2018.

The economic performance in recent years positively impacted the standard of living. The poverty rate fell from 46.7% in 2011 to 37.8% in 2019. The Gini index fell from 39.6 in 2014 to 36 in 2018, while life expectancy increased from 64.7 years in 2013 to 67.4 years in 2019. Child mortality fell from 71.9 per 1000 to 55.6 per 1000 between 2013 and 2019. However, the country is still counted by the UNDP among those with low human development, ranked 33rd in Africa and 166th in the world.

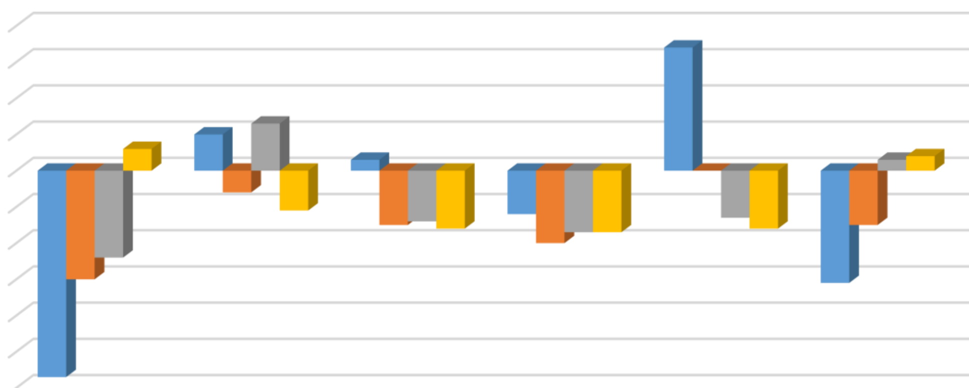
COVID-19. The growth momentum described above is imperiled by the pandemic. The first COVID-19 case was reported on March 2, 2020 and the first death was recorded on March 31. Air borders were closed on March 20. As the pandemic spread, the President declared a State of Emergency on March 23, accompanied by a curfew from 8 p.m. to 6 a.m. In addition, gatherings were banned and some markets closed. From June 4, the curfew was relaxed and air borders were opened on July 15, while the State of Emergency and the curfew were lifted on June 30.

The government has implemented a broad range of policies in response to the pandemic. These include special programs for social protection, direct support to the private sector, and ensuring food security and sustaining food and agriculture supply chains. They have also instituted utility service payment forbearance for some groups and provided credit guarantee to affected sectors. Senegal is participating in the Debt Service Suspension Initiative (DSSI), which provides temporary relief from bilateral debt service payments. On April 23, the government issued an ordinance providing a direct subsidy to individuals and legal entities whose activities were directly impacted by the pandemic. This subsidy corresponds to the amount of withholding taxes and levies payable on salaries and wages due from March 2020 until the month coinciding with the end the law.

The government initially established an emergency fund; and in addition has taken additional measures to mitigate the effects of the coronavirus on its economy. These are the establishment of a Response and Solidarity Fund against the effects of COVID- 19 called "FORCE-COVID-19". Additionally, government created a COVID-19 growth and economic watch committee. Government also extended deadlines for the declaration and payment of taxes and duties. Businesses were supported through the suspension of VAT, tax exemptions, and other forms of financial support to ease cash flow constraints for companies. Additional pandemic related financial support to households comes in two forms. Government prohibited the dismissals of workers during the pandemic, and secondly, the workers keep at least 70% of their salary.

The COVID-19 pandemic will disrupt Senegal's macroeconomic framework significantly. GDP growth projections have been revised downward 5.7 percentage points for 2020, with this differential maintained at 3 percentage points and 2.4 percentage points for 2021 and 2022, respectively. Tax revenue is expected to decline by an average of two percentage points over the period 2020-2023. Higher expenditures are likely to have major implications for the primary fiscal balance which in 2020 is expected to worsen 3.1 percentage points due to the pandemic. The fiscal balance is expected to resume only from 2023.

Senegal: Expected medium term macro fiscal effects of COVID-19 (2020-2023)
(Deviations of With-COVID-19 from Without -COVID-19 projections)



	6. Annual GDP growth rate (%)	7. Annual Inflation	8. Total governmet revenue , including grants (% of GDP)	9. Tax revenue (% of GDP)	10. Total expenditure (% of GDP)	11. Primary fiscal balance (% of GDP)
2020	-5.70	1.00	0.30	-1.20	3.40	-3.10
2021	-3.00	-0.60	-1.50	-2.00	0.00	-1.50
2022	-2.40	1.30	-1.40	-1.70	-1.30	0.30
2023	0.60	-1.10	-1.60	-1.70	-1.60	0.40

Source: IMF, Senegal 'Request for a three-year policy coordination instrument', Staff Report, December 2019; IMF, Senegal 'First review under the policy coordination Instrument and request for modification of quantitative targets, July 2020.

2. Sector Investment Potential

This section identifies sectors that offer opportunities for investments that will also help in accelerating Senegal's growth and employment creation. The government's development agenda (Plan for an Emerging Senegal) is being implemented through the second Priority Action Plan (PAP 2 - 2019-2024). With this implementation plan, and prior to COVID-19 pandemic, Senegal aimed to increase its economic growth rate from an average of 6.6% between 2014 -

2018 to an average of 9.1% between 2019 and 2023, and its employment growth rate from 3.2% in 2016 to 4.3% by 2023. Increased private investment will be critical to achieving such results, and such investment will require a continuous improvement of the business environment.

The PAP 2 has initially identified mining activities (gold, zircon, phosphate, oil, natural gas, etc.), agriculture (including crop production, forestry, fishing and animal production), manufacturing, construction, transport and tourism as sectors with the greatest growth and employment creation potential. Other sectors of emphasis which government has identified include aquaculture, pharmaceutical industries, and digital services.

This analysis narrowed down from priority sectors for investment as identified above as well as sectors that emerge from government and development partner analysis and strategies. Using the methodologies outlined in the overview, the selected sectors with strong investment potential and likelihood to support strong economic growth, particularly jobs, are: 1) construction and real estate; 2) smallholder agriculture; and 3) agro-food industries.

Priority Sector Identification for Investment Acceleration

Dimension	Indicators	Construction and real state	Subsistence agriculture	Agrifood industries
ECONOMIC DIMENSION	Contribution sector to total GDP	0,52	0,62	0,40
	Growth rate of sector	0,90	0,66	0,35
	Share of SMEs in sector	0,93	1,00	0,99
	exports share in VA	-	-	0,49
	import share in VA	-	0,02	0,13
EMPLOYEMENT DIMENSION	Contribution sector to total employment	0,11	0,95	0,07
	Growth rate of sector employment in past	0,34	0,19	0,21
	Labor productivity	0,04	0,00	0,06
	Labor elasticities	0,17	0,09	0,20
INSITUTIONAL DIMENSION	Government priority of sector	1,00	1,00	1,00
	enabling function of sector	0,80	0,60	0,60
ECONOMIC DIMENSION	Dimension overall score	0,47	0,46	0,47
EMPLOYMENT DIMENSION	Dimension overall score	0,17	0,31	0,13
INSTITUTIONAL DIMENSION	Dimension overall score	0,9	0,8	0,8
AGGREGATED SCORE		0,61	0,59	0,55

These three sectors were identified as particularly attractive because they are expected to provide the greatest contribution to jobs and economic growth, and are sectors with strong reform potential and championship. At the same time they represent opportunities for accelerated reform with additional support from the international community. For example, the construction sector contributes 3.0% of nominal GDP, but is dominated by small firms and nearly 40% of the sector is informal. Similarly, agriculture suffers from low yields but smallholder farming still provides 18% of jobs and contributes on average 7% of GDP and Senegal is seeking greater food self-sufficiency. In agro-food processing, Senegal suffers from a lack of competitiveness, although it has proven capacity and technology to make the sector more dynamic.

Taking into account the economic and social context, there is a strong need for Senegal to further its economic transformation - particularly related to agriculture and informal employment - while ensuring that a growing young population has requisite housing, public utilities and job opportunities.

Construction and Real Estate. The construction sector is driven in part by public works, but includes all the design and construction activities of public and private buildings and infrastructure – including for industrial, residential and business use. It also includes infrastructure development such as roads and pipelines. The real estate markets are growing quickly and government has successfully embarked on a broad policy of opening up capital and developing regional urban centers with a clear desire to provide housing and create new economic centers. The residential demand is between 10,000 and 15,000 housing units per year, while the supply is evaluated between 3,000 and 5,000 housing units per year, including 1,000 units produced by property developers and 4,000 units by individuals. The consequence is significant increases in rent and the occupation of unplanned areas, which are often unsuitable for housing. To improve access to housing, especially social housing, the government is working with private national and global actors to facilitate access to housing for all segments of the population. In PAP 2A, the government allocated CFAF 700.7 billion, or 5.8% of the budget, for construction with a flagship project of 100,000 housing units.

In addition to housing construction, there is also a significant need for infrastructure construction to support economic growth and development. Government has committed to a progressive program for road, airport and port infrastructure. PAP 2A forecasts spending FCFA 117 billion over 2021-2023 for air transport infrastructure and services (1.0% of the total funding of PAP 2A); FCFA 27 billion for rail transport infrastructure and services (0.2%); FCFA 783 billion for maritime transport infrastructure and services (6.5%); FCFA 1,284 billion for road transport infrastructure and services (10.6%); and CFAF 1,699 billion (10.6%) for energy infrastructure and services. To achieve these goals, the government will rely heavily on the participation of the private sector. With international support, Senegal also continues to improve its regulatory and governance frameworks for various types of infrastructure through further development of public private partnership mechanisms.

At the macroeconomic level, the added value of the construction sector was CFAF 383.5 billion in 2018, representing 3.0% of nominal GDP and 12.3% of value added in the secondary sector, an increase of 15.9% over 2017. The companies that operate in the sector are mostly small, with entrepreneurs representing 25.4%. Medium-sized companies represent 11.7% of the market and large companies only represent 7.1%. In total, 39.2% of enterprises in the construction sector are informal. From a labor perspective, the formal construction sector represents 6.2% of the total working population. The young and fast growing population, with an economy moving more people into the middle class provides promising demand for housing and associated economic and social infrastructure. This demand creates unique investment opportunity and need for policy support, technical assistance and capacity building.

Smallholder Agriculture. The government has developed various programs and projects to support national food self-sufficiency. This includes establishing integrated farms, intensifying irrigated agriculture and increasing the efficiency of existing agricultural potential in the most fertile areas, including valleys and lowlands. The agriculture sector employs 77 percent of the workforce, representing over 60 percent of the population. Importantly, 60 percent of those working in the agricultural sector are women. About 70 percent of the rural population depends on agriculture or related activities for their livelihoods. Smallholder farming is very important in Senegal, contributing on average 7% of GDP.

In rural areas, the overwhelming majority of the population practices smallholder farming. The equipment used is often rudimentary, and access to quality seeds and fertilizers is sometimes difficult. This situation provides immense opportunities for the private sector, particularly in the production of quality seeds, production of fertilizers, production and provision of agricultural equipment. For example, Senegal needs to produce about 1.8 million tons of rice annually to meet domestic demand. The current production level is only one million tons, leading to a large import bill for this staple food crop. With this demand, agricultural production provides investment opportunities for the private sector, especially given the availability of cultivable land and fresh water. In addition, reforms are underway to further facilitate access to land and access to credit.

Senegalese agriculture is essentially rainfed and seasonal. It is based on both cash crops, such as groundnuts and cotton, as well as subsistence food crops including millet, sorghum, and maize. Rice is the most consumed cereal in Senegal, ahead of millet and maize. However, local supply only covers 35% of consumption needs, estimated at between 1.8 and 1.9 million tonnes (white rice equivalent), or an average annual consumption of around 100 kg per capita. To avoid import dependency, government is seeking self-sufficiency in rice. Thus, since 2014, the Rice Initiative has made it possible to relaunch rain-fed rice cultivation with the introduction of new and improved varieties of rice, in particular the Nerica (New Rice for Africa) varieties specially designed for rainfed and lowland ecosystems. There are also new Sahel varieties of rice resulting from Senegalese national research with regional and international partners. It is estimated that the production of rainfed rice represents more than half of the national production, whereas until ten years ago, it was estimated at 20%, with the remainder reliant on irrigation. Yields remain quite low, however, not exceeding 1.8 tons per ha although there is potential of 3 to 3.5 tons per hectare. Due to plentiful rainfall, the sector had good production in 2017 and 2018, particularly for certain products such as millet, groundnuts, and rice. The agricultural GDP was estimated at FCFA 1,217 billion in 2018, an increase of 9.1% compared to 2017. The sector contributes 9.4% of national GDP and 62.8% of the value added (in nominal terms) of the primary sector.

The government is implementing a national agricultural sector investment plan (PNIASAN Senegal 2018-2022) through the Comprehensive Africa Agriculture Development Programme, which recognizes both the challenges and opportunities in agriculture in the country. Generally, agricultural output is steadily increasing. For example, production of peanuts – Senegal's most important cash crop – rose by 268 per cent in the six years between 2011/2012 and 2017/2018 to 1,405,223 tons. The production for the year 2018/2019 was 1,432,086 tons, an increase of 1.91%.

But a key challenge is that overall yields have not improved sufficiently, and even these notable increases are largely the result of an expansion in the cultivated area and the policy of subsidizing fertilizers and seeds. According to United State Department of Agriculture, the yield of peanut production will decrease from 1.28 tons per hectare for the 2019/20 crop year to 1.08 tons per hectares in the 2020/21 crop year. On the other hand, the land for peanut cultivation will increase from 1.11 million hectares to more than 1.2 million hectares over the same period.

Given the need for increased productivity, both for yields and for food self-sufficiency, key areas for potential investment include the supply of machinery, which can help increase the cultivated areas per individual, and increase overall yields. Provision of fertilizers and agronomic inputs is another area with strong investment potential; while Senegal needs to invest heavily in efficient irrigations systems, including both hardware/infrastructure, but also technical know-how and climate smart irrigation technology. There are numerous sub-sectors which hold significant promise for investment as well. For example, horticulture is a growing subsector with a national horticultural program and the water enhancement project for the development of horticulture value chains.

Food processing. Related to the agriculture sector discussed above, the food processing industry is important from the perspective of achieving self-sufficiency and rebalancing external trade. Several sub-sectors of food processing are being promoted by government but need investment from the private sector. Government plans to establish agropoles as special economic zones where these projects could be implemented. The agropoles will include public infrastructure such as integrated connectivity infrastructure from agricultural production to food processing for domestic and regional markets.

The food sector is one of the most dynamic sectors of the Senegalese economy, and one that straddles two levels of formality. On the one hand there is a strong, modern and structured segment and on the other hand there is a segment that includes informal processing units, represented mainly by family-type micro and small enterprises.

Just before the COVID-19 pandemic hit, the food industries were growing, to include segments such as processing and preservation of fruits and vegetables (+64.5%), beverages (+34.0%) and manufacture of condiments and seasonings (+21.8%). Other subsectors have seen reductions though. For example, the production of tobacco (-44.4%), confectionery and chocolate (-28.2%), fats (-22.2%), and canned fish, and crustaceans and shellfish (-20.8%). Over 2019, the overall production in food industries increased by 1.9%.

Despite numerous efforts by government, companies in this sector face technical, financial, and capacity constraints that hamper their competitiveness and Senegal remains dependent imports for food products. Thus, there are a wide range of private sector investment opportunities, particularly to improve processing technology and management of processing to ensure the highest global standards. Beyond processing specifically, there is a great need for investment in cold-chain and efficient warehousing for food products in the food processing value chain. Likewise, packaging material and technologies often do not meet international standards. And lastly, the sector as a whole would benefit from investment in modern marketing and trade promotion, particularly given the nearby European market.

Risks Across Sectors. While these sectors are seen as important potential drivers of growth and jobs, there are risks and fragilities in each. For example, for construction and real estate sector, Senegal's ambitions are very large and dependent on private sector investment and robust public private partnerships. Given the global economic downturn the needed private investment may not materialize and historically PPP frameworks have mixed outcomes in Africa and beyond. For the smallholder farming sector, the high level of informality and low productivity is an opportunity, but there are significant risks with attempting significant structural change in the agriculture sector. Senegal will need to learn from global experience and develop a collaborative approach with rural communities, some of which may be negatively impacted by such reforms. For the food sector, Senegal will need to carefully balance competitiveness and openness to trade with supporting and nurturing domestic agro-food processing capacity. Likewise, the challenging investment and business environment must improve rapidly, or constraints to investment will thwart sectors such as construction and food processing.

Some of these risks are being addressed in the current reform agenda as discussed below but they each provide opportunities for German Development Cooperation in the form of policy advice, technical assistance, global good practice and development financing.

3. Current Reform Agenda

To finance the Priority Action Plan (PAP 2A) through 2024, the government expects significant private sector investment, equaling 42% of the total funding, or approximately FCFA 5,058 billion. This contribution includes participation of the private sector in public-private partnership projects equaling approximately FCFA 2,290 billion, or 19% of total PAP funding, and projects exclusive to private sector investment of FCFA 2,768 billion, or 23% of the total funding of PAP 2A.

To support the private sector, the government has established a start-up fund of FCFA 60 billion to improve the attractiveness of the PPP projects and to leverage private financing. There is also a guarantee fund of FCFA 150 billion dedicated to small and medium-sized enterprises. This investment guarantee fund will encourage local banks to support businesses in strategic sectors.

Specific to the construction and public works sector, various reforms are underway or planned, to include greater local production of construction equipment; improving access to finance for developers and land buyers; and promoting the co-financing infrastructure for electricity, water, sanitation, telecoms, and roads. For housing and associated public infrastructure there are reform programs on integrated management; and a national living environment improvement program designed to create safe housing and business centers.

Likewise, for agriculture and food processing, reforms are underway or planned as part of the implementation of PAP 2A. These include, among others, the exemption from non-recoverable VAT on inputs; reducing the costs of electricity for agriculture; expanding irrigation; and improving the legal and institutional framework on warehouse receipts, which will increase storage capacities and reduce post-harvest losses.

Specifically for the livestock sub-sector, government policy is facilitating the establishment of industrial and semi-industrial milk processing units to boosting local production from 42% to 80%. For aquaculture, government is improving the legal framework for the aquaculture subsector, in particular the provisions relating to the operating authorization, and phytosanitary and environmental standards.

Several recent studies and perception surveys have identified numerous constraints related to the investment climate in Senegal. According to research by the Millennium Challenge Corporation (MCC), binding constraints include access to energy, distortionary business policies, quality of human capital, access to finance, poor transport links, and access to land. According to the Doing Business 2020 report, Senegal needs to improve in areas such as paying taxes (rank: 166th/190), exports (142nd/190), contract execution (132nd/190), and obtaining a building permit (131st/190). The OECD also identifies the tax system, administrative procedures, access to and security of land, and access to local outlets for SMEs as key obstacles encountered by the private sector in Senegal.

Businesses responding to the General Enterprise Census of 2016 (Recensement général des entreprises), identified the following constraints: insufficient demand for goods and services as the first constraint (23.5%); followed by the lack of suitable premises (14.9%); high taxes and duties (12.6%); difficulty in acquiring raw materials (9.5%); difficulty in accessing credit (7.5%); lack of specialized technology or machines and spare parts (6.4%); high cost of transport (5.7%); and difficulties in accessing energy (4.8%). The Government's Department of Forecasting and Economic Studies cyclical perception surveys of entrepreneurs over the period 2014 - 2020 highlights difficulties with debt collection, access to credit, unfair competition, taxation, and the poor supply of raw materials and goods. To address these constraints, the government has undertaken a series of measures, some of which are included as priority reforms in the second phase of the Emerging Senegal Plan. Examples include simplifying taxation processes, improving access to finance and market competitiveness. Examples are highlighted below.

Taxation. Specific tax incentives to stimulate investment in key economic sectors have been granted in some cases. These include customs duty exemptions and a suspension of VAT in certain instances. Likewise, government is moving towards digitalizing tax processes. The "E-TAX" was launched in 2017, which allows tax declarations to be made online. With "E-TAX" citizens can declare and pay their taxes, consult their tax accounts and send requests to the tax administration online. By the end of 2018, all the 691 companies of the Centre des Moyennes Entreprises de Dakar 1, as well as all of the 853 companies of the Large Enterprises department had fulfilled their tax obligations online via "E-TAX". According to the World Bank Doing

Business, starting in 2018 Senegal also reduced the number of different tax payments per year by merging certain taxes.

The Emerging Senegal Plan, in its second phase, provides for additional tax reform that envisages raising the tax rate from the current 17.45% to 20% by 2023. The reform has three main pillars: taxation of the oil industry, taxation of the telecommunications industry and taxation of the mining sector. By streamlining tax procedures, Senegal is improving the business environment and the formalization of companies. Tax reforms should allow companies to more easily increase their income and margins, and thus increase their investment and recruitment capacities.

Access to Finance. Most credit in Senegal is short term, i.e. for working capital, rather than investment in physical assets and technological upgrading. According to the Centre d'etudes de Politiques pour le Development (CEPOD), short-term loans represent more than 70% of loans in the manufacturing sector. This situation is partly due to collateral requirements which are beyond the capacity of most enterprises, and tends to result in higher credit costs.

Senegal has made some important progress, to include establishing the Credit Information Bureau (BIC) charged with regulating credit information as a member of the West African Monetary Union (WAEMU). This has helped Senegal to score of 7 out of 8 in the Doing Business 2020 depth of credit information criteria, against a sub-Saharan Africa score of 3.9. The Credit Information Bureau allows the collection and analysis of data for better transparency in accessing credit and provides information to financial institutions for the granting of loans to businesses.

Senegal has also set up several institutions and support mechanisms to facilitate access to credit for businesses and investors. The Guarantee Fund for Priority Investments provides guarantees to financial institutions for the granting of credit to companies. Likewise, the Sovereign Fund for Strategic Investments, the Agency for the Development and Supervision of Small and Medium-Sized Enterprises, the National Economic Development Bank, and the Delegation for the Rapid Entrepreneurship of Young People and Women all support processes for accessing credit. However, these institutions and their programs are not widely enough known. Other reforms by Senegal include the Uniform Act on Security Interests, which sets out the regime for guarantees and the establishment of a Trade and Personal Property Credit Register, but this is not yet fully operational.

Competitiveness. Important initiatives have been taken by Senegal to improve competition. Several institutions to promote domestic and international markets have been established. For example, the Senegalese Export Promotion Agency enables Senegalese companies to participate in national and international trade events.

Particularly to support smallholder farmers, government is working to limit imports of certain products to certain periods. Import quotas are sometimes used, for example for onions and potatoes. Other initiatives expand markets for domestic producers. For example, a law on local content in the hydrocarbons sector aims to promote the use of national goods and services as well as the development of workforce participation. This law is expected to reach a target of 50% local content by 2030.

There is a need to focus capacity building and policy design on competitiveness. This may include, for example, support for research and development, and the uptake of technology. There is also a need to strengthen regulation and competition with better legal and institutional frameworks for public-private partnerships, modernization of the commercial code, and improvements to the investment code.

4. Development Partners Assistance

Development partners are very active in Senegal. The largest bilateral contributors are China, France, the United States, Germany, India, Turkey and Japan. The World Bank, European Union, and African Development Bank are the largest multilateral contributors. From 2015-2017, the government's public investment triennial plan (PTIP) was 42.7% financed externally, and this is expected to increase to 57.5% of the total 2019-2021 PTIP forecast. Of this, 21.5% is expected from bilateral sources. Of total external financing, 82.7% consists of loans, with 17.3% as grants. The share of loans has increased significantly, up from 54.7% in the 2015-2017 PTIP. Some of this increase is due to very large projects such as the Rapid Train and Motorways projects financed from loans.

Regarding the construction and real estate sector in particular, several development partners support the construction of roads and other connectivity, included the African Development Bank and the World Bank. The rehabilitation of seven regional airports, at a total cost of around 65 billion FCFA is underway, with bilateral and multilateral partners. For example, the Czech Republic has provided financing of FCFA 37.3 billion for the rehabilitation of two regional airports. On Senegal's railway infrastructure, the World Bank is developing a lending project for the rehabilitation of the railway between Dakar and Bamako. It is supporting Senegal and Mali in the structuring of this project estimated at US$ 830 million.

For port infrastructure, the financial package for the port of Ndayaane, Senegal's flagship project, is open to both private sector investors and development partners. Senegal is already floating bonds to support to the project and Dubai Ports World (DPW) is a partner in this project. Overall, the investment plan for this project CFAF 1,000 billion.

To date, the social housing program is only funded by government, but there is ample scope for private sector involvement, particularly in real estate development. Development partners could also assist the government in developing and/or expanding the social housing regulatory and policy aspects of this sector.

For the smallholder farming sector, external assistance amounts to 60.6% of agricultural programs, including for example, the Agricultural Development and Rural Entrepreneurship Support Program; a national program for integration and agricultural development; equipment programs for rural areas; inclusive and sustainable development projects for agro-food business; the national agricultural investment program; programs for food security and nutrition; and a national program for the development of local irrigation.

The primary multilateral partners supporting the smallholder sector include the World Bank, African Development Bank (AfDB), European Union, International Fund for Agriculture Development (IFAD), Arab Bank for Economic Development in Africa (BADEA), Islamic Development Bank (IDB), and the West African Development Bank (BOAD); while bilateral partners include, among others, France, Japan, South Korea, India and Italy.

For example, in May 2020, the World Bank approved the Agriculture and Livestock Competitiveness Program for Results, a $150 million project focused on helping small-scale producers and herders invest in more productive and resilient crops and livestock value chains. In supporting smallholders it will provide access to finance and insurance to producers in the extended Groundnut Basin and agro-pastoral areas. It seeks to boost agricultural and livestock productivity while ensuring resilient production practices.

Another example is the African Development Bank's program South Agro-Industrial Processing Zone Project, which aims to directly impact 365,000 people in Kolda and Sédhiou, most of them smallholder farmers. It seeks to improve the food and nutritional security of beneficiaries as well as their income through improved access to markets, agricultural inputs, and services. The project runs through launched in 2019 and runs through 2025.

The food processing sector receives relatively little direct donor support. For example, the agropoles and industrial parks and zones for the agrifood industry are largely supported from government budgets, although there is some support from AfDB. The first agropole is set up in Casamance and in 2019, it received funding of € 43.1 million from the African Development Bank (AfDB). With a duration of five years and a cost of € 87.75 million, the South Agro-Industrial Processing Zone project aims to establish a business ecosystem favorable to private investment in agro-industry and improve the capacities of producers in agro-industrial sectors. Additionally, on the bilateral side, AFD has established programs in the sector with a business upgrade program that has benefited many small and medium agro-industries. This sector could then receive much more support from international donors.

5. Recommendations for BMZ

As outlined in earlier sections, Senegal provides significant opportunity for investment, particularly in sectors recommended in this report: **construction and real estate; smallholder agriculture; and agro-food industries**. These are particularly attractive because they are expected to provide significant contribution to jobs and economic growth. This is due in part to Senegal's young and growing population; the high percentage of labor force in agriculture, particularly smallholding; and Senegal's ongoing economic transformation.

This report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework. Senegal has benefitted from a strong development vision and implementation of economic reforms as outlined in the Plan for an Emerging Senegal and as supported by the international community, but more can be accomplished.

Although these sectors provide significant opportunities, there are also risks and structural weaknesses such as a high level of informality in the labor market, and continued barriers to investment and business. Likewise, the COVID-19 pandemic will significantly slow growth prospects. Knowing these risks, and in the context of the Reform Partnership Framework**, this report recommends that German Development Cooperation provide advisory, technical and financial support in the sector(s) selected**. Such development cooperation support could include, for example, in the construction and real estate sector provision of technical assistance and policy advice to improve the governance and impact of public-private partnerships, which will crowd in global financiers. Additional, support for design and implementation of further reforms for SME in the sector are needed to ensure they can grow and improve value addition, particularly in construction and food processing..

Development support and aid in the agriculture sector would involve reforms and incentive programs for improving yields and start formalizing the smallholder segment. German Development Cooperation could focus on structural issues such as cooperatives or value chain development that directly supports smallholders; or it could focus on leveraging global research and technology to continue improving yields for cereals, export crops and domestic foods; or it could support a greater private sector role, including improving access to finance, investment in machinery and inputs, and creating of new agricultural value chains. Of particular value would be German support to manage the social, cultural and economic impacts of transformation of agriculture in Senegal. Crowding in global experience, good practices and peer learning for culturally sensitive and inclusive policies would help accelerate the rural transformation, while at the same time protecting those who may be most impacted.

Finally, German Development support to the agro-food sector would most likely include private sector tools (loans, guarantees) and investment promotion to bring German and global firms to Senegal. At the same time, there is policy advice needed on improving competitiveness, managing import/export policy, improving food safety and quality standards, and providing technical knowhow and introduction of world-class technology to segments of the agro-food processing industry in Senegal.

Pathways to Accelerating Investment Opportunities in Tunisia

Summary

This report highlights which sectors of the economy may provide the best potential for growth, attract private investors and contribute to the creation of decent jobs. It also identifies pathways for accelerating investment in Tunisia. Such investment may include purely private sector investment or that with support of development finance institutions (DFIs), multilateral development banks (MDBs), and other institutions. The report analyzes investment opportunities in various sectors, the macroeconomic environment and the reform agenda. **The report recommends real estate/business, transport and communications, and agriculture** as top sectors that are likely candidates for new investment, and where reforms will have a particularly high chance of improving the business and investment. The report also points to the importance of investing in **TVET programs** and developing **progressive innovation policy** as transversal themes that cuts across sectors and also need investment. These are not traditional investment sectors, but must be addressed to ensure that future investment leads to adequate economic returns.

The real estate sector shows high yields from investment and is open to international market players. At the same time, the Tunisian agriculture sector is projected to grow at a compound annual growth rate of 5.2% during the period 2020-2025 and it plays a particularly important role in the overall economy, contributing up to 10% in GDP and employing 14% of the labor force. And while the logistics sectors' competitiveness has deteriorated significantly since 2011,freight volumes have almost doubled in ten years, and it is estimated that if Tunisia were more competitive, and with ongoing volume increases, logistics could amount to about 20 percent of GDP.

On the transversal issues, the institutional building blocks for a strong innovation-based economy is in place, but is not yet fully functional. Investment in an innovation eco-system will require international support to evolve the government's role to largely regulatory one, and providing strategic guidance to the private sector through support mechanisms. And one of the key factors holding back Tunisia' growth is the need to develop value chains and shift to more productive activities requiring more skilled labor. The low rate of skilled labor utilization in productive sectors remains a critical limiting factor to the technological development in the Tunisian economy and can be addressed, in part, by investment in TVET.

Assessing sectors for investment in Tunisia is complicated given a stark dichotomy in its economic structure and performance. On the one hand the economy has generally been on a growth trajectory but government reform strategies and the efforts of development partners point to deep structural challenges that lead to economic underperformance and low

investment rates. For this reason the report outlines some of the key structural challenges and risks, which underscore the need to rapidly address competitiveness and employment as cross-cutting policy and investment priorities. The government's responses to these two issues should be rooted in robust TVET programs and progressive innovation policy that cuts across sectors.

The recommended sectors are priorities in the Government's five-year development plan, and can be central to meeting the goal of annual growth rate of more than four percent. In particular they support the strategy pillar on transitioning to an economic hub. Of course, national development strategies must now be reassessed in the context of the COVID-19 pandemic, whereby the IMF projects that Tunisia is likely to have an output contraction of -4.3 percent.

This **report recommends that in those sectors selected, Germany also provide technical assistance and development finance as appropriate**. Such development cooperation support could include, for example, in the real estate sector, technical support and policy advice to further develop real estate markets in lagging regions; advisory services to improve the real estate investment climate, particularly for productive sectors such as industry; or contributing to utility infrastructure development to make real estate investment more viable. For agriculture, German Development Cooperation may best be utilized to help develop local value chains, which have sometimes been ignored in favor of value chains for the export market. This may, for example, focus on ensuring world class policies for subsidies and price guarantees that are market oriented and support investment in local production and processing. And for transport and communications, German Development Cooperation could leverage Germany's experience to strengthen skills in the sector, which can then lead to improved efficiencies, a reduction in costs and overall greater competitiveness.

1. Economic, Political, and Social Context

Context. Tunisia's traditional development model has proven relatively effective in promoting economic growth and reducing poverty levels. The economy has grown at an appreciable rate over a fairly long period (1990-2010) with an effective average growth rate of 4.5%. However, the 2011 popular uprising revealed that this model has been unable to adequately promote greater economic productivity and better social inclusion. It has been the poor quality of growth that limits Tunisian economic success, including social imbalances and a division between rich and poor regions. Since the global economic crisis and due to the complexity of the economic and social transition following the revolution, the country has experienced a difficult economic period characterized by levels of growth below those seen prior to 2011. The economy has seen a decline in public and private investment, high rates of unemployment, and increasing pressures on both the public finances and on the current account.

The economic situation is closely related to the political situation. The Tunisian revolution led to the ousting of President Zine El Abidine Ben Ali who had served as Head of State since 1987. The protests in Tunisia inspired the Arab spring movement and led eventually to free democratic elections. Most recently, presidential elections were held on September 2019, and a runoff was held on October 13, 2019 between the top two candidates, with Kais Saied winning with 72.7% of the vote. He ran as an independent social conservative, but there have been recurring difficulties in establishing a functional government, with three heads of government appointed since November 2019.

Improving governance in Tunisia is critical for achieving sustainable growth. Some progress has been made to increase citizen participation, expand freedom of press, and improve access to information. Yet Tunisia generally still faces challenges such as weak rule of law; excessive centralization of decision making, restrictions on economic participation that restrict full private sector development and weak institutional capacity. Since the revolution, Tunisia continues to suffer from poor service delivery and a general lack of accountability.

Although the constitution protects the economic, social, cultural and political rights of women, those women who live in rural areas in particular continue to face a number of constraints that limit their access to decent paid employment. Just twenty percent of women in rural areas earn their own income (compared to 65 percent of rural men), and just four percent of agricultural projects are headed women, whereas women account for 58 per cent of agricultural labor.

Macroeconomic. The COVID-19 pandemic is having a significant impact on the Tunisian economy, as the lock-down simultaneously suppressed domestic supply and demand, contracting GDP by 21% (year-on-year) in the second quarter. At the same time, reduced external demand and travel restrictions have lowered tourism receipts by 47% and reduced exports of mechanical and electric industry and textiles by 27% by (year-on-year) as of mid-2020. All factors taken together, there is an expected nine percent contraction in 2020, down from the first World Bank COVID-19 forecast of minus four percent. In this context, unemployment increased from 15% to 18% in the second quarter of the 2020. The current account deficit remains high at an expected 7.1% of GDP in 2020, but it has improved from 8.8% in 2019 as imports decline at a faster pace than exports.

The fiscal deficit is projected to reach 12%, aggravated by an 11% decline in revenues by mid-year. The public sector wage bill increased by 14% by mid-2020, adding to spending pressures and signaling a lack of progress in containing civil service pay. These developments are worsening debt vulnerabilities for Tunisia. Public debt is forecasted to rise from 72.2% of GDP in 2019 to 86.6% of GDP in 2020, well above the emerging market debt burden benchmark of 70% of GDP.

Agriculture continues to play a key role in the Tunisian economy, accounting for close to ten percent of GDP and 16 percent of employment, and contributing to regional development. The agriculture sector, however, is subject to multiple structural constraints, including poorly organized value chains and limited access to finance. Agriculture is affected by severe water stress combined with poor soil fertility in some areas. According to projections, by 2025 drought will reduce the area planted to rain-fed cereal crops by about 30 percent in Tunisia, with the annual cost of environmental degradation is estimated at 2.7 percent of GDP.

The productive structure of the Tunisian economy is predominantly service based, and this pattern has become more pronounced over the last fifteen years, mostly at the expense of non-manufacturing industries and, to a smaller extent, agriculture and fisheries. On average in 2011-2018 market based services accounted for 42.6% of total value added in the economy, up from 39.0% in 2002-2006. Meanwhile the share of non-manufacturing industries was 8.2%, down from 11.4%. When including the public administration, it elevates the overall share of the service sector in value added to 60% in 2011-2018. This is up five percentage compared to fifteen years ago. The decline in the contribution of the non-manufacturing industries is mostly accounted for by hydrocarbons which fell from 20.2 % in 1982-1986 to just 2.4% 2011-2018. During the last decade (2011-2018) the service sectors contributed to three-quarters of the growth of GDP, while agriculture accounted for about 26 percent thanks to exceptional olive oil and date harvests.

The structure of the Tunisian economy expressed in terms of sectoral contribution to GDP has seen a sectoral reallocation of employment in favor of market and non-market services. Employment in market services accounted for more than a third of total employment during the last decade. Regarding the non-market services (public administration, defense, education and health) starting from 2011, they have often been used as an adjustment variable to absorb tertiary graduated workers. Meanwhile, the share of agriculture in total employment decreased by almost half moving from 28.3% to 15.4%, and the employment share of the industrial sector (manufacturing and non-manufacturing) remained stable at around 33%. In the manufacturing sector, mechanical & electrical goods industries and chemicals are those that performed well in terms of employment.

Based on elasticity analysis, it can be concluded that overall during the last two decades the Tunisian economy has been experiencing an employment led growth, and more so during the last decade. But there are notable sectoral differences. While on average, a one percent increase in GDP resulted in a 0.5% increase in employment per year during the 2000-2011 and 0.7% during the 2011-2019 period, the growth of value addition in agriculture has been associated with shedding employment (jobless growth) during the second period. On the other hand, market services and non-market services enhanced their absorptive capacity of new workers between the two periods. Manufacturing and non-manufacturing sectors are experiencing unproductive employment growth meaning that productivity has to be enhanced to preserve new employment.

Sectoral and Global Employment Elasticities in Tunisia, 2000-2011, 2011-2019

Sector	*2000-2011*		*2011-2019*	
	Employment Elasticity	Sector Classification	Employment Elasticity	Sector classification
Agriculture & Fishing	0,11	Moderate employment generation	-0,26	Jobless growth

Manufacturing	0,31	Moderate employment generation	1,77	Unproductive employment growth
Non-Manufacturing Industries	4,10	Unproductive employment growth	-1,60	Unproductive employment growth
Market Services	0,59	High employment generation	0,70	High employment generation
Public Adm, Def,Edu,Health	0,37	Moderate employment generation	0,63	High employment generation
Total Economy	0,50	Employment led growth	0,70	Employment led growth

Source: INS, ITCEQ, Kapsos Steven (2005), Author's calculations

Human Development. Tunisia's Human Development Index value for 2018 was 0.739, which puts the country in the high human development category, and positions it at 91 out of 189 countries. This HDI has increased from 0.65 in 1999, and compares, for example, to a score of 0.676 for Morocco.

Poverty and vulnerability are expected to grow and reverse some of the fast poverty reduction witnessed in recent years. Due in part to COVID-19, poorer households are eating less and have started consuming less preferred foods. To cope with rising food prices or to make up for job losses, households in Tunisia are drawing upon their savings. In 2020, extreme poverty—measured using the international poverty line of living on US$1.90 per-day—will still be below 1%; however, when poverty measured with the US$3.20 per-day parameter, it will increase by about 1.3 percentage points, from 2.9% to 4.2%. Additionally, the percentage of the population that is "vulnerable" to fall into poverty is expected to increase in 2020. Using an expenditure threshold of US$ 5.50 per-day, the number of poor and of those vulnerable to poverty is expected to increase from 16.6% to 22% of the total population.

Earlier declines in poverty were driven by an extensive system of subsidies, transfers and social protection, which contributed—despite great inefficiencies—to keeping the cost of basic necessities affordable for the poor and protecting them from price3 shocks. Public investments in human development contributed to impressive improvements in school enrollment, infant and maternal mortality rates, and child malnutrition rates at the national level, while contributing to improved access to services, such as water and sanitation facilities. That said, the labor force participation rate remains low, at about 50 percent, mainly due to very weak participation of women, which is only 26 percent, while the majority of the unemployed are low-skilled workers.

Life expectancy at birth in Tunisia increased from 42 years in 1960 to approximately 75 years in 2018. At the same time, the literacy rate has increased from 72% in 2002 to 81% in 2018. The number of internet users per 100 people has increased by 16 fold between 2001 and 2018.

Social and Technological Indicators in Tunisia

	2001	2002	2010	2015	2018
Total health expenditure (% of GDP)		5,9	6,2	6,7	6,9
Expenditure in Education (% GDP) (a)		5,8	6,3	6,6	6,6
Life expectancy at birth (Years)		73	74,5	75,1	75,4
Literacy rate, adult total (% of people ages 15 and above)		72,1	79,1	80,5	80,9
Gross Enrolment Rate (b)		75,0	77,7	81,1	…
Number of internet users (per 100 people)	4,3		36,8	46,5	64.0
Fixed telephone subscriptions (per 100 people)	15,0		116,6	137,8	138.5
Mobile cellular subscriptions (per 100 people)	4,0	5,8	104,5	130,6	127,7

Sources: MDICI, MESRS, WDI, Compilation ITCEQ
(a) Spending on public education in addition to subsidies to private schools at the primary, secondary, and tertiary levels, as a percentage of GDP.
(b) : All levels combined (except pre-primary)

COVID-19. A state of emergency was declared on March 21, with special powers granted to the Prime Minister by Parliament to deal with the pandemic. All travel was suspended, and work from home for non-essential workers was mandated. Additionally, mosques were closed, curfews were imposed, schools and businesses were shut down, and public gatherings banned. A TD 2.5 billion fiscal program was announced to address the impact of business closures. Measures included postponing tax payments by SMEs, delaying tax related debt payments, and providing financial assistance to unemployed workers, as well as special benefits to poor and special-needs families. TD 500 million was allocated for the procurement of essential supplies, including medical equipment and food, while a guarantee line was established to allow private companies that were unable to obtain bank credit to maintain operations. The tourism sector, particularly hotels, travel agencies, restaurants, craftsmen, transport, culture also provided with financial support from the Government.

According to IMF projections, the COVID-19 pandemic in Tunisia is likely to lead to an output contraction -4.3 percent and create an urgent fiscal and balance of payment financing need. The COVID-19 response measures taken by the government increased central government spending in 2020 equivalent to 1.8 percent of GDP. Of this, an additional spending of 0.3 percent of GDP to respond to the COVID-19 virus will be used for the acquisition of emergency medical supplies and hospital equipment; 0.2 percent of GDP for increasing strategic food reserves; and 0.8 percent of GDP to increase income support towards the most affected. It is also estimate that an equivalent to 0.5 percent of GDP will be given out in the form of tax relief and credit lines as well as interest subsidies that will benefit distressed firms due to the pandemic, especially small-and medium-sized enterprises. In addition the Central Bank of Tunisia lowered the policy rate by 100 basis points on March 17 to 6.75 percent (about 1 percent in real terms) and has encouraged banks to renegotiate loan terms for distressed borrowers.

Sustainable Development. While the Tunisian economy is relatively diversified, it largely depends on limited natural resources which are over-exploited without adequate environmental regulations. Productive sectors such as agriculture, fisheries and forests suffer from low productivity due in part to the lack of climate-smart practices. At the same time, industry is dominated by SMEs, and will require comprehensive environmental upgrading and technological development in most sub-sectors to meet international standards.

Some progress has been made in incorporating environmental and climate change impacts in sectoral policies, but these efforts remain fragmented and poorly integrated. Challenges remain particularly in the areas such as industrial wastewater management, renewable energy development, eco-innovation, and environmental management training.

The energy sector is a good example. Since 2001, Tunisia has been experiencing a structural energy deficit due to the increase in energy demand that averages 4% per year; and the reduction of its own hydrocarbon resources. In 2006, the energy sector accounted for only 6.4% of GDP as against 13% in the 1980s. The deficit in the energy balance was approximately 2.4 million TOE (tons of oil equivalent) by 2013. The energy mix is dominated by natural gas (53%) and oil (43%). 60% of its oil needs are met with imports, while 47% of natural gas needs are imported, and there has been little development of renewable energy sources. In 2012, average oil production reached 67,000 barrels/day and 60% of petroleum requirements were provided by imports. Production of natural gas, for its part, only covers 53% of national needs (2.8 million TOE in 2012), the rest is imported from Algeria. There has been some movement recently. For example, a power purchase agreement (PPA) was signed in September 2020 between the Tunisian Electricity and Gas Company (Steg) and the consortium developing the 10 MWp Gabès photovoltaic solar project. The 20 year agreement is part of the Tunisia Solar Plan, whereby it plans to build 16 new solar power plants.

Tunisia has been implementing a National Sustainable Development Strategy (2014-2020) which identified nine challenges for realizing the green economy. A National Strategy for the Green Economy is also under implementation (2016-2036) on the basis of an integrated approach that seeks to strengthen coherence between economic, social and environmental policies and a collaborative approach that involves all stakeholders. The National Strategy focuses on priority green sectors and industries such as energy efficiency in construction, transport, and industry; renewable energy; integrated waste management; water saving and wastewater recycling; digital economy, and sustainable infrastructure and construction.

2. Sector Investment Potential

This section identifies sectors that offer opportunities for investments that will also help in accelerating Tunisia's growth, employment creation and improved productivity. In 2016, the Government launched Tunisia's five-year development plan for 2016–2020 and it sought to defines a new vision of social and economic development to achieve an annual growth rate of more than four percent by 2020. It was based on five pillars: good governance, public administration reforms and anti-corruption measures; transition from a low-cost country to an economic hub; human development and social inclusion; fulfilment of local and regional ambitions; and establishment of the green economy as a pillar of sustainable development.

While there has been political uncertainty, the government has indicated its plan to submit a five-year strategic plan for the 2021-2025 period.

Assessing sectors for investment in Tunisia is complicated given a stark dichotomy in its economic structure and performance. On the one hand the economy has generally been on a growth trajectory, and even with COVID-19, extreme poverty will be below 1%. That said, the various development strategies implemented by successive governments and the efforts of development partners point to deep structural challenges that lead to economic underperformance, poor productivity and low investment rates.

In addition to assessing the transversal issues of TVET programs and progressive innovation policy as discussed below, we assessed key sectors with high potential for investment in Tunisia, which would be buttressed by addressing the structural competitiveness and labor challenges. Overall, the three highest ranked sectors are **real estate/business, transport and communications, and agriculture.**

For Tunisia we used the economic sector definitions of the International Labor Organization ILOSTAT database. (https://ilostat.ilo.org/resources/concepts-and-definitions/classification-economic-activities/). For the sector transport and communications this includes, for example: water transport; air transport; travel agencies; and post and telecommunications. For the sector real estate, renting and business activities this includes, for example: real estate activities, renting of machinery and equipment, computer and related activities, and research and development. The sub sector or real estate activities included services relating to the provision of property, i.e. buying, selling, managing and renting of commercial and residential properties or land.

Sector Ranking for Tunisia

	Average index	Ranking
Real estate, renting and business activities	45.1477	1
Transport, storage and communications	44.3279	2
Agriculture	41.6015	3
Financial intermediation	40.2335	4
Construction	39.4513	5
Education; health and social work	39.1368	6
Manufacturing	38.3622	7
Electricity, gas and water supply	35.7552	8
Hotels and restaurants	34.9222	9
Mining and quarrying	29.4338	10

There are key institutional and structural risks which underscore the need to rapidly address competitiveness and employment as cross-cutting policy and investment priorities. The government's responses to these two issues should be rooted in robust **TVET programs** and **progressive innovation policy** that cuts across sectors. Both a focus on TVET and innovation must be underpinned by the appropriate regulatory and institutional strengthening. While these are not traditional investment sectors, they must be addressed to ensure that future investment leads to adequate economic returns.

Innovation and Competitiveness. The institutional building blocks for a strong innovation-based economy is in place, but is not yet fully functional. There is no over-arching vision for the national innovation system, strategies have not been fully implemented, and there is not a sufficient innovation eco-system that ensures full participation of the private sector, entrepreneurs and research institutions. The perpetuates a situation where the capacity of Tunisian companies to develop new products and processes is low.

Investment in an innovation eco-system will require a sea-change, whereby the government's role would be largely regulatory and providing strategic guidance through support mechanisms. Other stakeholders, such as the private sector and academia should lead innovations in key national development strategies such as green climate, agriculture and food security, and ICT. Efficient and transparent funding frameworks will be required, both for companies, SMEs and research institutions. Currently, funding decisions for innovation are often driven by historical or institutional norms that do not lead to real innovation. It may be necessary to re-assess the roles of primary national research agencies that are provided autonomy from the central government

Employment and TVET. The imbalance in the labor market reflects the insufficiency of aggregate demand for labor and the inadequacy of the structure of this demand. This insufficiency is most obvious for skilled labor. There is an urgent need to develop value chains and shift to more productive activities requiring more skilled labor. In 1992 the government created a network of higher institutes of technological studies (ISET). Their mission was to train senior technicians in industry and services. At that time the capacity deficit for senior technicians was estimated at 70%. The number of ISET organizations has increased from seven in 1995 to 24 in 2019 with more than 25,000 students studying annually. Generally the ISETs have had low drop-out rates and have been successful in placing their students in the labor market.

In the mid-2000s a new pedagogical framework was instituted whereby the ISETs mission was evolved with the introduction of the "LMD System" (License, Master, Doctorate). This abolished the higher technician diploma, and authorized technical institutions to award Master's degrees, which, in turn, diluted their primary objective of training technicians. There are efforts to offer technical diplomas at the level of pre-university studies to help address mismatch of labor supply and demand.

Addressing this labor and skills mis-match will lead to faster transformation towards a more modern and more efficient private sector. To do so will also require parallel reforms related to the business and investment climate and industrial policy. Additional policy reforms may include an incentives framework and a revised legal framework to ensure that new investment is integrated into the formal economy, and that new technologies and industrial innovation becomes rooted in new investment and business ventures with appropriate skills.

Real Estate and Business. Real estate and business services are correlated with demand but also with supply in terms of the quality of infrastructure and ease of access to property. National strategies for construction and public works are therefore closely linked to those of the sectors they serve and there are significant regional variations for housing demand in Tunisia. The southern region registered the biggest annual increase in residential property prices of 10.13% during 2018, followed by the mid-west (9.02%), northwest (5.58%) and mid-eastern region. In contrast, greater Tunis and the northeast saw house price declines of 0.47% and 3.44%, respectively. Acquiring permits to build houses is relatively easy and inexpensive by international standards, and Tunisia ranked 77th out of 190 economies in the "dealing with construction permits" category in the World Bank´s 2019 Doing Business Report.

Real estate in Tunisia is likely to remain a positive economic option for domestic and international investors alike over the medium term. In addition to the potential for residential developments, other segments remain relatively underdeveloped. According to global real estate consultancy Knight Frank, prime yields for residential real estate in Tunisia averaged 7.5% in 2017. However, other segments of the real estate market were considered even more profitable, with industrial real estate having prime yields of 14%, office real estate 10.5% and retail 9.5%. These provide a promising context for the sector's future development, boosted by the prospects induced by a new law on logistic zones, through which the government allocates land to be developed and built for the needs of local and international supply chains, including space for business, mixed use facilities, and industry.

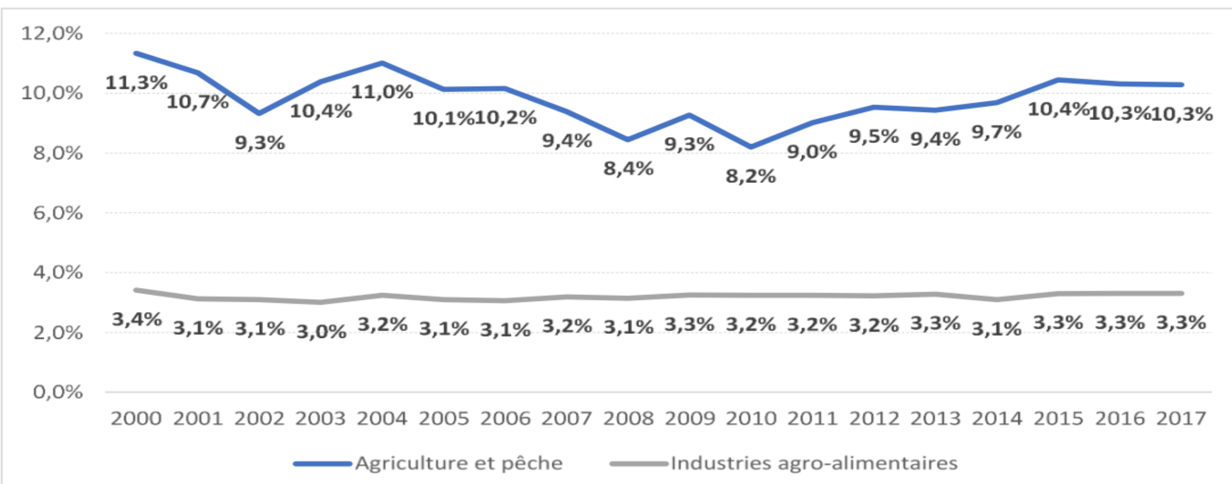
Transport and Communications. Investment in transport and logistic corridors are critical to connect Tunisia to global value chains. As an example, we focus on freight segments in this report. According to the National Statistics Institute, the transport sector contributes 7.9% to GDP and employs more than 140,000 people. The government has given higher priority to the sector, with a new Ministry of Transportation and Logistics in 2019 intends to play a strategic role in the country's future economic development model. Tunisia's logistics performance index fell to 2.57, ranking Tunisia 110 out of 140 countries and its maritime connectivity index declined to 6.30 behind Morocco or example.

Overall logistics competitiveness has deteriorated significantly since 2011 due to political instability and social demands, but government has now created of an agency responsible for infrastructure projects promoted through the new logistics activity zones. At the same time that competitiveness has decreased, the freight volumes have almost doubled in ten years (between 2006 and 2016), going from 22 to 39 million tonnes for domestic transport, and from

95 to 190 million tonnes for international transport. It is estimate that if Tunisia were more competitive, and with ongoing volume increases, logistics could amount to about 20 percent of GDP.

Agriculture. The agriculture sector is a foundation of the social and economic prosperity model for Tunisia. And agriculture is an integrated ecosystem that is a central to Tunisia's food security. The agricultural, agri-food and related activities are further linked to strategic value chains across the country. Agriculture plays an important part in the Tunisian economy, contributing up to 10% in GDP and employing 14% of the labor force in 2018. According to the last country report of Oxford Business Group, agricultural production is conducted on more than 10 million hectares throughout 516,000 farms. The sector is evolving in a fragile natural environment, with a high dependence on weather conditions. The Tunisian agriculture market is projected to grow at a compound annual growth rate of 5.2% from 2020-2025. In recent years, there has been a growing importance for organic cultivation across the country which is supported by favorable government policies. Wheat and barley are the major cereal crops grown in the country. Olives, dates and fresh fruits are the major exports to the European Union, Tunisia's largest market.

Agriculture and Agrifood Industries Evolution in Tunisia. 2010-2016 (source CIHEAM 2019)



According to research from the International Center for Advanced Mediterranean Agronomic Studies (CIHEAM) on Tunisian agriculture policy, the value of Tunisian agriculture and agri-food exports reached 3,726 million dinars in 2017. Agricultural exports represented 10.6% of total exports on average over the period 2011-2017. Since 2011 exports have increased at an average pace faster than that of imports (14.3% per year for exports versus 9.6% per year for imports). Tunisia remains dependent on world markets to meet growing demand, particularly for cereals, sugar and vegetable oils. In 2017, imports of agricultural and agri-food products amounted to 5,786 million dinars. Apart from 2006, Tunisia has never had a positive agricultural trade balance.

Export-led growth is largely based on trade integration with European Union, which is Tunisia's largest market, absorbing 80% of its exports, and providing around 66% of its imports. This anchoring to Europe is therefore an essential element of Tunisian competitiveness. But the focus on export development has also overshadowed the importance of local value chains which remain dominated by heavy administration, particularly for the agriculture supply chain.

Risks across selected sectors. For the recommended sectors there are structural and operational risks for investors and for development partners. The primary risk in this context is the low productivity (labor, capital and TFP), which has been declining for the past twenty years. The average growth in total factor productivity fell from 1.5% during the period 2002-2006 to -0.2% between 2011 and 2018. While average labor productivity growth decreased from 2% during the period 2002-2006 to a modest 0.7% during the period 2011-2018. This decline in the efficiency of the functioning of the market is related to the quality of economic policies and other structural impediments and is central to success of reform and investment strategies. This is, in part, why we have focused on the importance of TVET and innovation policy in this report.

For the real estate sector, the key risk is related to the investment and business climate, and an acceleration of reforms and investment in related sub-sectors such as municipal development, utility infrastructure investment and equality of growth among regions. Within the agriculture sector, a key risk is, particularly given the current political economy, that government will continue an emphasis on exports, while not given due attention and financing to developing local agriculture and value chains. It is an area where German Development Cooperation can help guide reform priorities. Finally, a key risk in transport and communications is similar to agriculture, in that government needs to better prioritize the strengthening of reforms and public policies in the sector.

3. Current Reform Agenda

Tunisia’s post-revolutionary transition prompted a series of reforms aimed at consolidating democracy and laying the groundwork for sustained economic growth. In 2016, the Government launched Tunisia’s five-year development plan for 2016–2020 and it sought to define a new vision of social and economic development to achieve an annual growth rate of more than four percent by 2020. It was based on five pillars: good governance, public administration reforms and anti-corruption measures; transition from a low-cost country to an economic hub; human development and social inclusion; fulfilment of local and regional ambitions; and establishment of the green economy as a pillar of sustainable development.

The government has indicated its plan to submit a five-year strategic plan for the 2021-2025 period. Supplementing the five year develpment plan, and to address macroeconomic challenges, Tunisia also outlined a strategy to reform the financial sector; improve fiscal balances through improving tax collection and expenditure management; develop human resources; redesign social safety nets; and strengthen the institutional and regulatory framework.

In education, the Ministry of Education published a strategy on education sector reform in 2016 that identified four key challenges which are supported in the five year development plan. These include ensuring equity and equal opportunity; improving the quality of teaching and student achievement; ensuring integration of the education system into the job market and society; and improving governance. The strategy also defined objectives for other reforms such as school meals, pupil accommodation and reducing drop-out rates.

On gender, there is a national strategy of economic and social empowerment for rural women and girls. As part of this strategy, the Ministry of Women, Family and Children has initiatives providing women heads of household with subsidies for the purchase of agroprocessing equipment, and with access to interest-free credit to finance entrepreneurial projects. Youth is also a major concern, and government has launched a national process of reflection that is expected to result in a national youth strategy. Tunisia is also developing a national strategy to promote social solidarity.

Tunisia has a reform roadmap as part of the G7 Deauville Partnership, a long-term global initiative that provides Arab countries in transition with a framework based on technical support to strengthen governance for transparent, accountable governments; and to provide an economic framework for sustainable and inclusive growth. The reforms focus on structural transformation to increase competitiveness and value-addition; promote regional development; create jobs through labor market reforms; and strengthen financial stability and governance of the banking sector.

Specific to the real estate institutional and regulatory framework, the code of land use and town planning is the main legal framework, dating from 1994. There is an inter-ministerial committee for regional planning and a technical commission for regional planning which includes permanent representatives. Since 1997 there have been master plans for development, and since 1998 large urban agglomerations have been established which require the master plans for development. These are supplemented by codes relating to water, agriculture and land protection, forests, archeology and maritime public domains that influence land use.

Sectoral governance for real estate is under the responsibility of the general directorate of regional planning under the supervision of the Ministry of Equipment, Housing and Regional Planning. There is also an urban and territorial planning department, local governorates and municipalities, and an inter-ministerial committee for regional issues to ensure spatial coherence between the various development programs and also decide on the development master plans and sectoral master plans.

In the agriculture sector, to improve Tunisia’s food security, the government is pursuing a number of policies to reach 2.7 million tonnes of domestic cereal production per year. This strategy includes subsidies for inputs and technical assistance to support irrigation, coupled with guaranteed farmgate prices. Around 700,000 hectares of durum and wheat were planted for the 2019 harvest, while 620,000 hectares of barley were planted, according to the FAO. These efforts are creating market opportunities for the supply of equipment such as tractors and harvesters, as well as agroprocessing, and production of biopesticides.

There remains a large and complex institutional challenges in the sector, to include land use planning, irrigation systems, conditions for raising livestock, fishing boat licenses, authorizations for aquaculture, the modalities of renewable energy installations, the environment and the fight against erosion, organic labels and certification, phytosanitary control standards and international trade procedures.

The 2016 Investment Law included several fiscal incentives in favor of the agriculture sector. Most notably, the law stipulates that agriculture investors be exempt from corporate tax, as well as taxes on income and profit that originate from direct investment in the sector. Similarly the 2018 Finance Law further supported investment in the sector, for instance with the suspension of customs duties for certain agriculture inputs, such as mineral salt and food additives.

In the transport and communications sector, reform has been hobbled by many layers of complexity, creating interference among technical departments such as customs, public health, trade and industry. An OECD study in 2017 provided recommendations for better governance in these sectors that support a global supply chain. Now, Tunisia with the assistance of the World Bank is in the process of revising its statistical classification of logistics activities; and the national statistical codes of goods transport will soon be aligned with international standards, which will allow the development of economic activities and better institutional governance. Ultimately, Tunisia needs to see performance gains in transport and communications, including capacity to efficiently process freight volumes, while reducing overall transaction costs, to improve competitiveness and attract more foreign direct investment. This will also require the strengthening skills in the transport and communications professions as well as implementation of reforms and public policies in these sectors

4. Development Partners Assistance

In real estate, since 2002, the Banque de l'Habitat has been the recipient of three loans from the African Development Bank (2002, 2003, and 2017) totaling more than US$ 125 million to support housing efforts. While the World Bank does not lend to Tunisia for real estate development or land use, in 2017 and 2018, the World Bank made two loans of US$ 500 million each to help improve the investment and business climate in Tunisia, and the IFC has provided a credit guarantee to ENDA, one of the leading microfinance institutions in the country that provides housing microfinance products.

The European Investment Bank (EIB), through its Fund for Euro-Mediterranean Investment and Partnership (FEMIP), provided €408 million to Tunisia as of 2016, including financing for improving the investment climate for sectors such as social housing. Many development partner interventions are designed to increase mobility between locales, support urban management, and improve connectivity, all of which further support the development of real estate and business creation. Some examples are below:

Development Partners	Interventions	Projects
EU	Technical Assistance	Green Construction Development
EIB	Financial & technical Assistance	Rehabilitation and Integration Program of Popular Districts
KFW, Italian Agency of cooperation for Development	Financial Assistance Technical Assistance	Funding 86 new municipalities
FADES , EIB	Financial assistance	Highway Tunis-Jelma
AfDB (2011)	Financial assistance	Highway Mednine-Ras Jedir
AfDB, EIB (2017)	Financial assistance	Project supporting connectivity Road in the North East
Kuwait Fund for Arab Economic Development (2019)	Financial Assistance	148 agricultural roads in 22 Tunisian provinces.

Agriculture is a focus area for many development partners, and their programs address numerous sub-sectors and related value chains. For example, the World Bank financed an Irrigated Agriculture Intensification Project for Tunisia that aims to improve the reliability and efficiency of the irrigation and drainage services and strengthen market linkages for irrigated products. The project is financed over the period 2018-2024 with a commitment amount of US$ 140 million out of the total project cost of US$ 170.5 million.

The AfDB approved, in 2019, the financing of the Agricultural Sub Sector Development and Promotion Project in Zaghouan Governorate. PDPFA-GZ’s overall objective is to reduce poverty, unemployment and inequalities in the Zaghouan Governorate. The project aims to increase value added through the promotion subsectors such as olive oil, tomatoes, milk and other regional organic products that constitute niches with strong potential in terms of jobs, income and the generation of foreign exchange for the country. To be implemented over a three-year period, the project focuses on rural infrastructure support; and sustainable agricultural development and value chains. The project’s financing comprises EUR 25.21 million from AfDB, EUR 16.23 million from the Tunisian Government and a EUR 2.2 million contribution by the beneficiaries.

An FAO project supporting responsible investment in agriculture and food systems focuses on investment, innovation, and youth. The ultimate objective of the project is to help increase responsible agricultural investments and strengthen the role of young people in agriculture and food systems in Tunisia. Other development partner interventions include strengthening statistical systems, support to cooperatives and water efficiency, as noted below.

Development Partners	Interventions	Projects
FAO	Technical Assistance	general agricultural census
	Technical Assistance	Developing olive oil cooperatives
	Technical Assistance	Accounting system to measure water usage and educating farmers on the sustainable use of water resources.
EU	Technical Assistance	European Neighbourhood Programme for Agriculture and Rural Development
World Bank	Financial Assistance	To rehabilitate and improve the country's irrigation infrastructure, while
World Bank	Technical Assistance	Increasing institutional oversight of the network

Related to transport and communications, international partners have made a significant contribution to consolidating the country's rapid industrial development, including upgrading transport and communications often through the use of Public Private Partnerships (PPP). Over 20 PPP projects are outlined in Government's plans for 2020-2025; and 18 are in the fields of transport, communications and infrastructure engineering. Many are envisioned to be undertaken with the use of blended finance. Many development partner interventions support improved trade, movement of goods, and exports. Some examples are highlighted in the following table:

Development Partners	Interventions	Projects
World Bank	Financial Assistance	Digitizing International Trade procedures • Modernization of the Port of Rades • Modernization of the air freight warehousing

	Technical Assistance	Incepting a legal frame for Logistic operators Streamlining Customs Code
AFD	Financial Assistance	Urban Mobility (direct funding to the Ministry, SNCFT railway operator and TRANSTU buses and metro operateur)
	Technical Assistance	Know How exchange via CODATU
EIB	Financial Assistance	Territory development and setting up a tramway in Sfax
AfDB	Financial Assistance	Road infrastructure modernization
	Financial Assistance	National Transport Master Plan for 2040
KfW	Financial Assistance	Easing access to finance to SMEs
EBRD	Financial Assistance	National railway enhancement

Generally Tunisia has seen a significant increase in international development assistance since the 2011 revolution. Donors are focused on consolidating democracy, creating job opportunities, preventing violent extremism and steering Tunisia towards a sustainable development path. The United Nations development assistance framework for Tunisia focuses on democratic governance; an inclusive, resilient and sustainable economic model; and social protection and equitable access to high-quality social services.

The European Union is Tunisia's largest donor and has more than doubled its financial contributions to cooperation since the revolution, using a combination of grants, loans and macroeconomic assistance. The EU is particularly focused on regional disparities and creating revenue generating opportunities for vulnerable communities. The EU has also been a strong supporter of gender-equality in Tunisia, including promoting women's employment, entrepreneurship and political participation. Since 2014 Tunisia has benefitted from a five year envelope of approximately €300m from the EU. This has been spent through budget support and bilateral technical assistance. For the period 2020-2025 the EU will focus on social inclusion (€100m), rural development (€90m), and economic governance (€120m). The economic governance pillar (€80m for direct budget support and €40m for technical assistance) will support the improvement of the business climate and investment framework, the reduction of investment barriers, investment promotion, and access to Finance. At the same time, EBRD is providing funding for public and private projects in Tunisia and also offering technical assistance on investment support, public-private partnerships, and the financial and banking sector.

The World Bank is providing budget support alongside AFD, KFW, and JICA, with $350m allocated for 2020 before the COVID-19 pandemic. The budget support is predicated on reforms that enhance economic recovery, shift the economy towards the private sector, and enable Tunisia to be more inclusive and socially integrated. This strategy is based on four pillars: improving the efficiency of transport, energy, and digital payments; strengthening governance and performance of state-owned companies; enhancing public service performance; and public finance management and promoting social and economic inclusion.

German Development Cooperation is currently focused security, rural development, governance and democracy, energy and sustainable infrastructure, environment and climate change, agriculture and natural resources, and employment. At the same time, Swiss Development Cooperation support over the period 2017-2020 was structured around democratic transition and human rights, economic development and job creation, and migration and support to vulnerable populations. For the 2021-2024 period, a new focus area will be decentralization and addressing regional disparities. The Swiss, along with the United Kingdom and European Union also contribute to the Moussanada fund that provides technical assistance to projects related to the financial sector and governance.

Through USAID the United States is pursuing two development objectives: inclusive private sector employment and social cohesion with total current financing of USD$ 335 million. The US Millennium Challenge Corporation support is focused on a business climate modernization project. At approximately USD $250 million, its components include simplification of administrative, regulatory, and trade procedures, digitalization, and reform in the transport and logistics sectors. Its implementation is planned to start mid-2021.

Agence Française du Développement (AFD) activities are structured around finance, rural development, urban development, governance and health. AFD also provides direct budget support, provides funding for infrastructure projects and technical assistance support. Key projects include, for example, financing of the National Strategic Digital Plan, e-health projects, a feasibility study for the Franco-Tunisian University, a youth entrepreneurship program, and a state-owned companies governance program.

The African Development Bank (AfDB) is financing the National Strategic Plan: "DIGITAL Tunisia 2020" with a budget of €135 million ending in 2021. This will set up information systems for key ministries (e-financing, e-Justice, e-local governance) and the interoperability of the public administration (national cloud, governmental intranet). Technical assistance includes feasibility studies, legal assistance, support for change management and communication.

The G20 Compact with Africa reforms matrix relates to the macroeconomic framework, investment framework, financial framework. In addition to standard CwA support, Tunisia also has a trust fund with the World Bank to finance technical assistance required for the reforms matrix. Germany, Netherlands and Norway are the current contributors to this Tunisia-specific trust fund.

5. Recommendations for BMZ

As outlined in earlier sections Tunisia provides significant opportunity for investment, particularly **in sectors recommended in this report: real estate/business, transport and communications, and agriculture** – as well as transversal issues that cut across these sectors, specifically **TVET** programs and progressive **innovation policy**. These are highly attractive as they provide opportunities for economic growth, investment return, and German Development Cooperation support. For example, the real estate sector shows high yields from investment and is open to international market players. At the same time, the Tunisian agriculture sector is projected to grow at a compound annual growth rate of 5.2% and it plays a particularly important role, contributing up to 10% in GDP and employing 14% of the labor force. And while the transport and communications competitiveness has deteriorated significantly since 2011, there are bright spots, such as freight volumes that have almost doubled in ten years, and it is estimated that if Tunisia were more competitive, and with ongoing volume increases the transport logistics subsector alone could amount to about twenty percent of GDP.

On transversal issues, the institutional building blocks for a strong innovation-based economy is in place, but is not yet fully functional. Investment in an innovation eco-system will require international support to evolve the government's role to largely regulatory and providing strategic guidance to the private sector through support mechanisms. And one of the key things holding back Tunisia' growth is the need to develop value chains and shift to more productive activities requiring more skilled labor. This low rate of skilled labor utilization in productive sectors remains a critical limiting factor to the technological development in the Tunisian economy and can be addressed by investment in TVET.

The report recommends that one or more of these sectors be considered for areas of focus in the Reform Partnership Framework. The recommended sectors are priorities in the Government's five-year development plan, and can be central to meeting the goal of annual growth rate of more than 4 percent.

Although these sectors provide significant opportunities, there are also risks and structural weaknesses as discussed above. These in particular include improving the investment and business climate, and an acceleration of reforms. Likewise, a key risk is that government will continue an emphasis on exports, while not given due attention and financing to developing local agriculture and value chains. And of course the COVID-19 pandemic will significantly slow growth prospects. Tunisia's five-year development plan for 2016–2020 sought to define a new vision of social and economic development. The government has indicated its plan to submit a five-year strategic plan for the 2021-2025 period. International cooperation has largely supported the five pillars of the development plan, including a focus on good governance, a transition from a low-cost country to an economic hub, human development, regional development and supporting a green economy. In the context of the Reform Partnership Framework, this **report recommends that German Development Cooperation provide advisory, technical and financial support in one or more of the sector(s) selected**. Such development cooperation support could include, for example, in the real estate sector, technical support and policy advice to further develop real estate markets in lagging regions; advisory services to improve real estate investment climate, particularly for productive sectors such as industry; or contributing to utility infrastructure development to make real estate investment more viable. For agriculture, German Development Cooperation may best be utilized to help develop local value chains, which have sometimes been ignored in favor of value chains for the export market. This may, for example, focus on ensuring world class policies for subsidies and price guarantees that are market oriented and support investment in local production and processing. And for logistics, German Development Cooperation could leverage Germany's experience to strengthen skills in the sector, which can then lead to improved efficiencies, a reduction in costs and overall greater competitiveness.

Special Report: Pathways to Accelerating Investment Opportunities in Togo

Summary

As Togo was not a Reform Partnership country, this special report provides an input for discussion between Togo and Germany regarding Togo's possible inclusion in the Reform Partnership Framework. It was completed earlier than the other six reports and includes additional material, including, for example parameters for monitoring outputs and outcomes. At the same time, there are some sections in the other reports which were requested after the Togo report, and are not reflected here. The report analyzes investment opportunities in various sectors, the macroeconomic environment and the reform agenda. **Four sectors are highlighted for their high investment potential and reform commitment in the sectors. These are 1) manufacturing; 2) agriculture; 3) infrastructure and mobility; and 4) information and communication technology (ICT) and innovation**. The ICT and innovation sector were added as a special fourth option in the face of the COVID-19 crisis and the sector's potential to be supportive to post-COVID-19 government, business and social practices.

These sectors are attractive because of their potential to transform Togo's economy and support equitable growth. For example, manufacturing sector is still under-exploited, with significant opportunity for investment and expansion. As an example, only 3% of cotton is processed in Togo. Likewise, in agriculture, Togo has high yields in certain sectors and availability of land conducive to organic farming. The mobility sector needs significant investment to ensure integrated markets, including urban transport; while innovation and digital technology will be central to stimulating growth and employment and the advancement of sectors such as agriculture education, particularly as part of the post-COVID-19 rebound.

Togo's overall de development vision is centered on the Plan National de Développement (PND 2018-22). The PND is articulated around three strategic pillars to include establishing a logistics hub; developing agricultural, manufacturing and extractive processing clusters; and consolidating social development. The reform agenda is strong, but needs further support from the international community, including from German Development Cooperation. **This report recommends that in those sectors selected, Germany also provide robust development advisory services in the context of the Reform Partnership Framework**. We have highlighted challenges and opportunities for investment and policy advice/technical assistance around three pillars: policy; investment; and capacity.

1. Economic, Political, and Social Context

Context. Located between Ghana and Benin, Burkina Faso and the Atlantic Ocean, Togo has a population of 7.7 million with an average population growth rate of 2.3% per year. The country has a deep-water port and access to the regional market, with agriculture employing 70% of the working population. The Togolese population is young, with 42% under 15 years old.

In 2017 Togo experienced political protests which led to several important reforms adopted in 2019 including a new National Assembly, new institutions for elections and human rights, and the renewal of the Constitutional Court. The ruling party, the Union for the Republic, has been the dominant political force for several years. It currently holds 59 of the 91 seats in the National Assembly following the 2018 parliamentary elections. It also won 878 out of 1,490 seats in local elections in June 2019. President since 2005, Faure Gnassingbé started his fourth five-year term in February 2020 with limited disruption or violence.

There is now political stability in Togo and the World Bank's CPIA indicators show good progress. In 2020 Togo is 97th in the Doing Business ranking, gaining an impressive 40 places compared to the previous year. There has been implementation of reforms aimed at strengthening the policy environment and management of public debt, improving the business climate and enhancing rules-based governance. On the latter, for example, in 2020, the transfer of property ownership in Togo required three procedures and 35 days (compared to 6.1 procedures and 51.6 days in sub-Saharan Africa). There is still room for improvement. The World Bank's CPIA survey shows that the country's transformational change has been quite slow, particularly in areas such as budget and finance. There is significant room for rules based governance improvements in the quality of budget and financial management, efficiency in revenue mobilization, equity in the use of public resources and in the financial sector. Togo has done well in improving the quality of policies and institutions, but still ranks behind its Economic Community of West African States (ECOWAS) and West African Economic and Monetary Union (WAEMU) neighbors such as Benin, Senegal, and Burkina Faso.

Macroeconomic. Prior to the pandemic, Togo's GDP per capita (in constant 2010 US$) was US$ 690 in 2019, a significant increase from US$ 517 in 2005 and US$ 534 in 2010. Unemployment declined from 6.5% to 3.4% between 2011 and 2015 but was countered by an increase in the underemployment rate over the same period increasing from 22% to 24.9%. Household consumption accounts for about 80% of GDP, leaving little room for private savings and investment. Consumer price inflation in Togo is relatively low with an annual average of 1.7% in 2019. Since 2016 Togo has made efforts to reduce its fiscal deficit, with improved tax revenue mobilization (17.6% tax-to-GDP ratio in 2019 compared to 16.7% in 2016) and a contraction of public investment from 13.8% of GDP in 2016 to 10.1% in 2019. The deficit thus fell from 9.5% of GDP in 2016 to 2.9% in 2019 and was forecast, prior to the COVID-19 pandemic to be 1.9% in 2020. In 2019 Togo's public debt to GDP ratio was 68.7%, just below the 70% threshold set by the WAEMU. Togo's membership in WAEMU and the resulting common monetary policy with other member states, and the common currency (FCFA) linked to the Euro strongly contributes to these positive trends.

The medium-term macroeconomic prospects are moderate due to the impacts of COVID-19. GDP growth is expected to decrease to 1% but rebound to 4.8% in 2021. Key macroeconomic risks include continued disruption of global supply chains, constrained fiscal space and capacity challenges in implementing COVID-19 emergency policy actions. At the same time, net official development assistance (ODA) has been on a downward trend. It was USD$ 283.4 million in 2018 after reaching a peak of USD$ 477.6 in 2011 (constant 2014 USD). Given global development trends, it is not likely that ODA will necessarily increase in the future (except possibly for COVID-19 related fiscal and debt relief), hence this reflects the need for Togo to continue implementing reforms that will usher in strong private sector led growth in the future.

The importance of agriculture as a percentage of GDP has declined in the last two decades from 30.56% at the beginning of the 2000s to 28.74% in 2010 and to 23.42% in 2018. Food crops and livestock are the leading agriculture sub-sectors, but in recent years Togo has begun to diversify and is the second largest supplier of organic food to Europe behind Egypt and ranks 14th in terms of total export volume of organic food worldwide. The secondary sector is dominated by construction, followed by manufacturing, extractives and utilities, while the tertiary sector is dominated by services, followed by trade, and logistics.

Investment and Trade. Even though foreign direct investment is only allowed in certain sectors, it has remained strong. According to UNCTAD's World Investment Report 2020, FDI inflows increased to USD 317 million in 2019, up from USD 183 million in 2018. Most investment is in manufacturing, extractives, trade, telecommunications, and the financial sector. A large contributor to FDI in recent years comes from investment projects in carbonate phosphate production (USD 2 billion), the construction of a cement plant (USD 60 million), a solar power plant (USD 33.5 million dollars), construction of a third quay and a container terminal at the Port of Lomé, and the construction of a 100 MW power plant. Nigeria, France, the United States, and China are the originating countries of most FDI to Togo.

In 2019, foreign trade represented 71.2% of GDP. While Togo's trade balance has remained in deficit, exports of goods reached USD 1.147 million in 2018, an increase of 12.9% compared to 2017 (USD 1.016 million). Togo's exports of goods were historically concentrated on raw materials, particularly phosphate and cotton, but have diversified to include cement, petroleum and chemicals. In 2017, the country's main export destinations were Cameroon (USD 253 million), Lebanon (USD 174 million), Burkina Faso (USD 134 million), India (USD 120 million) and Benin (USD 107 million). According to OECD data, Togo’s largest export markets in Europe are Belgium and Luxembourg, followed by France and the Netherlands. Its largest import partners in Europe are the Netherlands followed by Belgium-Luxembourg. A large proportion of trade consists of transit operations, characterized by imports followed by re-exports to these other countries. Togo’s Logistics Performance Index (LPI) is behind its immediate competitors such as Benin, Ghana and Côte d'Ivoire, and has declined slightly in recent years. Togo is in the process of developing several value chains such as for phosphate, which is processed locally into fertilizer and exported; and cocoa, which could be processed locally into chocolate and derivatives.

Human Development. Strong gains have been made in education. In 2018, the share of public spending devoted to education in Togo represented 5.83% of the federal budget, up 32.44% from its 2010 level. The literacy rate rose from 53.18% of the total population aged 15 years in 2000 to 63.75% of the same cohort in 2015. It is estimated that the school-age population from kindergarten to high school will increase from 2,981,000 in 2020 to 3,312,000 by 2025, representing 11% growth.

Likewise, in health, the mortality rate in Togo has been declining over the last 20 years, and Togo has started to address the effectiveness and efficiency of public hospital management. It has implemented a contractual approach in public hospitals. The implementation of the pilot phase of this reform has led to an increase in patient satisfaction, a 35% increase in revenue, an 85% increase in the payment collection rates, a 92% increase in drug availability and a reduction in the medical treatment delay rate from 12% to 3% at the Atakpamé Hospital.

Youth employment initiatives have led to decent jobs and an increase in entrepreneurship. Programs to promote entrepreneurship have enabled more than 60,000 young people to be trained in microenterprise creation and management techniques, leading to the creation of 7,000 small and medium sized enterprises which have contributed to the creation of nearly 40,000 sustainable jobs. In addition, more than 250,000 temporary jobs have been created for women and youth through high-intensity work pilots supported by the government and development partners.

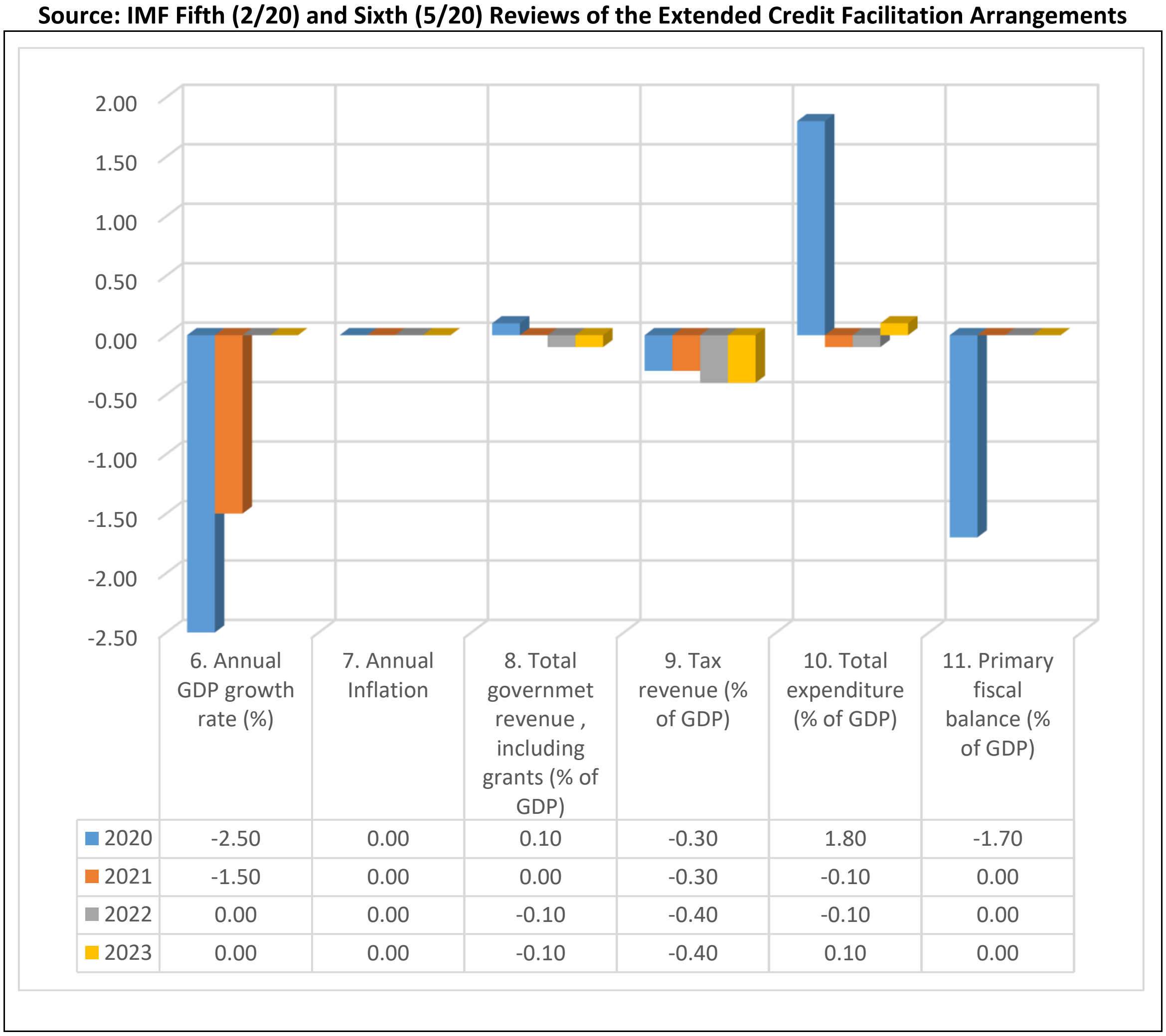
Likewise, financial inclusion has also been improving. The authorities have established mechanisms such as the National Fund for Inclusive Finance and the National Agency for the Promotion and Guarantee of SME/SMI Financing. The government is also targeting public contracts to women and young entrepreneurs, which increased to 25 percent of all public contracts in 2019.

COVID-19. The first case of COVID-19 was reported by the authorities on March 6, and the first death was recorded on March 27. Initial containment measures were targeted on places of worship and schools, and the prohibition of gatherings in some areas. This was followed by a closure of land and air borders, curfews and lockdowns targeted at towns and cities, and working hours in the public service are reduced

The authorities established a national economic solidarity fund of CFAF 400 billion to be funded by the contribution from the government, international partners, the national and international private sector and public donations. Additionally, the VAT rate was reduced from 18% to 10% for hotels, restaurants as well as for services provided by approved tour operators. There were also tax rebates or reductions, suspension of tax audits, exemption from duties and taxes to the import of any goods contributing directly to combating Covid-19 and to reduce costs of key productive activities such as agricultural equipment. The monetary authority encouraged banks to facilitate the rescheduling of loans, and to facilitate electronic payments, issuance of vouchers (the "COVID-19 bonds"), and took steps to provide liquidity by increasing financial resources made available to banks. To alleviate the impact of the pandemic on households, the government enacted full relief from housing tax on vulnerable groups.

The strongest macroeconomic impact is expected to be felt on growth, with projections that in 2020, GDP growth was expected to fall 2.5 percentage. Thereafter it is expected that GDP growth will return to a previously expected trend, although successive waves of COVID-19 infections around the world may impact any future growth prospects. Current inflation projections are not likely to change significantly, as falling demand and other measures are will likely counter the impacts of output losses. The various fiscal relief measures are not expected to have major effects on revenues as projected tax revenue is expected to fall short by an average 0.35 percentage points of GDP [developments continue at the time of publication].

Togo; Expected medium term macro fiscal effects of COVID-19 (2020-2023)
(Deviations of With-COVID-19 from Without -COVID-19 projections)
Source: IMF Fifth (2/20) and Sixth (5/20) Reviews of the Extended Credit Facilitation Arrangements



	6. Annual GDP growth rate (%)	7. Annual Inflation	8. Total governmet revenue , including grants (% of GDP)	9. Tax revenue (% of GDP)	10. Total expenditure (% of GDP)	11. Primary fiscal balance (% of GDP)
2020	-2.50	0.00	0.10	-0.30	1.80	-1.70
2021	-1.50	0.00	0.00	-0.30	-0.10	0.00
2022	0.00	0.00	-0.10	-0.40	-0.10	0.00
2023	0.00	0.00	-0.10	-0.40	0.10	0.00

Sustainable Development. Many of the government's development strategies are grounded in the UN's Sustainable Development Goals, particularly those related to environment and climate aspects. For example, related to SDG6 - ensuring availability and sustainable management of water and sanitation for all – the government has a National Water Policy first adopted in 2010 that seeks to preserves water resources for socio- economic development. This includes improving access to potable water, sanitation and hygiene services; and improving water governance and institutional framework which is critical for both manufacturing and agriculture productivity. In particular to ensure water resource preservation, the infrastructure network of hydrological measurements has been reinforced with hydrometric and climate stations. Likewise, an integrated water information system has been put in place for Togo's participation with the Volta and Mono Basin Authorities for management of cross-border water cooperation.

On SDG 7 - ensuring access to affordable, reliable, sustainable and modern energy for all - Togo is expanding its use of energy from renewable sources, with renewable's share in total energy consumption increasing year on year. Government policy in the energy sector aims to improve governance and competitiveness, particularly for manufacturing and agricultural processing sub-sectors. This strategy has achieved significant results in recent years. The electricity access rate rose from 22.5% in 2008 to 35.6% in 2016 on average. The Togo Energy Sector Reforms and Investment Project aims to development a new master plan for the electricity sector to ensure that the populations gain access to energy at least cost.

Ensuring sustainable consumption and production patterns is SDG12. With a view to achieving competitive and sustainable agriculture and food availability, Togo's agricultural policy (2016-2030) promotes innovation such as smart fertilization solutions or using high-performance plant material (including over 1,147,682 cuttings and 118,392 cocoa pods) to ensure sustainability in the coffee-cocoa subsector. To promote the processing and marketing of local agricultural products twenty Producers and Service Providers' Companies and Organizations have been established which process rice, honey, pineapple, soybean and peanuts (some of which are processed into oil and cake products) engaging nearly 14,000 beneficiary producers, 40% of whom are women.

2. Sector Investment Potential

The objective was to select the sectors of activity to be promoted on the basis of four dimensions: economic, employment, sector growth and institutional. Specific criteria and indicators were identified and primary sources used, including government statistics, global data and analysis, as well as private sector reports.

Overall, the three highest ranked sectors are manufacturing, agriculture, and infrastructure and mobility. The ICT and innovation sector was also ranked high and has been included in part due to the impact of Covid-19 crisis and the sector's potential to be supportive to post-COVID-19 business and social practices.

Sector Ranking: Togo

Sector	Average per sector	Rank
Manufacturing sector	15.00	1
Agriculture	14.44	2
Infrastructure and Mobility	14.44	2
ICT and Innovation	14.38	4
Port sector	14.29	5
Electricity-Water-Gas	13.33	6
Banks, Financial Institutions, Insurance	12.14	7
Airport sector	12.14	7
Service sector	11.88	9
Education sector	10.00	10
Mining sector	8.75	11
Health sector	8.13	12

Manufacturing Sector. The potential of Togo's manufacturing sector is still under-exploited because it is poorly integrated with other parts of the economy. The sector mainly concerns products from the food and beverage industry, textiles, clothing and leather, chemicals, non-metallic mineral products such as cement production, and handicrafts. In the agri-food sector, despite cereal surpluses of 70,000 tons recorded during the 2019-2020 agricultural season (corn, millet, sorghum), only a small portion is processed. In 2018, the food surplus (cereals and tubers) accounted for 21% of total production. As for cash crops such as cotton, they are characterized by marginal processing (less than 3% of cotton production is processed), whether by artisanal or semi-industrial means. During the 2019-2020 agricultural season, Togo's cotton production was 116,000 tons compared to 137,000 tons in 2018-2019. In order to increase production and accelerate the industrial processing of Togolese, the government has transferred 51% of the capital of the New Cotton Company of Togo to the Singaporean group OLAM.

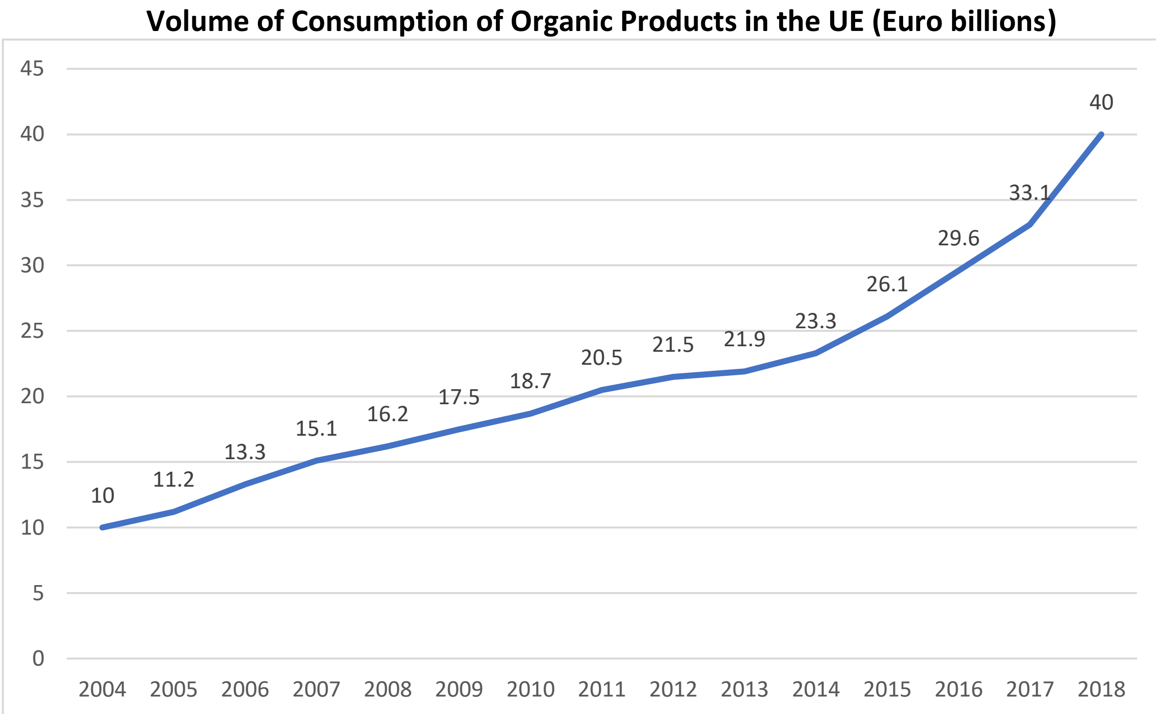
In the agri-food sector, the pineapple sector, particularly organic pineapple, offers manufacturing and processing investment opportunities through various value chains, particularly pineapple juice, dried pineapple and fresh pineapple. In 2018, Togo produced 30,000 tons of pineapples, 65% of which are organic. About 60% of the pineapple is exported to Europe (for organic pineapple) and the regional market (Burkina Faso, Ghana, Mali, Niger). With the support of the EU and Germany, the pineapple subsector sector in Togo is growing strongly. Between 2017 and 2019 the number of small and medium processing enterprises has increased from less than 30 to approximately 50. Packaging and processing of pineapple juice and dried products considerably increases value. These activities are responsible for 51% of the revenues created in the sector, more than primary production which is only 44% of the revenues. The processing of pineapples represents 5,400 jobs in Togo. The value chain for pineapples is not yet very well developed compared to products such as cereals or cotton. But the recent development of packaging activities for export and processing into juice and dried products has doubled the value added of the value chain. This contribution can be improved by increasing the share of organic production and by continuing to develop processed products (juice and dried pineapple).

Opportunities also exist in sectors such as the mining industry (phosphate, limestone, marble, iron), cosmetics, pharmaceuticals and metallurgy. In 2019, for example, Togo signed two important partnership agreements with the Dangoté Industrie Limited group. The first one was worth USD 2 billion for processing phosphate into fertilizers for the West African region and the second one, worth USD 60 million, was for the establishment of a cement plant.

Beyond the traditional sectors, opportunities also exist in sectors new to the Togolese economy such as assembly of equipment, including solar panels, electronics or automotive parts. The success of these subsectors will be based on the comparative advantage of low labor costs compared to other countries in the sub-region. Manufacturing investment opportunities include processing units for cereals, fruit and vegetables; package manufacturing; assembly units for electronic and automotive parts; production units for fertilizers, phosphoric acid, cement, marble, iron; and coffee-cocoa and cashew nut processing.

Agriculture sector. Based on its current and potential contribution to national output, employment and export revenues agriculture is key to Togo's development. Opportunities in this sector reside mostly in agribusiness. In order to exploit this potential, Togo has centered its new agricultural policy around the development of agropoles such as the city of Kara. Located midway between the Lomé-Ouagadougou corridor, the agropole brings together on the same site key stakeholders in the agri-business value chains (producers, industrialists, traders and distributors) in order to form a collective team to share equipment, develop local processing, facilitate access to markets and boost yields. It will eventually cover 165,000 hectares and will host 200 cooperatives around the rice, corn, soybean, sesame, cashew nut, chicken and fish value chains.

Rice, chicken and fish are still imported into Togo and most countries in the sub-region. They have therefore been identified as key products to product locally and to replace imports. If the sub-sectors are well developed, then such production can meet the needs of other countries in the sub-region. To help spur domestic production, a government order has been implemented that subjects these products and several others to special authorization before any importation. Soybeans, sesame and cashew nuts also offer export opportunities as niche markets. For example, in 2019, export revenues from soybeans (organic and conventional) were estimated at 50 billion CFA with 700,000 permanent and temporary jobs created according to the annual activity report of the Conseil Interprofessionnel de la Filière Soja in Togo. Likewise, the market for organic products is expanding in the EU (see graph below) and Togo is positioning itself as a key player in this market.



Togo has several comparative advantages to exploit this potential. In the soybean sector, for example, Togo's yield is one of the best in the sub-region at approximately 3 tonnes per hectare. Togo is one of the countries in the sub-region with land availability conducive to organic farming, and overall, the country uses a low amount of fertilizer compared to, for example, Senegal, Ghana, Côte d'Ivoire and Burkina Faso.

However, the majority of jobs in the agricultural sector are informal because of the predominance of subsistence agriculture and the low level of processing of agricultural products. There are bright spots such as pineapple processing as indicated above, which has received donor support and investment. By 2022, the Kara agropole project aims to create 25,000 jobs for women and youth and to increase the share of locally processed agricultural products from 19% to 40%. The agropole has support from the AfDB, BOAD, and the Saemaul Undong Foundation of South Korea, and is also financed by the national budget. Togo envisages eventually to develop ten agropoles throughout the country. Agriculture investment opportunities include processing units for agricultural products; production and sale of equipment and materials; agricultural research laboratories, construction and operation of modern slaughterhouses; cold storage facilities; construction and operation of modern feed mills; and aquaculture.

Infrastructure and Mobility. The national road network in Togo stretches along 11,777 kilometers, of which there are 2,101 kilometers of paved national roads and 1,373 kilometers of urban roads. Since 2012, major investments have been made to improve infrastructure in Togo; particularly on the RN1 highway. Goods transport services are characterized by a fleet of heavy goods transport vehicles that is very old with an average age of more than 20 years. More than 95% of the transporters are in the informal sector.

In the field of urban and interurban mobility, there have been efforts in recent years to improve services. Since 2013, inter-urban transport has grown by 20.2%. The government, in partnership with private companies, operates a bus network (SOTRAL) which remains insufficient, and does not meet demand in light of ever-increasing urban and interurban traffic. The major challenge in this sector is therefore the mobilization of the necessary resources to invest progressively in mobility and infrastructure in line with the country's socio-economic development.

The rehabilitation of rural roads is also a government priority in order to facilitate access to basic social services for the rural population. Thus, within the framework of the Emergency Community Development Program, 406 kilometers of rural roads have been built and rehabilitated since 2016. Likewise, 826 kilometers of rural tracks are also being rehabilitated under the Program for the Rehabilitation of Cotton and Coffee/Cocoa Tracks.

One of the government's priorities in the road infrastructure sector is the expansion of National Highway No. 1 (Lomé-Cinkassé) with an estimated total cost of USD 620 million. This project aligns with the project to create a dry port in Cinkassé at an estimated total cost of USD 50 million. The projected growth of freight flows to Burkina, Niger and Mali (which do not have seaport access) is estimated at 10,230,000 tons per year by 2040, according to studies carried out under the PND. The direct employment from these project remains limited to the construction sector and of course limited to the duration of the project, but indirect employment remains more important and sustainable, particularly in the port sector. In addition to the jobs that will be created, revenues such as fees for service, tolls for passage, and leases to petroleum product distribution companies will be collected. The total cost of the project highway and dry port will be financed through a concessional public-private partnership and conventional loans from multilateral development banks. Opportunities for investment in mobility and infrastructure include the creation of urban and inter-urban transport companies; equipment companies providing spare parts, construction and handling equipment; and construction of road, port and rail networks.

ICT and Innovation Sector. The ICT and innovation sector was added as a recommended area given its elevated importance due, in part, to the COVID-19 pandemic. The sector is very dynamic in Togo, with a growing market. The overall penetration rate for fixed and mobile phones rose from 77.5% in 2016 to 86% in 2017. This growth is mainly driven by the mobile segment, which in 2019, reached the rate of 84.96% against 48% in 2012. The introduction of competition in the 3G segment and the opening of Atlantique Telecom Togo's 3G services as of 2016 was welcomed. There is widespread use of over the top (OTT) services, including WhatsApp, Skype, Facebook, Messenger, Telegram, Imo, vibrate, etc.

The government aims to use innovation and digital technology to stimulate growth and employment through the gradual introduction of ICT in several sectors such as agriculture (with projects such as Yolim, which offers digital credit to small-holder farmers); the port sector (with online dematerialization of procedures); the education sector (with e-learning); and water and energy (with digital monitoring and payments).

The government’s "Digital Work Environment" project in the education sector is one example of a concrete investment opportunity in this sector in Togo. The project aims to equip and connect fifty percent of public high schools and colleges on a digital exchange platform. Currently only ten technical scientific high schools are participating in the project. Another example is the "DJANTA TECH HUB" project which aims to create a technological campus for entrepreneurs, to promote creativity and technological development through digital technology, innovation and research.

Togo has joined the West African Regional Communications Infrastructure Program (WARCIP), initiated by the World Bank. WARCIP aims to strengthen connectivity by building new infrastructure, thereby reducing access costs and improving the quality of the network while updating the regulatory framework of information and communication technologies. With WARCIP, Togo has an Internet Exchange Point (already operational), and has started the construction of a Tier III+ data center at a cost of USD 30 million.

In order to improve ICT quality while ensuring competitive prices to users, the government has taken a series of measures. In 2017 it granted licenses to new internet service providers (TEOLIS SA and the Vivendi Africa Togo Group). The government also restructured TOGOCOM group, made up of TOGO TELECOM and TOGOCEL, the two incumbent fixed and mobile telephone operators in Togo. They also opened up 51% of the TOGOCOM group's capital to the private group AXIAN. In 2017 parliament approved the Information Society Orientation Law and the Law on Electronic Transactions in order to promote e-commerce in the country. The recent law adopted by the National Assembly (September 3, 2020) on the biometric identification of individuals in Togo (e-ID Togo) is a key source of digitized information that promotes the establishment of a single social register, universal health coverage, digitization of civil status, updating of the electoral roll, reduction of fraud in the financial system, and targeting of aid in the social sector.

The Togolese fintech space is young but very dynamic. In 2019, there were 17 fintech startups in Togo. Most of them are less than four years old and are run by young men (only 5 of the startups were founded or co-founded by women). Of these 17 fintech startups, 14 focus on digital payments, two are in the banking back office sub-sector and one in investment / equity financing.

By 2017, Togo had reached a financial inclusion rate of 45%, ahead of Senegal (42%), Cote d’Ivoire (41%), Benin (38%) and Mali (35%), due to mobile money services used to access various state social benefit programs. Examples include programs such as "Novissi" which is a money transfer system set up by the government to support the sectors of activity that have been most affected by the COVID-19 pandemic. The AgriPME and Yolim platforms support the agricultural sector; while the ECO CCP platform is an interest-bearing digital savings account; and CIZO is an electronic payment method. There are also numerous private initiatives such as mobile payment solutions (T-Money and Flooz), the startup Gozem (Uber-like moto-taxi), and Ecobank Mobile Money which is a mobile money solution developed by Ecobank.

Investment opportunities in ICT and innovation in Togo include platforms for inclusive finance, e-commerce, fintechs, electronic currency establishments for online payment services, and digital readiness for the use of digital technology across sectors. There are also opportunities for investment in e-learning and e-agriculture; potentially for provision of internet access; and the installation of ICT equipment and software; as well as establishment of call centers

3. Current Reform Agenda

Togo's reform drive has been strongly supported by development partners and is aligned with World Bank, IMF and EU support programs. It builds on an overall goal of setting the economy on a path of transformation with strong, sustainable, resilient, inclusive, job-creating growth and leading to improved social welfare. Togo's commitment to reforms is showing dividends. Togo was ranked 97th worldwide in the 2020 Doing Business Report. This represents a significant improvement from 2019 when the country was ranked 137th. The reform agenda is centered on the Plan National de Développement. The PND is articulated around three strategic axes based on sectors of activity with high potential in the country.

Axis 1 of PND is to establish a logistics hub of excellence and a first-rate business center in the sub-region. Government intends to develop modern infrastructure, particularly maritime, road, airport and rail transport infrastructure, and improve the quality of ICT and energy services. The expected impact of the implementation of this axis is to improve competitiveness and productivity of the economy and the creation of sustainable jobs. Axis 2 focuses on developing agricultural, manufacturing and extractive processing clusters. This should enable Togo to leverage poverty reduction through accelerated wealth creation and better redistribution of growth as well as the creation of decent jobs. Axis 3 will consolidate social development and strengthen inclusion mechanisms to include addressing gender inequalities and access to basic social services.

The impact of the PND implementation is difficult to measure given it was launched in 2019 and many of its objectives are multi-year. That said, there are some areas of obvious progress, but also areas with remaining challenges. For Axis 1, for example, if one looks at the Port of Lomé, in recent years, efforts have been made with the construction of a third quay, a container terminal, a new dock, and the construction of a new fishing port, which has improved the performance of the port. But if one looks at the industrial sector in Axis 2, there is a very low level of industrialization and industry is weakly integrated with the rest of the economy. The phosphate sector is a good example, whereby Togo has one of the largest phosphate reserves in sub-Saharan Africa, at over two billion tons. However, the country is still struggling to exploit the full potential of this resource because of outdated equipment, and sub-optimal management. The agricultural sector also remains a challenge, where is significant growth potential as the country has 3.4 million hectares of arable land, of which only 45% is currently being farmed. There are numerous aspects of NDP implementation which are particularly important for enhanced investment in Togo. Some of these are highlighted below

Business Environment Reforms. There have been major improvements in the business environment, including starting a business, dealing with construction permits, access to electricity, registering property, and obtaining credit. Togo has also implemented a strategy to digitize and automate tax payment and business creation procedures. Reforms also include the implementation of a single window for investment, reduction of the minimum capital requirement for the creation of a company as well as the reduction of the costs of obtaining a building permit. Electricity costs have also been reduced, which is welcomed by investors. More broadly, in November 2018 Togo adopted a new tax code that simplifies administration and codifies numerous activities performed informally by small and medium enterprises. The new code suppresses some taxes that were hurdles for firms in the past, harmonizes tax collection with neighboring countries, and encourages those operating in the informal sector to regularize.

Investment Policy Reforms. In addition to Special Economic Zones (SEZs) and industrial parks, the government is promoting economic transformation and business development through growth poles, particularly for the agricultural and agro-industrial sector. For this purpose, the Agropoles Development Agency (APRODAT) was created in 2018 to promote the development of value chains by transforming basic agricultural products. Given the downward trend in concessional lending, Togo is using public-private-partnerships to fill the infrastructure financing gap. A new PPP regime has been adopted, while a new investment code was approved in June 2019. For promotion of investment by the private sector, Togo has also set up a business climate unit to monitor priority projects. Likewise, to improve public-private dialogue a consultation committee has been established between the government and the private sector chaired by the Prime Minister with a technical committee chaired by the Minister of Economy and Finance.

Public Management and Governance. Since 2017 the government has been implementing its Public Financial Management Reforms Action Plan which is focused on program budget reforms and transparency, revenue administration, selection and prioritization of public investment projects, a debt management strategy, debt sustainability and public procurement. On anti-corruption, two new laws to strengthen the asset declaration regime have been adopted, namely the law on the declaration of assets of all civil servants; and the framework for the full implementation of the United Nations Convention on Corruption. Togo has implemented several administrative measures since 2017 to improve efficiency and reduce corruption in revenue collection. For example, the Togolese Revenue Office has made online declaration compulsory for large companies and a new law on anti-money laundering and the financing of terrorism was adopted in 2018. Likewise, the Anti-Corruption Commission, responsible for preventing and investigating corruption, became operational in 2017. Such reforms have contributed to its improved governance ranking, with Togo in the top 15 best governance reformers in the 2018 Ibrahim Index of African Governance (IIAG).

4. Development Partners Assistance

The top ten technical and financial partners in terms of volume of financing are the World Bank (21.28%), Exim Bank China (12.69%), Germany (11.12%), the European Union (9.06%), Japan (8.61%), BOAD (7.43%), AfD (6.66%), AfDB (6.39%), and the Islamic Development Bank (2.16%). The three largest of these are focused largely on agriculture and food security, economic governance and institutional capacity, infrastructure, private sector competitiveness, social protection, education, health, water and sanitation, environment, justice, political and administrative governance and institutional capacity building. Overall, development partner support is most concentrated in Axis 3 of the National Development Plan (55.03%), followed by support to Axis 1 (31.03%) and Axis 2 (13.09%).

Current German-Togolese technical and financial cooperation is structured around three priority areas and a series of projects in other non-state cooperation sectors. The main areas are: 1) sustainable economic development with a focus on vocational training and youth employment; 2) agriculture and rural development; and 3) good governance with a focus on decentralization. At the same time the EU, Germany and France have identified key areas for collaboration as part of a coordinated EU Joint Programming approach. These include: 1) energy; 2) organic agribusiness; and 3) decentralization.

The World Bank's portfolio in Togo comprises 10 national projects and five regional programs worth a total commitment of $385.5 million. These cover several sectors and themes such as governance, trade, and investment; health and nutrition; education; urbanization, urban development, and resilience; environment and natural resources; social welfare and employment; transport and telecommunications.

The strategy of the International Finance Corporation in Togo centers on investments in agribusiness, infrastructure, and manufacturing. IFC seeks partnerships with local banks to finance these projects using local currency, and is developing products for the microfinance sector, and small and medium enterprises. It seeks improvement in the investment climate by providing technical assistance to support reforms aimed at facilitating private investment. IFC's committed portfolio for Togo is about $330 million.

While direct funding is limited, UNDP is working with the Government to promote inclusive growth and eliminate inequalities in access to basic services through the implementation of the Emergency Program for Community Development, and the Job and Income Creation project. Past interventions have included training young people, including women in business creation and management techniques, job skills and agropastoral techniques; and the establishment of a Support Fund for Youth Economic Initiatives

The strategy of the African Development Bank in Togo aims to broaden the basis for inclusive and sustainable growth through the development and transformation of agriculture and the provision of energy. The AfDB strategy includes construction of rural roads, hydro-agricultural developments, supply of electricity and drinking water; and the strengthening of agricultural and agro-industrial skills. The energy component includes the construction of a planned transmission line of about 50 kilometers from Sarakawa to Agbassa to supply the activities of the Agropole Park and the electrification of the capitals of the townships and localities located in its vicinity.

In order to consolidate its public finances, Togo began in 2017 implementation of an IMF program supported by the Extended Credit Facility. In December 2019, during the IMF's sixth and final review of the program, it was noted that the country's budget deficit had declined significantly. Fiscal consolidation enabled the country to record an overall deficit of 2.2 percent at the end of September 2019 compared to an average annual deficit of six percent between 2013 and 2016. Revenue collection has been in line with forecasts, and overall expenditures have been lower than the IMF's forecasts. Total public debt, which stood at 81 percent of GDP at the end of 2016, declined to 70 percent of GDP at the end of 2019.

The G20 Compact with Africa (CwA) policy initiative in Togo aims to improve the country's framework conditions in order to significantly increase private investment. In Togo the CwA country matrix is structured around three pillars: pillar one revolves around improvements of the macroeconomic framework with objectives such as reducing the debt (below 70% of GDP) and the budget deficit (primary budget balance of 2% targeted versus the 2.7% deficit recorded in 2019) to ensure debt sustainability and external stability. The other two pillars are focused on the improvement of the business framework (improvement of the business climate) and the financing framework (reduction of investment risks).

5. Sectoral Challenges and Opportunities for Reform Partnership:

The overall recommendation of this report is to focus on up to four of the sectors identified: manufacturing, agriculture, mobility and infrastructure, and ICT and innovation. These sectors, in principle, promise strong returns to the economy and job creation, while offering unique investment opportunities. They are also sectors well aligned with the comparative advantages of German public and private sectors. While there is strong reform commitment across these sectors, they would also benefit greatly from increased technical assistance and investment from Germany and other development partners. Each sector faces unique challenges, which provide opportunities for long term development cooperation. As suggested, we have organized these challenges and opportunities around: a) policy; b) investment; c) and capacity. This categorization does not follow a specific typology, but rather is used as a general organizing principle with examples of areas where Germany and Togo can collaborate to further investment in the recommended sectors.

Policy

- For manufacturing, improve access to energy, especially in rural areas (currently 7%).
- Improve access to credit in the manufacturing sector.
- Define and implement a strategy for connecting manufacturing to other sectors (primary and tertiary).

- Support the establishment of an export promotion agency for both manufactured and agricultural goods.
- Set up a system of environmental protection for to promote of the use of ecologically responsible products.
- Reinforce the MIFA (Incentive Mechanism of Agricultural Financing based on Risk Sharing) support mechanism for financing agricultural enterprises.
- Promote the development of high value-added agriculture chains and strengthen the partnership between the actors of the existing value chains.
- Strengthen the insurance system set up by MIFA, particularly for health insurance and crop protection.
- Promote digital and mobile solutions in the implementation of programs and projects across sectors.
- Set up programs to promote the consumption of local manufactured and agricultural products.
- Address high rates for data. Current rates for data are restrictive (3.5 GB in Togo with Togocel costs 10,000 CFA. The same amount will purchase 6 GB with Orange in Côte d'Ivoire).
- Improve regulation of new sectors such as fintech.
- Improve access to finance for start-ups in fintech.
- Establish a development fund to support the incubation of start-ups.
- Promote business incubators (IT clusters).
- Open the tele-communications market in order to reduce communication costs.

Investment

- Improve infrastructure access to rural areas to facilitate the transport of raw materials and hence more efficient manufacturing.
- Increase the energy capacities of the agriculture sector in order to facilitate the mechanization and the transformation of products.
- Support the establishment of a quality laboratories to certify products for export.
- Provide financial support, with the assistance of the government, to the flagship projects of the PND that have so far not been financed by the private sector to ensure the bankability of the projects.
- Ensure the opening up of high-potential areas (zones) with high production capacities through the construction of rural roads.
- Enhance the country's tourism potential through improved infrastructure access to sites and their maintenance.
- Support the development of port and airport infrastructures.
- Invest in the development of sub-regional corridors, particularly the Lomé-Ouagadougou and Abidjan-Lagos corridor.
- Invest in the development of digital professions (call center professionals, software developers).
- Support the capacities of municipalities with ICT infrastructure to strengthen their overall connectivity.

Capacity.

- Develop cooperation between Fintechs and financial institutions.
- Strengthen the capacities of training centers for industrial occupations.
- Support small industries in adopting quality enhancement approaches.
- Facilitate access to regional and national markets for products manufactured in Togo.
- Develop networking between German and Togolese small-scale industries.
- Strengthen vocational training in the sector to educate agricultural entrepreneurs.
- Scale up direct technical and financial interventions in favor of the agricultural private sector.
- Improve weak capacity of national companies to build large-scale infrastructure.
- Support to entrepreneurs and SMEs with the necessary technical and financial inputs to impact growth and structural transformation.

6. Parameters for Monitoring and Measuring Outputs and Outcomes

The Reform Partnership Frameworks are a key element of the Marshall Plan with Africa. BMZ supports selected "reform champions" to help improve the general environment for private-sector activities in order to create more jobs and spur economic transformation. Reform roadmaps are closely linked to national development plans and ongoing support from the international development community. The reform roadmaps are focused on specific outputs and sometimes contain up to twenty reform initiatives and targets related to those outputs. In the context of this special report we provide a high level set of parameters for monitoring outputs and outcomes. These would follow the Pathways reports analytical approach, with a primary focus on economic, employment, growth and institutional dimensions.

These parameters would be developed for each sector of focus in each country (in this case, Togo), and would be adapted to country context and data availability. Both national and global data sources should be utilized, knowing that data availability is often delayed by years for some categories. Where possible, global data can be used.

Example Parameters for Monitoring Manufacturing in Togo

	OUTCOME 1: Increased investment in, and reforms for, manufacturing in Togo leading to greater growth and employment.					
Dimensions	**Indicator**	**Baseline**		**Target value in year X**	Baseline source	Key structural reforms during the period
		Value	**Period**			
Economic	Share of GDP in relation to total GDP in %				National or global data	1.

	Average growth rate in the sector in %				National or global data	
	Average exports in millions of currency				National or global data	2.
	Average production volume of in the sector in millions of currency				National or global data	
Employment	Average number of jobs created				National or global data	3.
	Average annual salary per unit of employment in the sector				National or global data	
Growth	Value addition in the sector in millions of currency				National or global data	4.
	Private sector and blended finance investment in billions of currency				National or global data	
Institutional	Average capital expenditure in the sector in millions currency				National or global data	5.
	Average volume of official development assistance in millions of currency				National or global data	6.

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