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Spurring sustainable development through value chains

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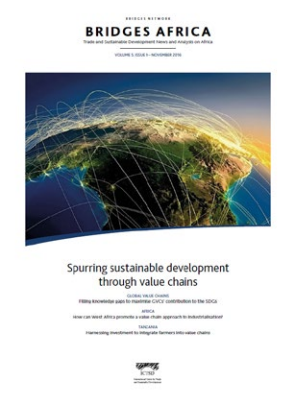

Although international value chains, whether regional or global, are not a new phenomenon, their importance in the global economy has increased tremendously over the last two decades. These geographically fragmented and increasingly complex production networks, often coordinated by dominant transnational lead firms, have become pervasive, significantly altering the global trade and investment landscape. According to UNCTAD, around 80 percent of global gross exports are linked to the activities of such value chains, which offers a telling glimpse of their scale.

From a development perspective, designing and implementing policies geared towards fostering developing countries' beneficial integration into value chains has thus become crucial. The question is not whether to participate, but rather how to promote better and more inclusive participation in value chains so that they become an engine for sustainable development. While some developmental benefits can arise spontaneously from the operation of value chains, there is broad consensus that without adequate accompanying measures and policies, such positive spillovers will remain limited and the gains static.

A first critical step consists in developing a reliable knowledge base on the functioning of value chains. In order to be effective and avoid undesirable outcomes, policies need to be evidence-based. In the first article of this issue, Raphael Kaplinsky identifies some of the key knowledge gaps that need to be filled if global value chains (GVCs) are to contribute significantly to the realisation of the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. For each of the examples provided by the author, the article highlights the stakeholders involved, the types of data needed, and the strengths and weaknesses of specific sets of data.

An important question also lies in the interaction between different types of value chains in terms of geographic span. In the second article, Maxime Weigert focuses on the potential of value chains as catalysts for industrialisation in West Africa. While recognising that promoting integration in GVCs is a relevant strategy, his piece highlights the role of regional value chains as a pragmatic stepping stone for the region to better participate and upgrade in GVCs in the future.

This issue also contains two pieces which adopt a country- and sector-specific approach. In her piece, Asmita Parshotam examines how investment can be harnessed to foster Tanzanian smallholder farmers' integration into agricultural value chains, highlighting both successes and challenges. Moshe Kao's article, which focuses on Lesotho, looks at the development potential of two different value chains – the one global, the other regional – in the apparel sector.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

GLOBAL VALUE CHAINS

Leveraging global value chains in support of the Sustainable Development Goals?

Raphael Kaplinsky

What are the key knowledge gaps which need to be filled if developing economies are to successfully leverage global value chains (GVCs) to meet the Sustainable Development Goals (SDGs)?

An increasing number of people in an increasing number of economies are producing for global export markets. But the growth of exports in itself may not deliver widespread development and assist in the attainment of the Sustainable Development Goals (SDGs). The issue is thus not whether to participate in global markets but how to do so in ways which foster development.

More than two-thirds of global trade now occurs within global value chains (GVCs), that is, producing, importing, and exporting intermediate (semi-finished products) which are then incorporated into final products. Much of this GVC trade occurs within what are termed "governed GVCs," that is GVCs where key lead firms and other actors (such as civil society organisations) determine who does what in the chain.

The structure and functioning of these chains affects who gains and who loses in these global production systems. So, the key policy challenge is to ensure that the nature of these chains is such that they assist in meeting the SDGs. Whilst some positive development spillovers from GVC expansion flow naturally out of the operations of markets, there is abundant evidence that without complimentary policies, these positive outcomes will be restricted.

Filling knowledge gaps are a lever for continuous improvement

The ambitious nature of the SDGs makes new demands on policy, providing new opportunities to widen and deepen the potentially positive role which GVCs may play in fostering broad-based global development. But without an adequate knowledge base, policy will be ill-informed, and, hence, suboptimal. The pervasiveness of these knowledge gaps is unsurprising, given that the SDGs have only just been agreed. Filling these knowledge gaps effectively will of course be contextual – their nature, and the degree of detail required will naturally vary with circumstances, sector, and over time.

Successful business strategies in the corporate world have shown how identifying knowledge gaps, collecting data, and then using these data to benchmark performance over time, sector, and space can be used to "stretch" performance to achieve targeted objectives. A particularly important part of this experience is that well-designed data-capturing activities play an important role in involving stakeholders in processes which lead to the effective implementation of policy.

But, crucially, with filling key data gaps comes the realisation that in varying degree, all indicators are imperfect. Moreover, many are often difficult to capture because of their proprietary nature, but also because many activities in the informal sector are unrecorded. Hence there is no perfect data template. So it is not just that the nature of data capture is necessarily contextual, but also that it requires careful interpretation before policy lock-in and policy implementation.

Filling knowledge gaps for the SDGs: Some examples

Each of the 17 SDGs is replete with knowledge gaps; each of the SDGs, to varying degrees, are affected by the structure of GVCs. Hence the focused task is to identify those policy-relevant knowledge gaps which are central to GVCs and SDGs and which can feasibly be

filled. Below are two examples of how the knowledge gaps in the attainment of individual SDGs can be filled, identifying the key stakeholders involved, the types of data required, and the strengths and weaknesses of specific sets of data.

Reduce inequality within and among countries (SDG 10)
Three primary measures of equality are affected by the structure of GVCs. The first is the distribution of incomes within the GVC itself; for example, between workers, owners, and managers. The second is a comparison between those employed within the GVCs, and those operating outside GVCs, and the third is between workers, owners, and managers employed in the GVCs, but involved in different economies. These various distributional issues, the key knowledge gaps, and the strengths and weaknesses of different data are illustrated in Table 1.

Table 1: Levels of equality (SDG 10)

Unit of analysis	Data requirements (Specifics dependent on sector and chain)	Strengths and Weakness of indicators
Lead firms Suppliers Customer firms Households	<u>Equality within the firm or farm</u> Ratio of managerial and technical salaries to wages of workers <u>Equality with non-GVC participants</u> Ratio of incomes of managers, technical staff, workers, and farmers to equivalents in the domestic economy who are not included in GVCs <u>Equality of workers between countries</u> Ratio of incomes of similar workers living in different countries in same GVC (corrected for purchasing power) Ratio of workers in successful exporters and displaced workers in the importing economy	Data is available in formal sector and larger firms and farms, but these data are often sensitive and difficult to obtain Difficulty in obtaining data for small and informal sector firms and farms Difficulty in obtaining data for firms and employees who have been displaced by global competition

Reliable, sustainable and modern energy (SDG 7); Resilient infrastructure (SDG 9); Sustainable consumption and production (SDG 12); Climate Change (SDG 13)
Energy is essential to life. At the most basic level, it provides the calories to fuel existence (SDG 1). But energy also provides the scope for raising productivity (SDG 12), enhancing infrastructure (SDG 9), and meeting the challenges of climate change (SDG 13).

GVCs are frequently very intensive in their utilisation of energy, and often in unrecognised ways. For example, the gains from improving energy efficiency in cassava- and maize-processing are dwarfed by energy loss in chain logistics such as the transport of raw materials, intermediate inputs, and final products. Similarly, the energy footprint in chains which are global in nature – shipping intermediates and final products within and across countries – can often be very substantial. A further issue in the energy footprint of GVCs arises in their role of misrepresenting the "decoupling" of production from energy use. Many Northern economies have experienced energy decoupling in that the energy-GDP ratio has fallen. However, what has often in fact happened is that the energy (and water and pollution) components of their value chains have been shifted through the medium of GVCs to other economies, predominantly in the South.

These and similar differing elements can be measured with varying levels of accuracy in GVCs (Table 2). The energy intensity of production can be measured within production processes in individual links in the chain. Less easily, attempts can be made to measure the energy intensity of the whole chain, including logistics and international transport. Equally challenging to measure is the extent to which the energy-GDP ratio in a given economy is disguised through the outsourcing of energy-intensive processes to other economies. A further category of sustainable energy concerns lies in access to energy. Grid-based systems are often inaccessible in regions outside major cities, and this is one advantage of renewable energy sources. On the other hand, renewable energy sources may be intermittent and may disfavour those without access to grid-based infrastructure.

Table 2: Reliable, sustainable, modern energy (SDG 7); Resilient infrastructure (SDG 9); Sustainable consumption and production (SDG 12); Climate Change (SDG 13); Oceans and marine (SDG 14); Forestry and biodiversity (SDG 15)

Unit of analysis	Data requirements (Specifics dependent on sector and chain)	Strengths and Weakness of indicators
Lead firms Suppliers Customer firms Households Providers of infrastructure	Energy intensity of production in individual firms and farms throughout the chain, including logistics and trade (energy as % of total costs) Energy intensity of production in individual firms and farms in adjacent chains which feed into the GVC (energy as % of total costs) Renewables as % of total energy utilisation Assessment of the extent to which energy utilisation in the chain reflects displacement of energy from/to chains in other countries Accessibility to and reliability of energy sources Cost of alternative energy sources	Relatively easy to measure energy utilisation in large scale and formal sector firms and farms Difficulty of measuring intensity in logistics and trade links in chain and in feeder chains Difficult in assessing and measuring cross-border displacement of energy utilisation CSR programmes may provide sustainable energy to wider community

Turning data into action

Policy which is not evidenced-based can be counterproductive, with severe unwanted (and unexpected) outcomes. On the other hand, data in itself does not change the world, although the process of data collection can mobilise awareness and action. The challenge is to embed the filling of knowledge gaps into a process of policy formation and implementation which contributes to the attainment of the SDGs.

This necessarily involves engaging with the primary actors who have the power to determine the structure of production, distribution, and innovation. In the context of GVCs, seven sets of actors play key roles.

- **International agencies** (such as the WTO) and **international agreements** (such as the North American Free Trade Agreement) play important roles in determining market access. These trade regimes affect the structure of GVCs across sectors, space, and time and have important distributional outcomes. Each of these organisations need to be aware of how their actions affect the manner in which GVCs contribute to the SDGs.

- **Nation states,** both in exporting and importing countries, set the parameters of production and market access. How do their actions affect the extent to which different SDGs are met and who gains and loses from participation in GVCs?

- **Lead firms** play a critical role – perhaps the most important role – in determining the manner in which GVCs reinforce or undermine the attainment of the SDGs. Many of these lead firms express a willingness to support SDGs, but are largely ignorant of the impact of their operations on SDG outcomes.

- **Supplier and user firms** in GVCs play similar, but subsidiary roles in the attainment of SDGs, and many of the larger supplier and user firms play a "lead firm role" with regard to their own value chains. Here, too, knowledge gaps are widespread.

- **Workers**, sometimes operating as individuals but particularly when working collectively, can play an important role in holding their owners and managers to account in actions which affect the attainment of SDGs. The effective collection of micro-data in firms and farms which is necessary to support competitiveness in global markets can often act as a form of awareness raising and mobilisation amongst these workers. But in other cases, workers need positive support in their attempts to understand the nature and determinants of the distributional outcomes in GVCs

- **Civil society organisations** play key roles in the structuring of GVCs. In many sectors, particularly those selling into final markets, and especially into higher-income final markets, their concerns with fair trade, workers' rights, and the environment meet the needs of many of the SDGs. However, often their efforts are under-informed or misinformed, driven as much by prejudice and hearsay as a detailed understanding of what is happening on the ground in GVCs

- In some sectors, **public-private partnerships** are the predominant actors in addressing the SDGs, particularly in the provision of global public goods such as in the treatment of neglected tropical diseases. Often these are large-scale top-down initiatives which fail to adequately recognise what is happening in the nether regions of their value chains. Here, too, knowledge gaps can be widely observed.

An adequate policy response requires the recognition that that many of the SDGs make demands for new information, for which existing knowledge capturing systems are not appropriately focused.

The SDGs, GVCs, knowledge gaps, and stakeholder alignment

Putting the puzzle together requires a number of different pieces of the jigsaw to be assembled. First, policy at all levels must be evidence-based if it is to be effective. Second, an adequate policy response requires the recognition that that many of the SDGs make demands for new information, for which existing knowledge capturing systems are not appropriately focused. Third, knowledge comes in various forms and in varying degrees of detail. Context in knowledge generation is critical. Fourth, GVCs play a dominating role in global trade. Because they cut across sectors and countries, and because they involve a range of stakeholders, they require varied datasets which span systems rather than data about discrete links within production systems. Fifth, a range of stakeholders are involved – in the collection of data, in the analysis of this data and, most importantly, in the actions which are required to deliver the SDGs.

In some cases, there are win-win gains across GVCs which will drive the generation of appropriate knowledge, the analysis of knowledge, the generation of policies, and the implementation of defined actions. In these cases, the key parties in the chain have common interests and can readily work together. This can be described as a process of "stakeholder alignment." But in other cases, stakeholders have conflicting interests and access to knowledge of specific sorts is the basis for the differential power in GVCs. The challenge of leveraging GVCs in the attainment of the SDGs in these cases will not be simple. But as in the case of "stakeholder-aligned GVCs," access to knowledge will be a core element in the struggle to make progress on the SDGs.

This piece is based on an issue paper entitled "Inclusive and Sustainable Growth: The SDG Value Chains Nexus" published by ICTSD, which discusses SDG- and GVC-relevant knowledge gaps in greater detail.

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AFRICA

Regional before global: A value chain approach to industrialisation in West Africa

Maxime Weigert

Sustainable Development Goal 9 calls for a commitment to "build resilient infrastructure, promote sustainable industrialization and foster innovation." Are regional value chains a relevant industrialisation pathway to achieve this goal in West Africa?

Integration into global value chains (GVCs) is often hailed as a key pathway to sustainable industrialisation in Africa, driving private sector development and modernisation, and so fostering job creation and greater participation in the global economy. This is promoted for West Africa, where the share of manufacturing industry in the regional GDP was only around 9 percent in 2015. In order to achieve Sustainable Development Goal 9, which prioritises industrialisation in the battle against poverty and exclusion, the region needs to scale up its industrialisation in an effort to increase employment and social inclusion, particularly among youth.

Although the GVC strategy is relevant, especially at a time when labour costs in Africa are becoming more and more competitive in relation to new industrialised countries in Asia, it has at least three downsides in the short term. First, the fragmentation of potential participant countries into GVCs exposes them to the opportunism of multinational companies in location choice, because new entrants lack bargaining power. Second, linking to GVCs requires quality parameters which are not easy to reach for countries experiencing the infrastructure deficiencies and high levels of informality in the private sector that are seen in Africa. Given that it is impossible to leapfrog the constituent stages of non-price competitiveness in the industrialisation process, the development promise behind integration into GVCs can only be contemplated in the long term. Third, while African countries can look to GVCs to yield higher returns in exports of manufactured intermediate goods, this only partially addresses their trade balance challenges, since consumption goods remain imported, rather than produced locally.

These challenges must not lead West African countries to opt out of GVC strategies, but rather to gradually prepare for them. An alternative approach to value chain development that focuses on regional value chains (RVCs) contains transitional solutions to trigger competitive export-led industrialisation in the region. By focusing on the nature of RVCs and the opportunities they offer to West Africa, this article highlights RVCs as a pragmatic stepping stone for the region in order to more sustainably link to GVCs in the future.

The relevance of RVCs in West Africa

The RVC strategy envisages a production system which is comparable to the global-scaled one of the GVCs, but differs in that it is regionally aggregated and results in end products exported by a country within the region. The idea is to leverage the growing local demand for finished goods to shape regional production chains that are not constrained by the demanding norms required in GVCs, and that centre on the specificities of local demand and consumption practices. While less dynamic than linkages to GVCs due to the smaller size of the end-markets, RVCs could trigger sustainable industrialisation by enhancing integration, productivity, and division of labour in the region and incorporate indigenous firms into a region-wide logistical system that will be gradually optimised. Once the RVCs are established, the end products can also be exported globally, particularly to other developing markets, and this lays foundations for consolidating and upgrading the process so as to link it, as a next step, to GVCs.

This approach is appropriate in the West African context for a number of reasons. First, West Africa reports a low level of trade and productive integration, with one of the lowest

regional intra-industry trade scores in the world,[1] and the second lowest score in trade and productive integration in Africa.[2] This situation indicates little participation in RVCs and weak bargaining power for the region, where countries act more as competitors than complementary allies. Implementing RVCs can therefore be seen as a catalyst to regional integration and cooperation.

Moreover, it is generally agreed that to prove successful, RVCs need to revolve around sizeable growth poles, from which the regional chains develop themselves through various channels of transmission from core to periphery. In West Africa, Nigeria represents a typical growth pole, characterised by intense trade activity (export and import) and a large market and population size, attracting capital flows, migrants, and technology.[3] In addition to Nigeria, the region is host to two other promising growth poles, namely Ghana and Côte d'Ivoire, which have recorded strong annual GDP growth rates in the last five years. These countries could assume leadership in the emergence of RVCs involving their periphery, in particular with the landlocked countries of the Sahel.

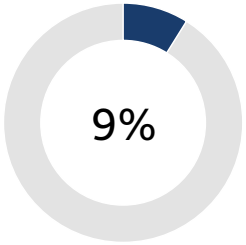
Regional value chains could trigger sustainable industrialisation by enhancing integration, productivity, and division of labour in the region and incorporate indigenous firms into a region-wide logistical system that will be gradually optimised.

The level of development and the regulatory context are other sound justifications for the region to focus on RVCs before GVCs. Indeed, 72 percent of West African goods for further exportation are directed to Europe and North America,[4] where non-tariff restrictions, including highly demanding norms to be complied with, undermine their access to the market. As a result, the scope for competing, upgrading, and climbing up the value chain is very restricted for West African firms linked, for example, to a Europe-headquartered GVC. By contrast, dealing with the regional regulations in which they are embedded offers them far more opportunities to grow, with the ability to navigate local institutions, including informal ones, giving them a major competitive advantage over extra-regional competitors. Likewise, the cultural dimension of manufacturing production is a key determinant of RVCs' relevance in West Africa, since one major aspect is the focus on the regional consumption markets. This gives regionally based manufacturers the opportunity to design and produce differentiated products adapted to the cultural preferences of regional consumers and the needs created by their environment, which provides significant added value in terms of market capture.

Lastly, RVCs can initiate sustainable industrialisation in the region through quantitative spillovers resulting from industrial development, such as jobs and enterprise creation, and increased exports and government revenues. In addition, qualitative spillovers are expected, as greater inter-firm linkages throughout the RVCs (trade and investment) can result in technology and knowledge transfers, enterprise formalisation, and business professionalisation. Eventually, this can lead to a transformation and upgrading of the private sector, entailing higher value-added activities and the creation of higher skilled jobs.

Featuring RVC opportunities in West Africa

In summary, the RVCs pursue two objectives: exploiting complementarities between countries and actors in the region; and leveraging the growing demand for finished goods within the region. In regard to the first objective, it is the purpose of any value chain, whatever the level of aggregation, to make optimal use of the resources and endowments available in the ecosystem it covers, so as to increase efficiency in the production process. In the case of RVCs in West Africa, the need to exploit complementarities can be easily featured through geography, citing for instance *de facto* complementarities between



In West Africa, the share of manufacturing industry in the regional GDP was only around 9 percent in 2015.

landlocked and coastal countries of the region. Along with geographic factors, strong complementarities could be harnessed depending on national/subregional specialisations, based on the regional division of factors of production, including natural resources, labour, and capital.

The second objective is determined by the size and pace of growth of household consumption in the region. The McKinsey Institute recently estimated that household consumption should grow by 22 percent in Nigeria by 2025, and by 77 percent in Francophone countries of Central and West Africa, reaching about US$450 billion and US$230 billion respectively.[5] This dynamic, which reflects the region's growing population and rising household incomes, can provide economies of scale to producers focusing on these local markets, especially if they endeavour to develop an industry not only "made in West Africa", but also "made for West Africa."

Several sectoral examples illustrate the relevance to meeting the distinctive needs of regional consumers, such as in pharmaceuticals (drug manufacturing, with a focus on endogenous health issues), textiles (African fabric), construction (local materials), or cosmetics (local products). The food sector best exemplifies this model, however, since nutrition-related behaviours are highly determined by cultural habits. In West Africa, dietary patterns are evolving with urban lifestyles. One major change is the increasing demand for processed products, which account on average for 39 percent of household food consumption in the region – and remarkably for 36 percent in the poorest households.[6] While demand for processed food in the region comes with the expansion of global products, cultural habits remain, with preference for traditional products such as tropical tubers (yam, cassava) and local fish and meat, which are increasingly converted into higher value-added processed products (attieke, garri, smoked or dried fish/meat, etc.). This evolution justifies the development of food and beverage processing activities specialising in West Africans' needs. As a second step, these products could be exported towards other African regions and developed countries, through the existing ethnic-based commercial networks of the diaspora.

How can RVCs be initiated in West Africa?

Policy recommendations in favour of RVCs do not differ significantly from those that are usually formulated to promote integration into GVCs. The latter, which focus on industrial policies at the national level, and on regional integration at the supranational level, are well known and their application to RVCs can be summarised as follows. First, to foster industrialisation domestically, West African countries need to build strategic infrastructure, improve logistics, encourage private sector development, and invest in human capital. Second, they need to regionally enhance their integration with developing cross-border infrastructures, removing tariff and non-tariff barriers, and implementing the harmonisation of regulations and technical standards, which could make the exchanges within the RVCs more fluid. More specifically, RVC strategies could emphasise the role played by growth poles in the region. These poles, which already benefit from economies of agglomeration and concentrate most of the financial capital, could "headquarter" the RVCs and take the lead in their deployment, primarily by channelling extra- and intra-regional productive investments into the region. Accordingly, an incentivising intra-regional investment framework is a critical tool with which to equip the region.

The second, more original area of intervention focuses on the actors. As explained, regionally based firms have competitive advantages when it comes to capturing local markets. The Boston Consulting Group recently found that African companies, including in West Africa, face down large multinationals in several areas.[7] The reasons for their success lie in four competitive advantages: focus on the local market, where they concentrate their development and branding strategies; mastery of the industrial environment (logistics, suppliers); flexibility, particularly in terms of standards adaptation; and knowledge of the expectations and behaviour of consumers, thanks to the data gathered since they were set up. In other words, with tariff conditions similar to those of foreign multinationals, these local champions find their advantage in their ability to manage non-tariff costs.[8]

This opens a path for RVC policies, already taken up by some institutions. In 2011, the International Finance Corporation invested €11 million to support the expansion of Patisen, a food-processing company in Senegal specialising in the production and distribution of bouillon cubes and chocolate. The purpose of the partnership, which also included technical assistance in areas such as strategic advice and corporate governance, was to accompany Patisen in its regional expansion, while ensuring the company would in turn transfer know-how and sustainability to local suppliers and wholesalers. By demonstrating that local players can be at the heart of an industrial learning process across RVCs, this experience could inspire governments, investors, and development institutions and help them to expand regionally. These local champions could therefore be the interface between the global economy and the regional network of production, initiating technology and knowledge spillovers within the region, and preparing the region's industrial base for upgrading.

Conclusion: RVCs and sustainability

Promoting RVCs is a relevant pathway to trigger manufacturing development in West Africa and pave the way to greater linkages to GVCs, since this model can be built not against but in tune with the local regulatory and development context. Like any systematic value chain, RVCs can channel knowledge and technology transfers within the region, allowing regional producers to progressively upgrade their production process, climb up the value chain, and reap competitiveness gains so as to further compete in GVCs. Local champions, as key orchestrators of this model, may also be focal points in working towards sustainable industrialisation. In this regard, a possible lever for the development community is to help them appropriate innovation and good practices available elsewhere, in such areas as green industrialisation and corporate social responsibility, as a source of value chain efficiency and inclusive development.

The views expressed in this article are those of the author and do not in any way represent those of the institution with which he is affiliated.

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TANZANIA

Using investment to integrate farmers into value chains: Tanzania's successes and challenges

Asmita Parshotam

How is investment via government policies, donor initiatives, and public-private partnerships being harnessed to foster growth in Tanzania's agricultural sector and integrate smallholder farmers into larger value chains?

Tanzania has become a darling of Western donors in recent years, building on an image of political stability and economic transformation. Tanzania has an annual growth rate of 7 percent, making it the fastest growing country in East Africa. However, Tanzanian farmers have been unable to sufficiently exploit the comparative agricultural advantage offered by the country's favourable landscape, geographical location, and access to a major port city – Dar es Salaam. Agricultural productivity has also fallen short of the government's 6 percent target derived from the African Union's Comprehensive Africa Agricultural Development Programme (CAADP). Consequently, in recent years the Tanzanian government has implemented various policies and practices to enhance investment and stimulate growth in the country's agricultural sector, with a view to ensuring the socio-economic development of smallholder farmers.

There is a plethora of government and donor initiatives and public-private partnerships (PPPs) currently underway in Tanzania. This article provides a description of how investment is being used as a tool to further farmers' integration into larger value chains. In identifying successful initiatives and current challenges, the article also provides potential policy recommendations that could be implemented in order to better harness investment towards that objective.

Tanzania's farmers: facing an uphill battle to enhance agricultural production

Tanzania's farmers are traditionally smallholders, farming less than two hectares of land. Many are located in extremely remote areas of Tanzania. One of the largest structural challenges facing smallholder farmers is the lack of infrastructure (roads, railways, irrigation, and power) that would enable their access to larger markets, improve the quality of their produce, and facilitate moving up the value chain into agro-processing activities. These problems are not endemic to Tanzania and many other developing country producers face similar problems. However, the fact that Tanzania's farmers face hurdles from the farm gate itself remains an existing cause for concern that donor and government interventions have not managed to completely address.

Investment as a tool for value chain inclusion: successes and challenges

Investment targeted specifically at the agricultural sector has been sporadic, which has made implementing long-term initiatives harder. While sectors such as energy and transportation have found it easier to attract private investors, agriculture has not shown similar results. Increasingly aware of the challenges facing smallholder farmers, the Tanzanian government has, over the years, worked towards improving investors' perceptions of Tanzania as a traditionally socialist state that is not business friendly. It has thus focused on implementing a variety of policies aimed at cultivating an investor-friendly environment that is also development focused with regard to its farmers. As a result, the Tanzania Investment Centre (TIC), the primary government agency tasked with facilitating and encouraging foreign and local investment in Tanzania, has utilised important measures to cultivate investors' interest in the country's agricultural sector. These measures include tax-friendly provisions for foreign and local investors for minimum investment amounts of US$500,000 in capital for foreign investors and US$100,000 in capital for local investors. Tax-free periods for the first five years of business operations allow businesses to grow

during their inception period, with the long-term goal of generating profits and thereafter expanding their operations.

However, measures are not only geared towards ensuring gains for investors alone. The TIC has created safeguards to ensure that farmers also benefit from investment gains in the agricultural sector. These measures include mandatory corporate social responsibility (CSR) conditions for both local and foreign investors that have been incorporated into investment agreements on a sector-by-sector basis. As part of these CSR provisions in the agricultural sector, investors are required to contribute towards the land tenure security of smallholder farmers, improve local community infrastructure through their projects, and encourage joint ventures between themselves and local communities. Through its Business Linkages Programme with UNCTAD, the TIC also provides training on quality issues to more than 200 small and medium enterprises and encourages links between smallholder cooperatives and international companies. In 2011, the government partnered with AirTel to facilitate the transmission of market-related information to farmers. For farmers located in rural areas with little access to larger markets, receiving market prices through their mobile phones is an effective way to ensure they are well informed, minimise their reliance on middlemen, and ultimately empower them to be active participants when selling their produce.

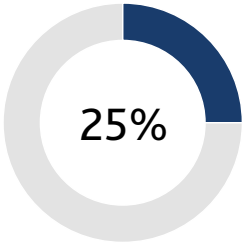
Although the regulatory environment has improved over the years, problems surrounding "doing business" conditions, land ownership, and existing tax regimes continue to exist, thereby limiting the prospects for greater investment and private sector participation.[1] Tanzania currently ranks 120th out of 140 economies in the 2015 World Economic Forum's Global Competitiveness Report. For foreign investors, high interest rates ranging from 14 to 24 percent act as a deterrent to borrowing from local banks.[2] Currently, Tanzania has the rather dated National Investment Act of 1997 as its overarching investment strategy, which does not comprehensively address land tenure and investor incentives. Foreign investment regulations are also scattered across numerous laws, which makes navigating the Tanzanian investment legal landscape more challenging for foreign investors.

Infrastructure remains severely underdeveloped across the country, and many producers are reliant on Kenya's more attractive airport tariff rates, simpler bureaucratic procedures, and cold room storage facilities in order to export their produce.[3] Consequently, Tanzania continues to be surpassed by Kenya and South Africa in output levels, as both countries have far more sophisticated value chains and, in Kenya's case, greater success at mobilising their smallholder farmers for mass production of agricultural produce.

There are, however, small changes being implemented to address some of these problems. An ongoing initiative that attempts to bridge the gap between investors' demands and the socio-economic development of Tanzanian farmers is the World Bank's Southern Agricultural Growth Corridor of Tanzania (SAGCOT) initiative, which involves a wide range of partners and is characterised by its "mega-PPP" status.[4]

The Tanzanian government appears to understand the importance of striking the right balance between attracting investors and protecting the rights of farmers. In the SAGCOT project, land allocations of between 3,000 and 50,000 hectares have been reserved for leasing to investors, with the land surrounding these parcels reserved for smallholder farmers.[5] Investors will bring with them services, infrastructure, and inputs as they undertake agri-processing initiatives and agricultural production under the SAGCOT project. As a result, smallholder farmers are expected to benefit from better access to larger markets, and improved inputs, extension services, and irrigation, helping them to improve their farming methods and boost their outputs, with the hope of ultimately increasing their profits, improving their living standards, and generating movement beyond their current income brackets.

On paper, SAGCOT sounds like an ideal bridge between private needs, public concerns, and the government's efforts to ensure that farmers' socio-economic conditions improve as a



Tanzanian smallholder producers can face up to 25 percent tariffs and 18 percent VAT charges for agro-inputs.

result of their involvement in larger value chains. However, SAGCOT was only launched in 2010 and remains in an early stage of development. Consequently, its success as a mega-PPP using investment as a tool for value chain inclusion and development remains to be tested.

Financial woes continue for Tanzanian farmers

Moreover, farmers are not always able to access much-needed financing to grow their operations. The Tanzanian government and the Agricultural Council of Tanzania have created the Agricultural Development Bank (ADB) as a specialised financing instrument for these farmers. Having only come into operation in 2015, there are concerns that the ADB already lacks the capital to cater for all smallholder farmers and remains inaccessible to individual farmers. This raises the possibility that the main beneficiaries of the ADB will be medium-scale farmers already possessing collateral, instead of smallholder farmers. The far-flung distribution of banks within the rural sector does little to address farming communities' needs to access financing on a regular basis. There is also a dire need to provide some form of mobile or accessible financing to smallholder farmers in order to facilitate their movement into different sectors of the value chain, or even for crop diversification. Consequently, many smallholder farmers are still only able to access funding through farmer cooperatives, without the support of which they cannot manage their finances.

Another way in which farmers are prevented from upskilling is through the value added tax (VAT) and tariff charges on agro-inputs such as seeds and plant materials. Although tax rebates exist for larger export producers, small-scale exporters that fall below the VAT registration threshold are disadvantaged through their lack of access to reimbursements. High-quality inputs are critical if farmers wish to cultivate produce for regional and international export. However, smallholder producers can face up to 25 percent tariffs and 18 percent VAT charges for agro-inputs. Combined with unfair administration levies, tax levels prevent farmers from reinvesting their savings or some of their profits in purchasing new seed, hampering their ability to make substantial investments in the future growth of their businesses. In general, the tax regime appears to be largely problematic for many actors throughout agricultural value chains and requires an overhaul.

Way forward and policy recommendations

The government, donors, and the private sector have implemented several measures that, in the long term, should work towards growing Tanzania's agricultural sector and cater for the involvement of smallholder farmers. It is important to realise that successful initiatives in the agricultural sector, such as Kilombero Plantations Ltd (which is also involved in the SAGCOT project and will reap benefits from this involvement) and Tanga Fresh, have benefited from foreign investment from larger multinational companies and long-term investors, as well as from training and support for producers. However, these initiatives are not without their challenges, and some face obstacles in their efforts to tap into the domestic market. SAGCOT and Kilombero have strong PPP components to them, and provide useful examples of how PPPs can be utilised for the long-term sustenance of projects and the incorporation of farmers into larger value chains through training, upskilling, and agro-processing initiatives.

Nevertheless, changes to Tanzania's agricultural sector can be implemented through a number of measures:

- Existing input measures must be further developed and farmers need to become familiar with them. The government has implemented an initiative whereby smallholder farmers' associations/cooperatives are linked to large-scale agricultural input suppliers. This involves all levels of government, from central to local government, and all input suppliers have to be registered in each farming district, and distribute supplies according to these channels, down to the village level. Similarly, the Agricultural Council of Tanzania's "Farmers Platform" project builds a contact base of farmers with the end-goal of matching them with input suppliers' contacts and ensuring that farmers are subsidised through economies of scale. This engagement

allows farmers to interact with input suppliers, thereby allowing them to purchase farming inputs at cheaper rates. Should such initiatives continue and include private sector players that can supply equipment and machinery at affordable prices, they would contribute to ensuring regular and cheaper access to agricultural inputs, which would in turn help address the quality restrictions faced by farmers in the long term.

- Encouraging the implementation of better farming methods through research and innovation and disseminating this knowledge among smallholder producers is also important. This should be undertaken regularly through workshops based in rural areas or locations most convenient to farmers.

- Cross-sectoral relations must be improved: better communication between researchers, policymakers, and government is essential for understanding farmers' needs. The government needs to adopt a more consultative approach, particularly because mega-PPPs have been met with outcry from some civil society actors with respect to asymmetrical relations and power dynamics between multinational agri-businesses and smaller producers.

- Implementing non-protectionist policies that harness the producing potential of smallholder farmers through inclusion in domestic value chains can also help facilitate their entry into regional markets. Such measures could include enhancing farmers' competitiveness, improving their labour productivity, and upgrading their technical knowledge. Promoting linkages to regional markets would help smallholder producers to understand the importance of producing high-quality produce for export that would derive higher profits for them. Developing infrastructure and addressing quality and quantity restrictions is also essential to meet this objective.

- Together with the TIC, farmers' associations and the ministry of agriculture need to create and implement comprehensive monitoring and evaluation processes that include consultations with farmers. This would encourage local communities' continuous learning from past experiences, promote skills transfer and upskilling, and support farmers in their efforts to move up the value chain. Ultimately, investment in Tanzania's agricultural sector must be used for the benefit, inclusion, and uplifting of smallholder rural farmers.

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LESOTHO

Lesotho's participation in apparel value chains: An opportunity for sustainable development?

Moshe Kao

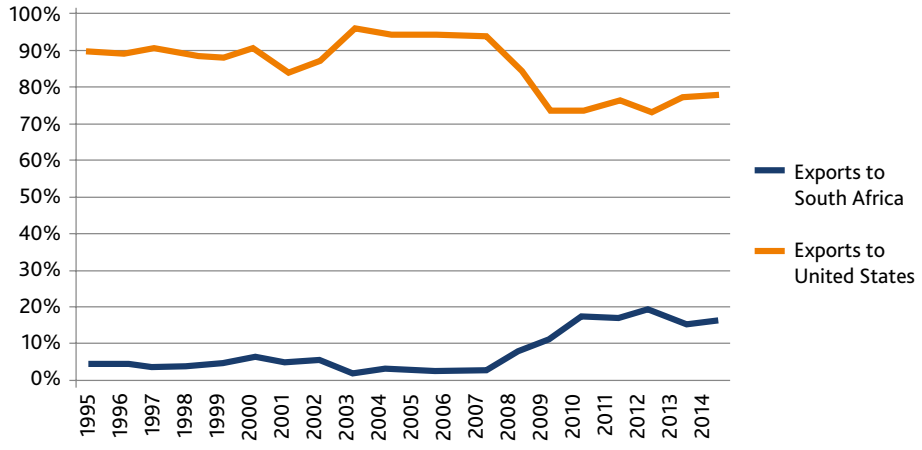
What have been the impacts of Lesotho's participation in apparel value chains? This article explores the development potential of two different value chains – the one global, the other regional.

Global production lines have multiplied tremendously in the last three decades. At the same time, the production of apparel and textiles has contributed to the economic development of a handful of African countries, including Lesotho. This sector is a major contributor to Lesotho's economy, and accounted for around one-third of the country's GDP and 60 percent of its total exports at its peak in 2007. It is also the largest formal employer, employing nearly half of the formally employed workforce and 80 percent of Lesotho's manufacturing workforce.[1]

The Lesotho textile and apparel industry is well established and mainly driven by global exports, primarily to the US under the Africa Growth and Opportunities Act (AGOA). While the sector has faced a number of challenges, including the end of Multi-Fibre Arrangement (MFA) in 2004 and the fallout from the financial crisis in 2008–9, new opportunities have arisen in the last five years. Developments such as the entry of South African clothing manufacturers exporting primarily to the regional market have created a regional value chain that takes advantage of the Southern African Customs Union (SACU). Figure 1 illustrates the percentage of exports of apparel products to the US market, driven by AGOA, compared with exports to South Africa – which reflect regional trade, as the items are not only exported to South Africa but to the Southern African region through retail value chains. From 2007 to 2010, exports to the US market declined from 95 percent to 74 percent, while exports of textiles to the South African market increased from 3 percent to 17 percent. In 2014, exports to the US through AGOA accounted for 78 percent, while exports to the regional market were at 17 percent.

Participation in the textile and apparel value chains has had a positive impact on Lesotho's socio-economic development, shown in the positive correlation between increased exports and economic growth and improvements in the well-being of workers. This article addresses three crucial aspects of Lesotho's participation in the textile and apparel value

Figure 1: Apparel exports to South Africa and the United States as percentages of Lesotho's total apparel exports



Source: UNCTADstat.

chains, looking first at the economic impact, then at the social impact, and finally at the sustainability of the industry and the potential for upgrading. It concludes by offering policy recommendations.

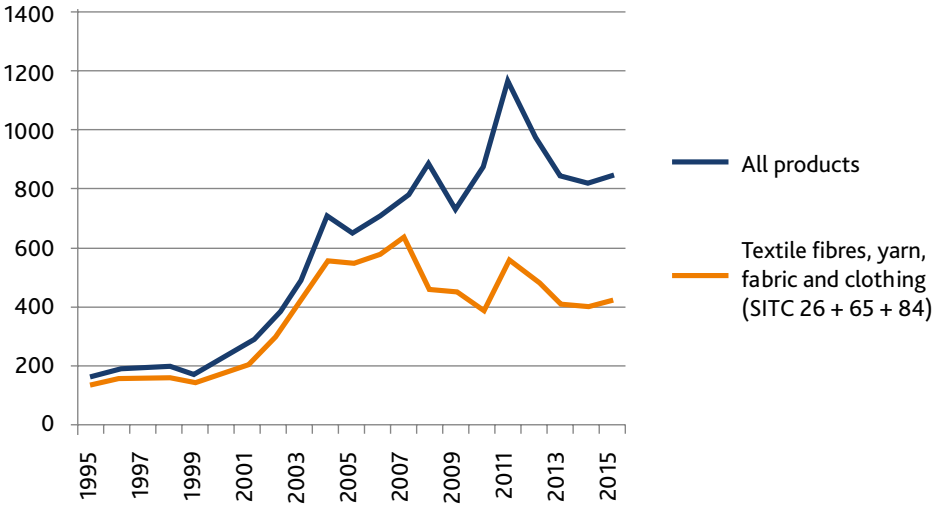
Economic impact

At the national level, global value chains enable countries to specialise in areas of comparative advantage, thus enhancing productivity growth and supporting wages and incomes, as well as increasing the interdependency and interconnectedness of economies. In 1995, the US was the predominant market for Lesotho, accounting for 76 percent of total exports to the world, while Africa accounted for only 17 percent. As a result of AGOA in 2000 and ensuing investment by Taiwanese apparel companies, Lesotho's apparel industry grew substantially and exports to the US jumped threefold, from US$140 million in 2000 to US$456 million in 2004. The number of apparel firms increased dramatically in the same period, from 21 firms employing 9,847 workers in 1999 to 49 firms employing 53,087 workers. However, as a result of the expiration of the MFA in 2004 the economic crisis of 2008, and the slow economic recovery that followed, the number of employees and firms had dropped to fewer than 39,000 workers and 39 firms by 2015.[2] The uncertainty surrounding the future of AGOA after 2025 could also pose new challenges for Lesotho's apparel industry.

To grow and sustain Lesotho's apparel industry, the country has sought to diversify its export markets in the past 20 years. Lesotho's economic diversification strategy is also intended to buffer against any losses arising from the apparel industry. It includes greater participation in South African value chains that are labour intensive in the sectors of agro-processing, light assembly, manufacturing, and business process outsourcing. This has resulted, for example, in the automobile sector investing in Lesotho, fostering the participation of local companies in the value chain of brands like BMW, Nissan, and Ford to produce car seats,[3] as well as in diversification into consumer electrical and electronic appliances produced by companies like Philips. The mining sector has also contributed significantly to the decline of apparel exports' share in total exports.

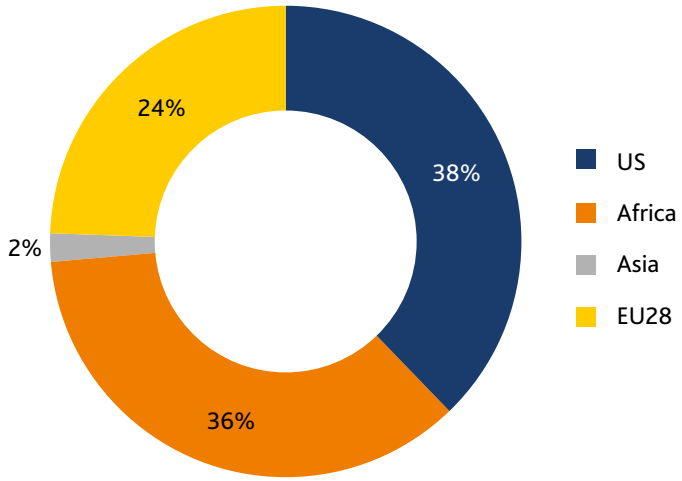
This has translated into a massive erosion of the US market, from 76 percent in 1995 to 38 percent in 2015, largely due to Lesotho's increased focus on regional trade integration. The US is no longer Lesotho's only major exporting market, with Africa now accounting for 36 percent of total goods exports (Figure 3). Figure 2 illustrates the evolution of Lesotho's total exports as compared to apparel exports over the past 20 years.

Figure 2: Lesotho's exports of apparel products and total exports to the world (in million US$)



Source: UNCTADstat.

Figure 3: Lesotho's exports to main markets as a percentage of total exports (2015)



Source: UNCTADstat.

Investment

Productive activities in the apparel and textile sectors can be both labour and capital intensive, with apparel generally being very labour intensive, and textiles usually requiring important physical capital. In 2015, new factory shells were opened, with construction financed by government and development partners to the value of US$28.4 million. The shells are to be occupied by 10 new companies, eight of which are managed by local Lesotho nationals (Basotho), and they are expected to create more than 5,000 direct jobs. In addition to the construction of factory shells, the government, through its investment promotion agency, is using incentives to attract investors. An example is the local denim mill, which has invested over US$100 million, signalling long-term commitment to the industry.

South African manufacturers have also shown increased interest in investment in Lesotho through the addition of higher value activities in the country. For example, the largest South African owned firm has undertaken skills development, not only for its low-skilled workers but also for its local managers through leadership training. The proximity of Lesotho to the head offices of many of the South African manufacturers is also apt for transferring higher value services to Lesotho. One South African manufacturer intends to invest in integrated manufacturing shells that enable both backward and forward linkages, with research, design and marketing functions relocating to Lesotho.

Services

The major service components within the Lesotho textile and apparel value chains are transport and logistics, from the sourcing of raw materials to the shipping of products to the market. High-value service components such as product development, research and design, or branding and marketing, are primarily performed at factory head offices in Taiwan or South Africa. Conducting these higher value services remotely is detrimental to the transfer of skills to the Basotho workers, including management and leadership skills. The government and the World Bank have established two skills development centres in the two economic zones in Maseru and Maputsoe that provide basic skills for the textile sector. However, the South African manufacturers require advanced skills for their complicated products and they are currently supporting the local skills centre to enhance their training to contribute to the transfer of these skills.

Social impact

The formal employment of women in the textile sector can contribute significantly to their economic empowerment, the reduction of poverty, and national economic growth. Young women with low levels of education and skills comprise the majority (80 percent) of employees in the textile sector and also head more than half of all households in Lesotho. South Africa oriented manufacturers, through social development projects, are starting to train and empower women to rise to senior management positions.

Basotho women employed in the textile sector have been economically empowered. The wages earned by textile workers have given them increased options and choices in their lives and also increased their role in decision-making both within and outside the household. However, these wages do not fully cover their basic needs and are not high enough for savings, limiting the possibility of financial assistance from financial institutions. To circumvent this, workers have created their own work-based social investment groups that allow them to have a certain amount of financial assistance and a certain amount of savings.

Through employment in the industry, the workers have access to workplace health programmes that provide them with health education and free health services. Lesotho does not provide social security but health services are highly subsidised, with HIV and tuberculosis treatment provided free at health facilities. The HIV prevalence rate for Lesotho is 23 percent nationally and 45 percent in the industry. In addition, almost 60 percent (23 out of 39) of Lesotho's textile factories participate in the Better Work Programme of the International Labour Organization. This programme has contributed to improvements in occupational safety and health conditions within the participating factories and has also supported worker empowerment through the promotion of factory compliance with national labour laws and regulations. These and other programmes have increased awareness of workers' rights, especially for women. A recent example was the introduction of paid maternity leave for female workers in the labour code. Starting in February 2016, a mobile reproductive health clinic – operated by the Seventh Day Adventist health facility, with support from United Nations Population Fund – has been providing important health services in the industrial area, five days a week, free of charge. The mobile clinic provides family planning counselling and supplies, offers antenatal check-ups for pregnant women, and provides HIV counselling, testing, and treatment.

There are significant differences between the regional value chain mainly driven by South African producers and the US/Asian value chain in respect of opportunities to upgrade.

Sustainability

The main driver for Lesotho's textile and apparel exports has been the duty-free market access offered by AGOA and SACU. Predictable, stable, and sustainable preferential market schemes play a critical role in the economy of Lesotho. According to Joshua Setipa, Lesotho's Minister of Trade and Industry, any loss of AGOA privileges would directly impact upon South Africa and other southern African countries. Lesotho's only textile mill buys cotton lint from a number of southern African countries, including Malawi, Mozambique, South Africa, Zambia, and Zimbabwe. In 2015, it bought 105,393 cotton bales. However, it is highly likely that should AGOA cease to exist, the mostly Asian-owned firms would not relocate to other parts of Africa, which would thus have a significant negative impact both for Lesotho and other southern African countries. To improve the sustainability of the sector, the government of Lesotho has embarked on a public-private partnership approach using a strategic set of industrial policy interventions aimed at upgrading the institutional fabric of training and infrastructure. It is also campaigning to increase national ownership by providing Basotho-owned companies that want to participate in the textile and apparel value chain with subsidised factory shells.

There are significant differences between the regional value chain mainly driven by South African producers and the US/Asian value chain in respect of opportunities to upgrade. The regional market orientation offers added opportunities for social and economic upgrading through empowerment, skills development, and local embedding through regional sourcing, including investing in the development of firms directly in Lesotho – where the relative stability of both labour relations and electricity and water suppliers have helped

attract South African investors. However, the number of workers in firms oriented to the South African market are not in a position to replace US-oriented firms, as each South African firm employs less than half of the workers employed in the firms targeting the US market. Moreover, the firms exporting to the South African market could not replace the revenue generated from US exports, as the volumes of goods produced for the regional market represent only a small percentage of those produced for the US market. The South African firms produce small but complicated products with higher margins, while the US-targeted firms focus on mass production of simple products with low margins requiring low skills.

Conclusion

The two apparel product value chains in Lesotho have positively contributed to addressing some of the economic and social challenges faced by the country, including alleviating poverty, by generating employment as well as promoting gender equality, as 80 percent of employees in the sector are women.

Preferential market access, especially to the US, has been the main driver and incentive for foreign direct investment from Asia. However, the transfer of skills or technology has remained limited over the last two decades, as most of the high-value and management functions are based abroad. In addition, local linkages to the industry are limited to the transport, logistics, and banking sectors. The regional value chain, on the other hand, has demonstrated a greater potential for upgrading, especially through workers' skills development, and sustaining the industry on a long-term basis.

The Lesotho experience has demonstrated elements that are required for successfully engaging in both global and regional value chains. For policymakers, a responsive trade and industrial policy that promotes diversification and reduces dependence on preferential market access is key to benefiting from participating in value chains since it promotes opportunities for backward and forward integration. Diverse trade and trade-related policy interventions give an opportunity to expand into new markets, integrate the private sector, and upgrade along the value chain. The transfer of skills and technology plays a critical role in enhancing competitiveness within the industry and increasing the diversity of workers' skills.

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LABELLING

A sweet deal: How a change in US chocolate labelling rules could benefit Africa

Kornel Mahlstein and Christine McDaniel

A change in the rules for chocolate labelling in the US could increase shea exports and boost incomes in shea-producing regions of Africa.

According to the UN, roughly 3 million African women work directly or indirectly with shea butter. Shea is an important source of revenue across much of sub-Saharan Africa. Shea sales not only generate income for workers and farm owners, but also for the greater community. Estimates from the United States Agency for International Development (USAID), based on a study conducted in Mali, indicate that for each US dollar of farm income from the sale of shea nuts, an additional US$0.58 of household income will be created in the local economy.

Shea has been used for centuries in Africa as a skin care product, one of its key properties lying in the ability to protect and moisturise skin. There are even some reports that Cleopatra travelled with large jars of shea butter throughout the hot deserts of Egypt. Shea is now used across the world, with global demand valued in the billions of dollars. In addition to cosmetic uses, shea butter is used in confectionery and bakery products, and when mixed with other oils it can be a substitute for cocoa butter.

The shea tree grows wild in the equatorial belt of Central Africa in a long and narrow swathe that is approximately 500km wide and 6,000km long. It encompasses over 20 countries from Senegal in the West to Uganda in the East. The fruit consists of a green fleshy mesocarp, which is sweet when eaten, and has a high nutritional value. The shea nuts are cracked to remove the outer crust which leaves the kernel. They are then roasted and ground into a paste from which shea butter is extracted. Shea butter processing and extraction remains a major economic activity in that region of the world, especially for rural women. Due to its well-known cosmetic and nutritional values, it is traded internationally and exported to earn foreign income. During harvesting season, the collection of shea involves a large proportion of the population, mostly women and children.

The US Food and Drug Administration (FDA) considers shea nut oil to be safe for food use and allows shea to be used in confectionery coatings and fillings. Current FDA regulations, however, stipulate that a product that is labelled as "chocolate" shall not contain any fat other than cocoa butter or fat from certain dairy ingredients. Below we consider the potential economic effects of changing US FDA labelling rules to allow chocolate to contain up to 5 percent of cocoa butter equivalents (such as shea butter) as a substitute for cocoa butter – which would be similar to the changes introduced in the EU in 2003.[1] Our results suggest that the potential increase in the demand for shea nuts could significantly boost West African shea exports, generating additional income for the shea-producing communities in some of the poorest parts of the region.

US chocolate labelling rules

The US FDA defines "chocolate" as a product that is based on cocoa solids and cocoa fat, and specifies an exhaustive list of ingredients allowed to be added in chocolate. For instance, regulations for "milk chocolate" authorise optional ingredients such as cacao fat, spices, nuts, or dairy ingredients, but no cocoa butter equivalents are allowed. These rules and distinctions must be strictly followed, with no additional ingredients added, or else a product cannot be labelled "chocolate." Chocolate producers that use extra components use labels such as "chocolaty" or "chocolate-flavoured."

Studies have shown that cocoa butter equivalents, such as shea butter, can prolong the shelf life and improve the "functionality" of chocolate products. For instance, shea butter in chocolate can modify a chocolate's melting curve to get desired results in a range of climates while not necessarily affecting the flavour profile.

In 2003, the European Commission changed its rules to allow chocolate to contain up to 5 percent of cocoa butter equivalents. A similar change to US chocolate labelling requirements that would allow shea-based ingredients could boost African exports. An increase in shea exports, particularly to the US, would seem to support the goals of existing programmes. For instance, the African Growth and Opportunity Act seeks to promote the access of goods produced in sub-Saharan Africa to the US market. Further, USAID has identified shea as a product with significant export potential.

What would be the impact of change in US chocolate labelling rules?

The first step of the analysis involves determining the export potential for shea if the US were to liberalise its labelling restrictions for chocolate and adopt legislation that is similar to the current practice in the EU. The second step involves assessing the effect of increasing global demand for shea on the local economy in terms of revenue and employment growth.

The effect on US shea demand

We estimate current annual US chocolate consumption to be approximately 1.4 billion kilograms – based on annual per capita US chocolate consumption of 4.3kg and the US population of 323.2 million.[2] Suppose the US follows the EU example and allows a substitution of up to 5 percent of chocolate ingredients (in terms of volume) to be cocoa butter equivalents (CBEs), and shea butter is used for half of the CBEs. Then the potential increase in shea butter demand would be 34.8 million kilograms (i.e., 2.5 percent of 1.4 billion kilograms). Alternatively, if only half of chocolate producers made the CBE substitution, the potential increase in shea butter demand would be 17.4 million kilograms.[3] A 34.8 million kilograms increase in shea butter demand translates to 69.6 million kilograms of shea nut kernels, with a market value of US$34.8 million. Given the volume of annual shea nut exports of 349.9 million kilograms, this translates into a 20 percent increase. If only half of the chocolate were to make the CBE substitution, then the estimated increase in exports would be 10 percent.

Expected economic effects in shea-producing regions

A value chain analysis conducted by USAID in Mali found that each US dollar of shea nut sales generates an additional 58 cents of economic activity in the community, which translates into a regional income multiplier for shea of 1.58.[4] The additional economic activity includes subsequent spending on wages and salaries, petrol, packaging materials, and so on. In essence, the multiplier effect means that individuals will spend parts of the income earned along the value chain by purchasing other goods and services, which creates additional demand and income for the local economy. Using this USAID regional income multiplier, the total potential additional income generated for shea-producing communities is estimated to be US$55 million.

Table 1. Estimated economic effects across a range of scenarios

Market share of chocolate that takes advantage of CBE substitution	Potential increase in demand for shea butter (kg)	Potential increase in demand for shea nut kernels (min kg)	Potential increase in demand for shea nut kernels (MT)	Potential increase in demand for shea nut kernels ($)	Total additional income generated in shea-producing communities (US$)
33%	11.49	22.98	10,425	5,212,501	8,235,751,
50%	17.41	34.81	15,795	7,897,728	12,478,411
67%	23.32	46.65	21,166	10,582,956	16,721,070
100%	34.81	69.63	31,591	15,795,456	24,956,821

Source: These figures are based on Sidley calculations. For more details see the following footnote.[5]

Two metric tons (MT) of shea kernels are needed to produce one MT of shea butter. As indicated above, if the US were to liberalise its labelling requirement, shea-producing regions could expect an increase in demand in the order of 69,646 MT of shea kernels. Typically, each woman collects around 85kg of shea kernels during the harvesting season. As a result, increasing US demand for shea could create job opportunities, during harvesting season, for an additional 820,000 women. The increase in shea demand would also likely bring about upticks in world market prices. There do not appear to be supply restrictions: currently, only 50 percent of shea production is collected.

Concluding remarks

Our analysis suggests that a change in US chocolate labelling rules that would allow chocolate to contain up to 5 percent of CBEs could boost African shea exports and bring important revenue-generating effects to the region. Specifically, we find that African shea exports could increase by 10 to 20 percent, assuming that at least half of US chocolate manufacturers would take advantage of the substitution ability. Further, our results suggest that the export revenues plus the additional income generated could be up to US$27 million for the region. The countries across the shea tree-growing region of Africa have annual GDP per capita ranging from US$370 to US$3,300, and the region includes some of the poorest countries on the continent. The feasibility of a change in US chocolate labelling requirements that could bring about such economic benefits certainly appears worthy of further study.

The views expressed in this paper are those of the authors and do not necessarily represent the views of Sidley Austin, LLP, or any of its clients. The authors wish to thank Joe Funt of the Global Shea Alliance, Torrey Cope, Diane McEnroe, and participants at "The Future of Shea Conference," Washington, DC, May 2016, for helpful comments.

❶ In 2003, the EU Shea Butter Directive (Directive 2000/36/EC) allowed chocolate to contain up to 5 percent of a limited number of vegetable fats (such as illipe, palm oil, shea, kokum gurgi, and mango kernel); see also European Commission, *"The Impact of Directive 2000/36/EC on the Economies of those Countries Producing Cocoa and Vegetable Fats other than Cocoa Butter,"* 2000.

❷ See Forbes. *"The World's Biggest Chocolate Consumers,"* 22 July 2015; and US Census, Population Clock, as of 28 March 2016.

❸ The degree to which chocolate producers in the US would take advantage of a new labelling rule that would allow them to use CBE and still label their product as "chocolate" is unknown. Some manufacturers may choose to make the substitution and others may not, depending on consumer preferences, production choices, and so on. Because the share of chocolate that would contain CBE as a substitute is unknown, we include a range of estimates in Table 1.

❹ USAID, *"Exports, Employment and Incomes in West Africa,"* January 2011, Table 2.8.

❺ We estimate 1.4 billion kilograms of annual US chocolate consumption. Based on information from industry observers, we assume shea butter would constitute 50 percent of the CBE with palm oil and/or other cocoa butter equivalents comprising the other 50 percent. The regional income multiplier of 1.58 for shea is based on estimates published in USAID *"Exports, Employment and Incomes in West Africa,"* January 2011, Table 2.8. Note the multiplier is with respect to shea nuts and therefore we convert the shea butter figures to shea nut figures in this table. Assumes 2kg of shea nuts are required for 1kg of shea butter; and 1MT shea nut=US$500. All figures in USD$.

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The newsroom

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Tanzanian parliament advises government not to sign EPA with EU

Members of the Tanzanian parliament (MPs) unanimously called on the East African country's government not to sign an Economic Partnership agreement (EPA) negotiated between the EU and member states of the East African Community (EAC), many of them pointing to potential negative implications for Tanzania's industrialisation strategy if the deal is inked in its current form.

While MPs called on the Tanzanian government to renegotiate the EPA on terms that would allow for better protection of domestic industries, a few of them also expressed concerns that rejecting the deal could have a negative impact on aid flows and development cooperation between the EU and EAC countries.

Despite the parliament's advisory vote, the Tanzanian government still has the possibility to go ahead and sign the accord. East African leaders will hold discussions on this issue during an EAC summit in January.

Turkey seeks to boost its trade and economic ties with Africa

Around 1,500 participants from Turkey and 42 African countries, including numerous business representatives and high-level officials, gathered in early November at the Turkey-Africa Economic and Business Forum. The event provided a platform for dialogue between African business and public sector circles and their Turkish counterparts, with a view to enhancing economic cooperation between the two sides.

"One of the main constituents of our comprehensive interest in Africa is composed of economic and trade relations," said Turkish President Recep Tayyip Erdoğan at the forum.

Reflecting on the way forward, Turkey's Minister of Economy Nihat Zeybekci called on Ankara and its African partners to "turn 2017 into a free-trade year," while participants in the event discussed the possibility of establishing trade and economic partnership agreements.

World Bank: Record number of reforms carried out in Africa

Economies across sub-Saharan Africa have adopted a record number of reforms to upgrade their business environment over the past year, says the World Bank in its Doing Business 2017 report. Last year saw 37 of sub-Saharan Africa's 48 countries undertake a total of 80 reforms, a third of all the reforms adopted globally. This year again Mauritius (49) is the best performer among sub-Saharan African economies, followed by Rwanda (56), Botswana (71), South Africa (74), and Kenya (92)

The document, however, warns against excessive enthusiasm, as sub-Saharan Africa continues to be the region with the less business-enabling conditions. For instance, transferring property takes on average 2 months, while the time necessary to do so in OECD economies is only 22 days.

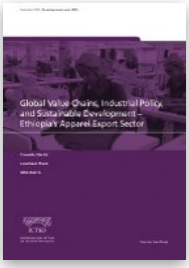
TRIPS Council meets on public health and access to medicines

WTO members reviewed on 8-9 November a series of recommendations by a UN panel aimed at supporting access to medicines, debating in particular the report's findings relating to trade and intellectual property rights. The discussions took place under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Council, the WTO body that administers the TRIPS Agreement.

The report includes specific recommendations which involve leveraging the full use of the flexibilities for access to medicines afforded by the TRIPS Agreement by developing countries. The discussions reportedly considered potential challenges WTO members face in using those TRIPS flexibilities, as well as the possible risks posed by TRIPS-plus provisions in regional and bilateral trade agreements in undermining the use of TRIPS flexibilities.

Publications and resources

Public Stockholding for Food Security Purposes: Options for a Permanent Solution – ICTSD – November 2016
WTO members have agreed to seek a "permanent solution" to the problems that some developing countries say they face in addressing food security objectives under the trade body's existing farm subsidy rules. Negotiators now need to construct an equitable and sustainable solution. This paper seeks to contribute to this process by surveying the extent to which this evidence is available, analysing the data which does exist, and drawing some initial conclusions about options that negotiators might fruitfully be able to explore. http://bit.ly/2fi2QMm



Global Value Chains, Industrial Policy, and Sustainable Development – Ethiopia's Apparel Export Sector – ICTSD – November 2016
Ethiopia is an exporting latecomer compared to other sub-Saharan African apparel exporters. But recent export growth has been impressive with Ethiopia being hyped as a "rising star" for apparel sourcing. This country case study, based on a methodology developed by ICTSD, assesses the achievements and challenges manifested in growing the Ethiopian apparel sector, the government's active industrial policy strategy to develop the sector, and its implications for industrial and sustainable development. http://bit.ly/2fKRcNU

Global Value Chains, Sustainable Development, and the Apparel Industry in Lesotho – ICTSD – November 2016
The apparel industry has been central to Lesotho's economy, accounting for one third of the country's gross domestic product. This country case study examines the interplay between two different sets of foreign direct investment (FDI) driving two very different value chains: the one global, with FDI from Asia and production based on preferential access to the US market under the African Growth and Opportunity Act (AGOA); the other regionally based, with FDI from South African firms relocating production in Lesotho. http://bit.ly/2fUVOPe

Comparing Safeguard Measures in Recent Regional and Bilateral Trade Agreements – ICTSD – November 2016
As negotiators pursue talks on a workable agricultural safeguard mechanism at the World Trade Organization, it is critical that they have access to up-to-date and reliable information. This paper, which builds on a previous ICTSD study, provides policy-makers and others with an evidence-based analysis of the implications of recent bilateral and regional trade negotiations for developing countries' ability to use safeguard measures to protect domestic producers from sudden surges in the volume of imports or price depressions. http://bit.ly/2fKU2m2

Priority Trade Policy Actions to Achieve the 2030 Agenda and Transform African Livelihoods – ICTSD – September 2016
This think piece, one of a series that analyse the contribution trade and trade policy could make in implementing the 2030 Agenda, explains that the poverty challenge is particularly steep for Africa. The continent's commodity-led growth over the last few years has not, by and large, generated widespread economic opportunities. Against this backdrop, this paper focuses on how trade-related policy, including regional economic integration, could contribute to transforming livelihoods across the continent. http://bit.ly/2dygnAU

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