International Trade Centre

TRADE IMPACT FOR GOOD

Submission by the International Trade Centre to the inquiry into the UK's Africa Free Trade Initiative (AFTi) by the All-Party Parliamentary Group on Trade Out of Poverty (APPG TOP)

The International Trade Centre (ITC) is a joint technical cooperation agency of the World Trade Organisation (WTO) and the United Nations dedicated to supporting the internationalisation of small and medium-sized enterprises (SMEs), a mandate that combines focus on expanding trade opportunities with fostering of inclusive sustainable development through economic empowerment and job creation. ITC is 100% Aid for Trade agency, helping translate trade opportunities into trade impact for good.

ITC's three objectives are to (i) strengthen the integration of the business sector of developing countries into the global economy, (ii) improve the performance of trade support institutions for the benefit of SMEs, and (iii) improve the international competitiveness of SMEs.

Trade, aid and investment play a critical role in generating the means of transformative change required to end extreme poverty by 2030. The Sustainable Development Goals adopted September 2015, reaffirm this position and have put trade, as well as technology, at the centre as an enabler of inclusive sustainable economic growth, job creation and poverty reduction, with equal opportunities given to all, in particular women empowerment.

ITC is responding to the 2030 Agenda. It's SME Competitiveness Outlook, which combines analysis, thought leader insights and case stories about developing country SMEs in international markets together with the supporting country profiles, emphasises that SMEs are the 'missing link' to inclusive growth and a key element of development policy. For the gains from trade to be distributed equitably and benefit the economically vulnerable – and the majority of employees – SMEs have to be at the heart of our development efforts.

How can trade policies and trade facilitation systems in Africa be designed to further the goals of wealth creation, employment and poverty reduction, taking into account the growing importance of the digital economy in world trade?

Private Sector is a partner in development and a major driver of productivity, inclusive economic growth and job creation. SMEs globally represent 90% of all enterprises and over 70% of employment opportunities. It is also true from ITC's sector competitiveness work that SMEs that have been integrated in global markets are more productive than those that are not. For Africa in particular, SMEs and their internationalisation are important. The livelihoods of the majority are dependent on these SMEs and critical not only to employment creation but sustainability of African economies.

A reflection of the importance of this is translated in the prioritisation that the African Union and the rest of the Regional Integration Communities have accorded to regional integration as a whole and trade in particular. The African Union's Action Plan for boosting Intra-African Trade complimented with the regional trade integration agendas addressed to this priority. The Continental roadmap as part of its key objectives prioritises the need to enhance competitiveness at industry and enterprise level through exploiting scales of production, continental market access and enhanced reallocation of resources. In this regard, Africa has taken steps towards reducing tariffs, with the majority having attained Free Trade Area (FTA) status. However, intra- and inter-regional trade remains low due to low productivity and increasing non-tariff related measures that need addressing. Appropriate and sustainable hard and soft infrastructure trade facilitation solutions are required focused on policy reform, institutional capacity building and enterprises, in particular SMEs. Policy and regulatory choices have a significant impact on SME competitiveness and play a crucial role in the determination of linkages to value chains.

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A vibrant and competitive private sector is vital to ensuring growth and reducing poverty Trade policies and trade facilitation systems designed through a Public – Private Dialogue, is the most promising mode to further the goals of wealth creation, employment creation and poverty reduction in Africa. Effective public-private dialogue rooted in business advocacy, and the inclusion of civil society, can address failures in government policy-making and can also reduce policy uncertainty, promote innovation and create wealth.[1]

Effective public-private dialogue leads to mutually beneficial and result oriented collaboration between government and the private sector increasing transparency and enhancing trust and confidence amongst the stakeholders. Governments that involve private sector in their consultations are better placed to design and execute credible and effective reform programmes. Therefore, it is important that interventions in Africa assist in institutionalising public-private dialogue for the formulation of trade strategies and policies at both national and regional level.

Key enterprise related needs:

1. The role of Trade and Investment Support Institutions needs strengthening in order to better service private sector needs in a sustainable manner. In particular, the Trade Promotion Organisation (TPO) must be reinforced by equipping them with tools to support capacity building efforts. A recent study, carried out by the University of Geneva and collaboration with ITC, emphasizes the relationship between investment in a TPO and economic growth, through the generation of additional exports. US$ 1 invested in trade promotion achieves US$ 87 of additional exports and US$ 384 of additional Gross Domestic Product (GDP). The results also suggest that differences in the way TPOs are set up and oriented will influence how much they are able to affect exports or GDP per capita growth. The study shows better results for TPO executive boards with a higher proportion of private sector seats. This holds true both for exports and for GDP. With an appropriate level of resources, exports and impact of SMEs can be scaled up.

2. SMEs need to better target products towards the most promising markets, as would be required in the diversification efforts and the investment in value addition. To effectively achieve this, mechanisms and tools to enable enterprises better manage the following:
   i) Screening and comparison of export markets, including assessing mandatory and voluntary market requirements, conducting of competitor analysis and researching of procurement opportunities.;
   ii) Global sourcing and procurement;
   iii) Identification of national trade and investment potential between countries and regions in order to better focus activities;
   iv) Identification of opportunities to move up the value chain;
   v) Ranking of national trade performance, monitoring of regional integration, assessment of potential impact of trade agreements entered into, monitoring of market access issues and orientation of trade strategies and trade policies.

   Provision of innovative and cutting edge trade and market intelligence and tools relating to the above is critical to enhancing transparency and raising awareness of opportunities associated to international trade of African businesses.

3. With 80% of trade related to Value Chains, trade facilitation must focus on ensuring that SMEs become more competitive and take full advantage of the opportunities. Key is the provision of integrated market solutions that identify market opportunities, manage logistics and supply chains, use e-solutions to access markets, comply with delivery terms, and meet technical and quality requirements. Key to reduce the costs of trading for SMEs is the implementation of the WTO Trade Facilitation agreement, combined with smart logistics.

4. SMEs in general and in Africa specifically, struggle with compliance with regional and international market regulations and trade procedures, resulting in limited trade amongst African countries and world at large. Awareness regarding the requirements and where known, the cost of meeting these requirements has sometimes proved costly making SMEs uncompetitive.

[1] Public-Private Collaboration for Export Success, ITC Publication, 2011.

ITC's work on Non-Tariff Measures (NTMs) has revealed that over 50% of developing country exporters experience NTM related obstacles. Additionally, over 60% of trading firms' problems with NTMs concern domestic efficiency and transparency. Addressing these measures in the context of Africa's regional integration agenda and beyond should be prioritised. Working with African countries in institutionalising the addressing of NTMs and provision of effective tools and sustainable mechanisms to support efforts at the country and regional level is important. Similarly, supporting African countries and their SMEs to meet standards, including the growing number of private standards is essential to moving into higher value added activities.

5. E-commerce: Digital Solutions for Trade Impact
   Trading processes can further be rendered more effective and efficient through digital solutions. In fact, digital solutions are central to the three Cs necessary for SME internationalization which are set out in our SME Competitiveness Outlook, namely the ability to Connect, Compete and Change.
   Paperless trade connects value chains not only to make trade more efficient and competitive, but also is a huge relief for business. According to the United Nations Conference on Trade and Development (UNCTAD), the average international transaction to connect all actors along the value chain involves 40 documents. E-commerce can cut the costs of trade significantly, for example through online customs procedures or electronic authentication and signatures for commercial transactions.
   ITC has developed e-solutions and virtual market places including integrated payments solutions and cost-effective logistics structures, in order to support SMEs through digital channels, allowing them to change their trading patterns for increased export impact.

Initiatives to boost trade and investment in Africa should build on the outcomes of the recently concluded MC10 which we view as having added to generate development results. Africa has the potential to be one of the most dynamic economic zones in the world. Improving its investment climate and eliminating barriers to intra-regional and global trade are crucial for harnessing this growth and boosting jobs – an essential step in the fight to end poverty. ITC is already partnering with numerous African countries and regional commissions in these areas..

What are the key opportunities and challenges for boosting trade in Africa, and with the rest of the world, in specific sectors such as agriculture, manufacturing and services? What factors would allow African exports in these sectors to be more competitive and capture more value?

SMEs are the biggest contributors to employment across countries, comprising two-thirds of formal, private-sector employment in emerging markets, and creating 95% of jobs in low-income countries. Yet, SMEs remain unrepresented in global international trade and for the most part, do not participate in global value chains. Governments in Africa need to need to diversify their economies by focusing on key competitive sectors for new investments and exports. Internationalizing SMEs means access to new value chains and linking them to multinationals. To be competitive, exporting or ready-to-export SMEs must integrate into global supply chains and internationalize their operations.[2]

The majority of countries In Africa are faced with a number of challenges affecting both the demand and supply side of the export sector. The pressing supply side constraints include insufficient infrastructure and high cost of inputs and capital. Bureaucracy, handling charges and delays also increase the cost of exporting. Another important supply side constraint for export is the low levels of technology uptake, research and innovation as well as limited application of intellectual property rights. This limits the capacity for diversification of products and services and leads to low value addition. Unfair competition due to dumping and selling of sub-standard items in regional markets as well as lack of exporting skills of entrepreneurs add to the problem.

On the demand side, major substantial constraints include stringent and changing market entry requirements and limited market intelligence. As markets have turned global, tariff peaks and escalations in other markets, non-tariff barriers, lobby groups as well as production subsidies of developed countries have an increasing effect on the regional market conditions.

[2] ITC Publication, From Export Promotion to Internationalization 'The role of trade promotion organizations in the evolving global economy', 2015, page 26.

ITC advocates for regional integration which stimulates private sector lead in the dynamics of regional integration. The components of such an intervention comprises (i) institutional strengthening of Regional Economic Communities (REC) secretariats, (ii) development of support institutions and business networks, (such as the establishment of the African Business Council under the organisational architecture of the Continental Free Trade Agreement (CFTA) and regional business associations under the various RECs) and (iii) demand-led creation of sectorial business capacities and regional value chains.

The African Commission envisages setting up a trade observatory which will be a consolidation of the information in the trade observatories set up at the REC level to monitor trade performance, opportunities and threats. Support to achieve this objective is central to boosting trade and investment for Africa as monitoring trade performance, opportunities and threats on a regular basis and in a systematic way is critical to being able to respond quickly to opportunities and take correctional action with respect to threats.

Upgrading production and trade capacity in Africa in sectors such as agriculture, manufacturing and services is critical and should focus on building overall competitiveness of the sectors concerned and the individual companies. To achieve this, businesses must be capacitated to achieve superior business offerings combining product, price, quality, channel distribution efficiency and service.

To enhance competitiveness, opportunities must be identified and this entails assessing market opportunities, analysing value chains to understand how the sector and individual companies can be positioned, analysing readiness both at sector and enterprise level and addressing key sector-related efficiency issues. Customise solutions to overcome the issues identified during the market analysis and develop collaboration with emerging markets: investment, buying, technical collaboration, sourcing, promoting selected sectors/enterprises in target markets, focusing on building relationships between local suppliers and first or second tier subcontractors to large buyers who can be a conduit to value chains, facilitating market linkages and organisation of business match making events, and developing e-commerce.

In sectors such as agriculture and manufacturing it is critical to ensure compliance with technical standards, and facilitating cross border trade including assistance to informal cross border traders. For the services industry the existence of services business associations or coalitions of services industries as impacting positively on developing country services export performance. The objective is to help the business community to help itself by organizing better by building constructive and cooperative relationships with local and international industry leaders.

Constraints in financing, especially the SMEs have a major impact on their participation in international trade and as such access to finance by the businesses, especially SMEs, is key to boosting trade in Africa. Alternative financing models to the traditional bank financiering, which are not easily accessible by SMEs should be introduced to boost access to finance of intra-regional trade.

Building advance competitive intelligence capacity that can facilitate entry into particular markets, make export operations sustainable and manage risk in different stages of the export process. The competitive intelligence should be based on monitoring, lobbying/influencing (for example building on the notion of networks) and protection (intellectual property, risk management).

How can we ensure that trade development in Africa is pro-poor and equitable for women and men? Are special measures and types of investments needed for the informal sector, for SMEs, and for promoting women's participation in trade in African countries?

While companies that participate in international trade are more competitive, more productive and pay better wages, ITC research shows that women own only one in five exporting companies. Female-owned SMEs in emerging markets have unmet financial needs of between US$ 260 billion and US$ 320 billion a year and women in developing economies are 20% less likely than men to even have an account at a formal financial institution. Women entrepreneurs often lack supportive networks and are not aware of opportunities to export.

However, the growing body of evidence of the potential gains from women's integration in the global economy is compelling: countries that provide greater economic opportunities for women have higher competitiveness and national income. The McKinsey Global Institute recently estimated that if women participated in the economy on an equal footing as men, it could increase global GDP by an additional $28 trillion by 2025. Nearly a billion women around the globe are either prevented from becoming full economic actors, or lack the skills or the credit to do so. Connecting these women, the ‘third billion’, to the market is estimated to have the effect of adding another China and India to the global economy, transforming their lives and improving economic prospects for all of us.

Empowering Women economically is a powerful tool to address poverty and inequality. When women work, they invest 90% of their income back into their families. Providing women with income opportunities and closing the employment participation and wage gaps between women and men can support inclusive development while aiding in the fight against poverty.

Lasting social and economic progress is impossible unless women are economically empowered and socially respected. Women’s empowerment and trade are mutually reinforcing – trade supports women to become empowered, and empowered women contribute disproportionately more to the economy and society. The role of women can therefore not be ignored in any development strategy that is to make a concrete and meaningful contribution to the 2030 UN Development Agenda.

In the case of ITC, the organization assists women-owned SMEs in developing economies to become more competitive in global markets, thereby contributing to sustainable economic development within the frameworks of the Aid-for-Trade agenda and the Global Goals for Sustainable Development, such as Goal 5 (Gender Equality) and Goal 8 (Decent Work And Economic Growth).

To this end, ITC has launched a number of initiatives:

First, and most recently, ITC has launched the **“She Trades” initiative**, a global call to action to connect 1 million women entrepreneurs to markets by 2020. The initiative sets out a framework for companies, governments, and other organisations to make specific, measurable pledges that contribute to unlock markets for women. The initiative also identifies eight areas of work to advance the economic empowerment of women: data collection, public procurement, corporate procurement, trade policies, financial inclusion, ownership rights, supply-side constraints and certification systems.

SheTrades also contains a tech platform offering an opportunity for women entrepreneurs to leverage technology to reach out, find buyers, to internationalize and scale their businesses. The tech platform is accessible through the SheTrades app – a scalable, neutral and adaptable tool that is free of charge and connects women entrepreneurs to markets around the globe (Shetrades.com).

Secondly, **ITC’s public procurement initiative**, launched during the Fifth Senior Executive Roundtable on Sourcing from Women Vendors, held in Kigali, Rwanda, in September 2014, aims to increase the amount of public procurement contracts awarded to women-owned businesses.

Public procurement is a powerful tool to achieve socioeconomic objectives because it operates at the intersection of the government’s regulatory and buying powers. Governments are market regulators and market participants. They regulate the public procurement process by establishing the legal and regulatory framework. Governments spend trillions of dollars annually purchasing the goods, works and services they require to fulfil their public functions.

Public procurement accounts for over 30% of GDP in developing countries and some 10-15% of GDP in developed countries. This translates into trillions of dollars of government spending annually. To date, however, women entrepreneurs have been largely excluded from this sizeable market due to lack of access to information on bids, understanding of procedures and ability to meet requirements. Currently women-owned businesses and women entrepreneurs are awarded only an estimated 1-5% of public procurement contracts.

The initiative comprises a publication “Empowering Women Through Public Procurement”, which guides governments through adjustments to the procurement process and supply-side capacity building required to increase sourcing from women vendors to benefit their families and communities.

It also builds on an e-learning course which highlights the important role played by women in the economy and showcases the need to improve the current situation of women-owned businesses by using government procurement.

The Procurement Map, the third tool under this initiative, aims to promote sustainable inclusive procurement in one tool, by providing users in developing countries with free access to public tender information and with information on countries’ specific procurement legislations pertaining to sustainable procurement policies and sustainability standards, including the promotion of women entrepreneurship and empowerment of SMEs.

Thirdly, the **Blue Number Initiative** through which ITC is contributing to Sustainable Development Goals numbers 2 (sustainable agriculture), 8 (sustainable economic growth and decent work) and 12 (sustainable consumption and production). If used to promote the participation of women farmers and women-owned agribusinesses in global supply chains, it also contributes to SDG 5 (gender equality).

The Blue Number Initiative, a global registry for farmers to produce more sustainable, is based on a partnership between ITC, the United Nations Global Compact and GS1, the not-for-profit global standards organization, the Blue Number Initiative helps farmers and agri-businesses act more sustainably. It also helps promote traceability of agriculture value chains.

The Blue Number is a unique ID or global location number (GLN), issued by GS1 specifically for the purpose of this initiative. Blue Number recipients will be able to improve their profile by adding additional data points such as: photos, certificates, information on business partners, company registrations, turnover, land titles, health and safety permits, best practices, etc.

The Blue Number solution is a neutral global platform which gives previously invisible farmers and agribusinesses of any size a visible online presence and encourages these farmers and agribusinesses to showcase their contribution to food systems and to enhance their sustainability practices. It helps connect small farmers to global buyers who prioritize sustainable production and agricultural practices and allows them to assess compliance with national and international voluntary standards as well as to chart their path towards improved performance.

Lastly, within the International Trade Centre, the Poor Communities Trade Programme (PCTP) aims to reduce global poverty by involving micro-entrepreneurs in the developing world with international and regional trade. The **Ethical Fashion Initiative** is its operational arm.

The Ethical Fashion Initiative facilitates dignified work at a fair wage. It does so by connecting some of the world's most marginalised artisans in various countries in Africa, such as Kenya, Ghana and Ethiopia, with the fashion industry's top talents to promote local talent and increase export capacities of the region.

In everything it does, the Ethical Fashion Initiative develops local creativity, fosters predominantly female employment and empowerment, promotes gender equality to reduce extreme poverty and increase the export capacities of the regions in which it operates, while at the same time taking an active role in the reduction of poverty and the creation of sustainable livelihoods with the aim of empowering them through quality work that minimises the negative impact on their surroundings.

These initiatives all have in common that they tackle the lack of visibility and participation in global trade of poor communities and women, especially by focussing on SMEs to provide a sustainable pathway out of poverty. This way, ITC works to make a concrete, measurable and meaningful contribution to the UN 2030 Development Agenda.