

GOVERNANCE

REGIONAL INTEGRATION

ECONOMICS

AGRICULTURE

TRADE

GREAT

*insights*Sustainable
Value Chains

WWW.ECDPM.ORG/GREAT

Exclusives:

"Upgrading Africa's participation in global value chains requires international rules to evolve"

H. E. Fatima Haram Acyl
AU Commissioner for
Trade and Industry

Implementing
sustainable business
through EU aid and trade
policies
Marten van den Berg,
Director General,
Ministry of Foreign
Affairs, The Netherlands

With contributions from:

Erik Solheim, Chairman
OECD DAC and Frans
Lammersen, Principal
Administrator, OECD;
Prof. L. Alan Winters,
Univ. of Sussex, Chairman
of the Global
Development Network
and many others

About GREAT Insights

Governance, Regional integration, Economics, Agriculture and Trade (GREAT) Insights is ECDPM's magazine covering a wide range of topics related to economic development in Africa and the developing world. GREAT Insights gathers expert analysis and commentary from a wide variety of stakeholders with different perspectives.

GREAT Insights is published by ECDPM

Editor:

Sanoussi Bilal
sb@ecdpm.org
Twitter: @SanBilal1

Executive editor:

Annette Powell,
apo@ecdpm.org

Design, layout and

production: Claudia Backes,
cba@ECDPM

HEAD OFFICE

Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE

Rue Archimède 5
1000 Brussels
Belgium
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

ISSN: 2215-0593 (print)
2213-0063 (online)
For further information
or to subscribe to our
E-newsletters, visit
www.ecdpm.org/subscribe.
To order a hard copy of an
ECDPM publication,
e-mail info@ecdpm.org

In addition to structural support by ECDPM's institutional partners The Netherlands, Belgium, Finland, Ireland, Luxembourg, Portugal, Sweden, Switzerland, Austria and Denmark, this particular issue also benefits from funding from the Department of International Development (DFID), United Kingdom.

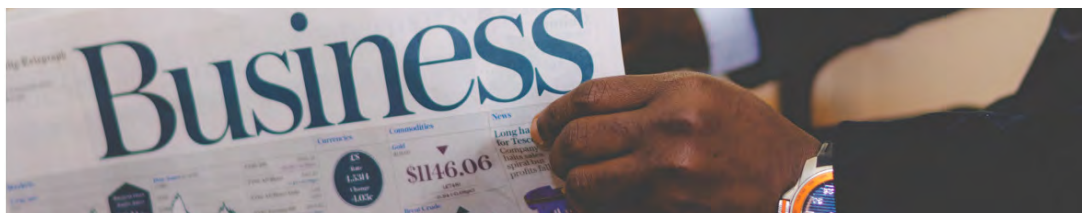
Copyright:

Prior permission is not required for quoting, translating or reproducing part of the contents of this publication provided the source is fully acknowledged.

Coverphoto:

Container Train Yard,
Cape Town, S.A. Picture:
[Ipickmynose/Flickr/CC](#)

Contents



Source: Olu Eletu/unsplash.com

Features

- 4 **“Upgrading Africa’s participation in global value chains requires international rules to evolve”**
ECDPM’s Isabelle Ramdoo talks to H. E. Mrs. Fatima Haram Acyl, AU Commissioner for Trade and Industry
- 6 **Implementing sustainable business through EU aid and trade policies**
Marten van den Berg, Director General Foreign Economic Relations, Ministry of Foreign Affairs, The Netherlands

Global value chains

- 8 **Sustainability in global value chains: Closing the gap between ambition and action**
Michael D’heur, Founder and Managing director of shared.value.chain.
- 11 **Who captures the value in global value chains? A perspective from developing countries**
Peter Draper, Managing Director of Tutwa Consulting and Andreas Freytag, Professor of Economics, Friedrich-Schiller-University
- 14 **GVC trade and the case for domestic economic policies**
Erik van der Marel, Senior Economist, European Centre for International Political Economy
- 16 **Tracing sustainability in global food chains**
Arthur Mol, Rector Magnificus and Vice-Chairman, Wageningen University and Research Centre, and Peter Oosterveer, Ass. Professor, Environmental Policy Group Department, Wageningen University, The Netherlands

Regulars

- 3 Editorial
- 42 Talking Points Blog highlights
- 43 Weekly Compass highlights
- 44 Latest ECDPM publications

Global value chains and natural resources

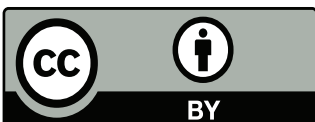
- 19 **Extractives and global value chains: Where does Africa stand?**
Isabelle Ramdoo, Deputy Head, Economic Transformation and Trade, ECDPM
- 21 **Global value chains and resource corridors: The nexus is regional integration**
Perrine Toledano, Head of Extractive Industries, Columbia Center on Sustainable Investment
- 24 **The GVCs train should not crush poor economies under its wheels**
Africa Kiiza, Pan African University

Trade and development

- 27 **Aid for Trade works**
Frans Lammersen, Principal Administrator, and Erik Solheim, Chairman, DAC, OECD
- 31 **Has aid for trade helped African economies achieve structural transformation?**
Xavier Cirera, Economist, World Bank and L. Alan Winters, Professor of Economics, University of Sussex
- 32 **Trade liberalisation and poverty: Did we learn anything in the last ten years?**
L. Alan Winters, Professor of Economics, University of Sussex
- 34 **Mapping the potential of cross-border cooperation in West Africa**
Olivier Walther, Consultant, SWAC/OECD and Sebastian Vollmer, Statistician, University of Southern Denmark

European policies

- 37 **Combining forces for more sustainable global value chains: A European perspective**
San Bilal and Jeske van Seters, ECDPM
- 40 **Business and human rights: Towards a German action plan and EU trade and investment agreements**
Evita Schmieg, Associate Researcher, German Institute for International and Security Affairs



Editorial

With the Nairobi Ministerial Conference (MC10) of the World Trade Organization (WTO) coming in December for the first time on African soil, the intricate nexus between trade and development is attracting special attention for good reason. With the globalisation of production processes, economies and their trade are increasingly interconnected: 70% of global trade is in intermediate goods and services. Global and regional value chains (GVCs) have taken centre stage.

This has two major implications for development concerns. First, the challenge for developing countries is not just to integrate with, but also to climb up the global value chain ladder. This requires addressing not only regulations affecting international exchanges, as traditionally done in international trade fora such as the WTO, but also focusing on domestic and international conditions affecting production processes more broadly, including but reaching far beyond conventional trade-related regulatory and logistic issues. Ultimately, it is about using global value chains to stimulate industrialisation and the structural economic transformation of developing economies, while integrating with the world economy.

Second, the international interconnection of trade and production processes requires a global approach to development, focused on promoting sustainability along global value chains and beyond. Given the cross-border nature of the chains, sustainability concerns cannot be limited to one single country. They must encompass the various countries and stakeholders along the GVCs and related to it, including more advanced economies. It is de facto a global agenda.

This universal dimension is now well embodied in the 2030 Agenda for Sustainable Development adopted at the UN Summit in September. Enhancing the sustainability and development impact of GVCs is an important contribution to the Global Goals, in particular in terms of sustainable economic and structural transformation. It is also important for promoting environmental sustainability to attain the objectives of the 2015 Paris Climate Conference (COP21).

This is therefore a critical moment to build on the international momentum generated by the Global Goals, the COP21 and the MC10, to boost efforts towards stimulating the sustainability of GVCs and their development impact.

Such endeavours require a multi-country, multi-partner and multi-actor engagement. This includes in particular the private sector. Sustainability and development objectives should not be left to good deeds, with philanthropic actions, and public relations, with enclave corporate social responsibility initiatives. To be impactful and transformative, it must address the core of business operations and strategies, to become an integrated approach to sustainability, so that business activities along value chains become sustainable both from an economic perspective as well as from a developmental, social and environmental perspective. Governments and other institutional actors have also an important role to play in shaping the appropriate incentives and creating a conducive environment to promote and enforce not only responsible business conducts, but also broader sustainability objectives along GVCs.

The attention on GVCs provides a natural basis for international cooperation, and convergence of efforts. But it should not end there. Global and regional value chains should not operate in a silo, with good behaviour along the chains by only a few multinational companies and domestic businesses, in a narrow number of sectors, in a limited number of countries. On the contrary, efforts to ensure the sustainability of GVCs should be an entry point to initiate and leverage synergy with development concerns and sustainability concerns in other part - non-tradable sectors or less internationally connected sectors of the domestic economy. The objective should be to avoid a dual system, a developmental and responsible one along GVCs, with other parts of the economy left open to rogue behaviour and poor practices. The issue of policy coherence and synergy across issues is thus more than ever, at stake.

But beyond loadable principles, it is action that matters more than words. The challenge is to strike a balance, not only now but also in the longer term, between voluntary commitments and more coercive approaches, so as to build and stimulate the appropriate incentives and enforcement mechanisms leading to effective increases in the sustainability and development impact of global and regional value chains and transformative processes in developing countries.

This issue of *GREAT Insights* brings a range of reflections and insights on these questions, related to current international dynamics, the various dimensions of sustainability and development of GVCs, the need for diversification and upgrading in resource-based developing economies and to foster regional integration. It also highlights some key considerations on the role of trade policy in general, the role of donors, and the EU in particular.

We hope you will appreciate these insights and welcome your comments and contributions.



Dr San Bilal (Editor), Head of Economic Transformation and Trade Programme, ECDPM



Follow San on Twitter: @SanBilal1



"Upgrading Africa's participation in global value chains requires international rules to evolve"

H. E. Mrs. Fatima Haram Acyl, AU Commissioner for Trade and Industry speaks to ECDPM's Isabelle Ramdoo, Deputy Head of Programme Economic Transformation and Trade.

Isabelle Ramdoo: As world trade leaders converge this week to Nairobi for the 10th WTO Ministerial Conference for the first time on the African continent, what are your expectations for this meeting? What are the key priorities that the African Union will put on the table and how do you see the multilateral system responding to this?

Fatima Haram Acyl: I think we have very high expectations for this meeting, being the first WTO Ministerial to be hosted by an AU member state. We expect the Ministerial to be a great success in all aspects. Substantively, we also expect a Ministerial that will deliver on some of the expectations of the Doha Development Round of negotiations. We believe that addressing how the multilateral trading system can contribute to development is critical to the long term success as well as the commitment of developing countries to the system. There are no viable alternatives to multilateralism in the long run, that is why African countries remain committed to seeing the WTO work and to ensuring that it delivers on its potential as a catalyst for development. The Doha Development Round of negotiations is very instrumental for this. Consequently, the

10th WTO Ministerial Conference comes at a pivotal time on the world stage, and we expect WTO members to rise up to the challenges with outcomes that are favourable to everyone.

The year 2017 will mark a key milestone for Africa's trade agenda with the launch of the Continental Free Trade Area (CFTA). How do you assess the progress made so far by various Regional Economic Communities (RECs) building towards the CFTA and what is expected in 2016?

The RECs have made significant progress in their individual integration agenda, as building blocks for the continental integration agenda. Of course, we have celebrated examples like the East Africa Community (EAC), who is working on the establishment of their common market, having made great strides in the implementation of their customs union. You also have RECs like Economic Community Of West African States (ECOWAS) which offers an invaluable example of what can be done with regards to the free movement of people in a REC, as well as cooperation on a number of issues. But across the board, virtually every REC has made substantive progress

over the past few years, giving the CFTA a firm foundation to stand upon. Last but not least, the recent signing of the Tripartite Free Trade Agreement between countries of The Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the EAC shows that these RECs are ready to scale up the successes made at the regional level. In 2016, we expect a gradual intensification of the negotiations towards the CFTA, as we continue to work to meet the 2017 deadline for the completion of the negotiations that has been laid down by African Heads of State. It will be a tough but doable process, and we are happy to acknowledge the commitment and desire of AU member states to seeing it done.

Industrialisation is a major priority for the African continent to create business and employment opportunities, in particular for the rising youth. Where do you see major opportunities and what according to you, are the challenges that countries and regions need to overcome and achieve results?

I think the issues of challenges to Africa's industrialisation have been



On 17 June 2015, the African Union Assembly launched the Continental Free Trade Area (CFTA) negotiations" Source: African Union

over-flogged. We all know about our infrastructure gap, competitiveness challenges, capacity and innovation gaps as well as a number of other challenges to industrialisation on the continent. I will prefer therefore to focus rather on the opportunities for Africa's industrialisation. First of all, it is important that African countries begin to see the continent as a priority market for their value added products. With the changes in the continent's demography and the rising incomes across the continent, the African market can drive the continent's growth and industrialisation. And that is why initiatives such as the CFTA are critical. There is also a renewed sense of purpose and confidence that it is indeed possible to have structural transformation on the continent. This confidence is reflected in the AU initiatives adopted, such as the Agenda 2063, which outlines long term visions and objectives for the continent's structural transformation.

It is often said that many African countries have not been able to upgrade their participation in global value chains, despite the fact that they paradoxically are an important source of input for sophisticated

products. What role do you see for international cooperation in trade and investment to address this weakness and what are your plans to drive such an agenda in a sustainable way?

Everybody accepts the importance of having African countries upgrade their participation in global value chains. The main challenge, as you have alluded to, is how this can be done. I believe that international cooperation in trade and investment is of particular importance in this regard. We believe that multilateral trading rules should recognise the imperatives for African and other developing countries for upgrading their participation in global value chains and that the rules should be evolved in such a way as to address this objective. In addition, initiatives such as the African Growth and Opportunity Act (AGOA) by the US and the Economic Partnership Agreements (EPAs) with the EU should be implemented in a flexible and targeted manner towards achieving this outcome. The AU continues to be a champion for this agenda, through the continental initiatives adopted by African leaders that address the issues, such as the Africa Mining Vision (AMV) and the Accelerated Industrial Development in Africa (AIDA), as well as the Action Plan for Boosting Intra-

African Trade (BIAT) and CFTA. We will continue to advocate and champion engagement with our partners in this regard. The AU will also continue to be a platform for countries to collaborate and exchange best practices as they seek to add value to their raw materials and move up the global value chains. ■

Implementing sustainable business through EU aid and trade policies

by Marten C. van den Berg

During its EU Presidency over the first half of 2016, The Netherlands will seek to enhance the coherence of EU trade and development policies and their contribution to sustainable development, in particular by enhancing the sustainability of global value chains.

Sustainable development is a cornerstone of the European Union's (EU) internal and external policies. And the private sector is a driving force behind it. Stimulating sustainability in global value chains (GVCs) should therefore be central to the EU's external policies and in particular, to its trade and development agenda. During its EU Presidency over the first half of 2016, The Netherlands will seek to enhance the coherence of EU trade and development policies and their contribution to sustainable development. The EU needs to stimulate EU-wide, multi-stakeholder sectoral cooperation, providing leverage and a level playing field for businesses in global value chains that respect the principles of corporate social responsibility.

EU policies and the emergence of global value chains

The EU has a wide array of instruments and policies at its disposal for external action, particularly on trade and development. This is a sphere in which we are particularly keen to increase EU policies' impact on sustainable development by enhancing the sustainability of global value chains.

Global value chains – where the different stages of the production process are located across different countries – have come to be a dominant feature of world trade. More than 70% of world trade consists of intermediate goods, services and capital.

The increased significance of global value chains, and the fact that the most serious environmental and human rights violations generally occur in producer countries in these chains, necessitate corporate social responsibility (CSR) and private sector engagement for sustainable development figuring more prominently in aid and trade policy. With the advent of global value chains, abuses come to light much more quickly, so that companies have an incentive to prevent them. They pursue a sustainability strategy not only to prevent their reputation from being harmed, but also because it offers them new opportunities and reduces their dependence on scarce resources. If they ensure that everything is in order at each location involved in making their products, they generate not only value but also good publicity.

By promoting corporate social responsibility, or responsible business conduct, governments encourage companies to take responsibility for the impact that activities in their value chains have on society and the environment. According to the *UN Guiding Principles on Business and Human Rights* and the *OECD Guidelines for Multinational*

Enterprises, it is the responsibility of companies to map the risks of adverse social and environmental impacts in their international supply chains and to take appropriate measures to prevent or mitigate them (due diligence). Creating value for people, planet and profit is not only a responsibility of business, but also an opportunity for business. The necessity of tackling these societal and environmental challenges and anticipating opportunities for collaboration between business, governments and civil society organisations is increasingly accepted. This often entails a sector-wide change in business behaviour.

The G7 Leaders' Declaration of June 2015 highlights the importance of responsible supply chains and the need for better application of internationally recognised labour, social and environmental standards, principles and commitments (in particular UN, OECD, ILO and applicable environmental agreements) in global supply chains. The EU is well positioned to act now on this declaration.

An agenda for EU action and a multi-stakeholder approach

The EU, together with business and civil society, can lead the way on sustainability in global value chains, provided that it devises a clear agenda that contributes to this. The new EU trade strategy *Trade for All* and the 2030 Agenda for Sustainable Development, centred on the Global Goals, set the stage to do so. Like other EU member states, The Netherlands actively and successfully promotes sustainable value chains. However, if we are to increase our effectiveness and ensure a level playing field, we will need to achieve policy coherence and implementation at EU level to back up our national solutions. By working together, EU institutions, EU Member States, business and civil society can collectively leverage the necessary transformation to enhance the sustainability of global value chains. We just need to start with a collective commitment to do so. In the end we need, and this will help, a global level playing field, as the G7 statement envisages.

A multi-stakeholder approach to stimulating the sustainability of GVCs also contributes to bring the EU closer to citizens' concerns, to produce and buy in a more responsible manner. No consumer wants to buy products that are made by children or have caused environmental damage. We all have the right to fair goods, produced respecting broad human rights and the environment. We look to our governments to regulate and implement these issues - even if they occur outside their territories - and we increasingly



Port of Rotterdam. Source: Frans Berkelaar/flickr/CC

expect companies to ensure decent and respectful production processes everywhere they operate.

The EU is already taking steps to promote sustainable global value chains and encourage businesses to invest more responsibly by enhancing market rewards for corporate social and environmental responsibility, disseminating good practices and improving company disclosure of social and environmental information. Through development cooperation, the EU aims to promote business engagement in sectors including agriculture, infrastructure and energy. The EU also promotes sustainability guidelines on corporate social responsibility, including the *UN Guiding Principles on Business and Human Rights* and the *OECD Guidelines for Multinational Enterprises*, notably via its free trade agreements (FTAs).

Priority for The Netherlands

The Netherlands welcomes and supports the following **actions and next steps by the EU** on sustainable economic growth:

1. more coherence between development and trade policy...

- aligning aid policies better with the goal of greater sustainability in global value chains;
- stimulating more effective implementation of sustainability chapters in free trade agreements;
- encouraging a stronger EU focus within the aid for trade programming of the EU and its member states on sustainability aspects, such as anticorruption, transparency and responsible business conduct; and
- enhancing the benefit for developing countries from trade with the European Union.

2. ... with an important role for responsible business conduct

- introducing a new EU agenda for action on corporate social responsibility, supporting a stronger external dimension of EU policy on CSR linked to the new private sector policy in development cooperation;
- facilitating and enhancing multi-stakeholder, voluntary EU sectoral initiatives like the EU garment supply chain initiative, including SMEs as well as large firms; and
- supporting private sector efforts to make global supply chains more sustainable e.g. inclusive business models and related private sector multi-stakeholder partnerships.

Individual EU companies operating in global value chains prone to social and environmental risks cannot effectively meet these challenges alone. EU leadership will mean stronger leverage for sustainability in global value chains and will help achieve a level playing field for businesses. When looking at how to stimulate sustainable global value chains, we need to focus on **how** the EU can facilitate and enhance EU multi-stakeholder, sector-wide voluntary collaboration, and look at specific steps that can be taken to improve policy coherence for sustainable development. There are no easy answers to the questions we face. The EU needs to respond to them collectively.

Building on the high-level conference The Netherlands is organising in the run-up to its EU Presidency on 'the EU and Global Value Chains' (www.euandgvc.nl), the Dutch EU Presidency, together with the EEAS, the Commission and all EU Member States, will set an agenda on how to strengthen EU trade and development policies and enhance their coherence in order to increase sustainability in global value chains. It will also focus on the promotion and discussion of the new EU Responsible Business Conduct Action Plan in Trade, Development and regional Council configurations.

The Netherlands will also build on its CSR Sector Risk Assessment (SRA) endeavour to strengthen the due diligence process of Dutch, and preferably EU, companies, in close collaboration with business and civil society.

To conclude, the growing significance of global value chains is forcing EU policymakers to tackle more complex sustainability challenges than ever before. Given the contribution that sustainable global value chains make to many countries' prosperity, the EU's external policies need to reflect the crucial importance of global value chains and responsible business conduct. This will be a priority of the Dutch EU Presidency. ■

Author



Marten C. van den Berg, Director General, Foreign Economic Relations, Ministry of Foreign Affairs, The Netherlands.

Sustainability in global value chains: Closing the gap between ambition and action

By Michael D'heur

How to close the gap between the ambitions for more sustainable global value chains and the current adaptation of businesses? While there are many opportunities for private and public sector to collaborate, misunderstandings and lack of collaborative actions that are properly financed prevent tangible results.



Foto by Joshua Earle, unsplash.com/photos/s00F6-W_OQ8

The gap between ambition and action

With a growing world population, an emerging middle class, scarce resources and unprecedented impacts of climate change, one thing is obvious: the current 'linear model' of our economy is not going to provide the answers to enable equitable living. New approaches like the green or circular economy models are emerging but are not yet at scale. The financial system is decaying and is continuing to push business to focus on short-term profits and generating 'products and services' that generate revenues but do not add value to society.

Despite the good intentions, there are many barriers that currently inhibit progress towards more sustainable businesses. One of them is the language barrier between private and public

sector, as demands often stay vaguely articulated or are subject to voluntary action. It is encouraging to see many initiatives initiated by policy makers, NGOs and collaboration platforms, clearly aiming to advance sustainability in business. But collaborative action and binding guidelines between private and public sector are only a prerequisite for initiating a fundamental change in building up sustainable value chains.

While the negative effects of the current economic model are becoming more obvious every day, the businesses community, representatives of the public sector and intermediaries alike, still don't understand how to move from good intentions and ambitions to achieving tangible results. Too often, good approaches are 'softened up' in the process of consensus building between stakeholders, most of them to the point

where everyone can agree, but nobody will act. Even following up on progress against agreed actions is not ensured. Implementation is left to the business, with no real control of what actually has been achieved (and at which scale).

Inspiring the change towards sustainable business models

Sustainability in global value chains has been identified as a key objective of the Sustainable Development Goals (SDGs), the new EU trade strategy and development agencies. While the public sector in Europe and Africa is becoming more open to collaborate with the private sector to achieve development goals, there is still a massive gap between ambition and tangible results.

To get more multi-national and small and medium sized enterprises (SMEs) to create sustainable and inclusive business models, we need a common understanding on how to make the change towards sustainable global value chains. Top management often have difficulties to understand how development efforts can help the business to build stronger and more resilient value chains. Many see development efforts outside of the businesses sphere of influence an issue that society needs to deal with, with taxpayers' money. Most business leaders look at value chains solely through a lens of economic and risk parameters, when they evaluate where to source materials from and how to balance cost with delivery performance and flexibility.

To change the status quo, business leaders need to understand what elements of global goals and trade

Getting the job done: The four essential steps and eight building blocks to address

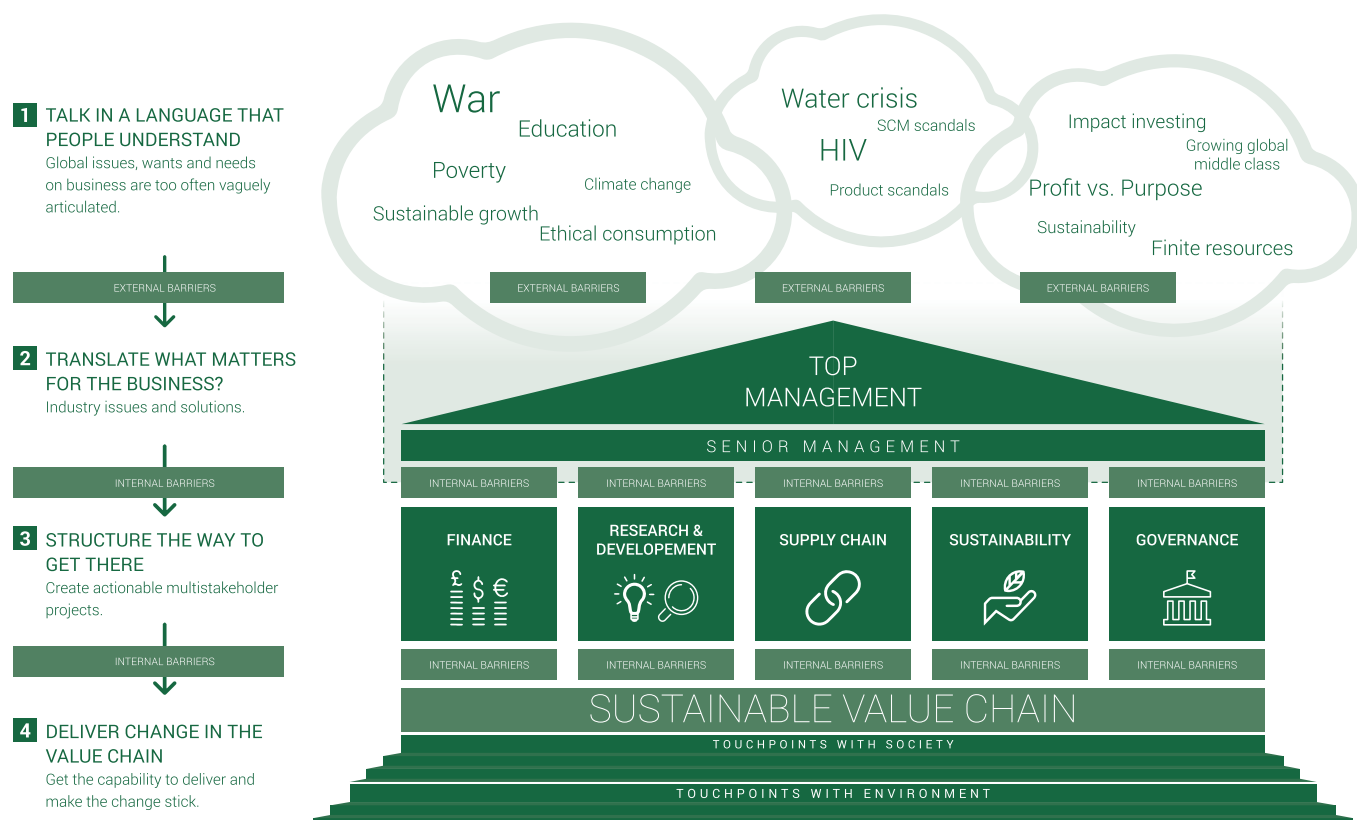
with multiple stakeholders. Internal and external communication in a consistent manner is critical to change the business and to maintain integrity between ambition and action.

STEP 1 “Speak in a language that people understand”. To capture the opportunities in a multi-sector approach we need to overcome the ‘language barrier’ between private, public players as well as intermediaries. Business managers often don’t understand how sustainable value chains deliver economic, ecologic and societal benefits.

asking for deadlines and results. Don't let business use consensus language and pay lip service to sustainability without taking substantial action.

Despite the fact that business leaders tend to generally agree with the demands for more sustainable business, it is often not clear how sustainability can help to stay ahead of the competition in a particular industry. The key is to translate complex concepts into relevant issues for businesses. The SDGs are a great example of using a language that businesses understand, specifically as they have been developed together with decision makers from the industry. It is important to recognise the efforts of the UN Global Compact, the Global Reporting Initiative (GRI) and the World Business Council for Sustainable Development (WBCSD) to make the SDGs understandable.

Figure 1: The four essential steps to build a sustainable organisation



GREAT Insights | December 2015/January 2016 | 9

Often they look for help from industry peer groups, instead of working with the public sector. Yet, there are only a few experts with deep expertise that are able to do this translation between sectors and within businesses, most of them working for the private sector today.

Current funding structures of multi-sector initiatives prevent going beyond the level of recommendations and do not address specific industry issues. It requires the right mix of public and private sector experts to get the job done. We need new ways of multi-sector collaborating and funding if we want to see sustainable value chains at scale.

STEP 3 “Turning relevant issues into actionable projects”. Once the relevant opportunities for the business have been identified, it is critical to turn ambitions into actionable work packages and projects that lead to tangible results. Integrating sustainability from strategy to day-to-day operations and along the end-to-end value chain can be a daunting task. Often it is more difficult to overcome internal barriers in a business. Company culture will always win over strategy, if there is no clear management commitment for sustainability and an explanation why a certain course of action will make the business stronger as a whole.

Successful projects require the capability to drive cross-functional collaboration within the business, as well as dialogue and interaction with key influencers outside the company to structure the right approach to deliver the change. Many businesses don't have that capability today. This requires to collaborate in a cross-functional manner and sometimes to change the target policies.

To embed sustainability in the core business, it should be implemented in all (or parts) of the following 8 'building blocks' of sustainable value chains: (1) Value creation strategy; (2) sustainable products; (3) sustainable operations;

(4) enterprise architecture; (5) stakeholder collaboration; (6) integrated business planning; (7) sustainable cost reduction; and (8) sustainable partner management. All of the building blocks have their touch points with society and environment and thus the potential to create triple value.

STEP 4 “Deliver the change and make it stick”. To implement the desired change in the business at scale takes time. Product strategies are not changed easily or fast. Global value chains are a network of hundreds or thousands of relationships that need to be managed. Besides the technical content of a project, the existing hierarchy and capabilities of the organisation provide a risk during implementation because it can take time to convince the entire organisation about the need for change. Constantly ensuring 'buy-in' and 'stay-in' of stakeholders is the key to success. Generating economic, ecologic and societal benefits. Implementing sustainability in the core business is challenging but yields many benefits. Several businesses have embraced the sustainability opportunity through multi-stakeholder collaboration and through building sustainable business models. This includes multi-national corporations and SMEs across various industries. It is these businesses that are convinced that approaches like 'Shared Value' are beneficial for business and society alike. They invest the resources and partner with public sector, NGOs and intermediaries to change the status quo.

Examples like the StarShea in Ghana (supported by SAP and local NGOs) and Nestlé's Rural Development Programs in Central and West Africa, demonstrate how the interest of businesses can be reconciled with the objectives of development programs. As a result, business that have adopted a sustainable value chain generate multiple benefits: economic growth through more sales of sustainable products, reduced resource intensity

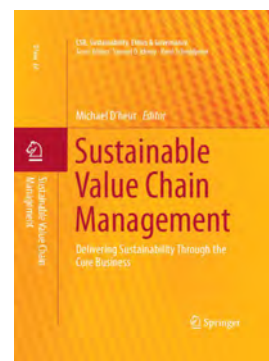
along the value chain and positive societal impact through stronger relationships supported by local community investments - for example with suppliers that are getting higher income and education.

There is no need to discuss if there is a businesses case. You need to create the business case for it and go beyond the traditional thinking of economics.

The time to act is now! Are you ready to join the movement? ■

About the book:

D'heur M. ed. (2015). *Sustainable Value Chain Management: Delivering Sustainability Through the Core Business*, Series: CSR, Sustainability, Ethics & Governance, Springer.



Author



Michael D'heur is Founder and Managing Director of shared. value.chain, a think tank and advisory firm for sustainable value chain management. Michael is thought leader, author, speaker, and advisor to drive the adoption of sustainability in the core business. Twitter: @SharedxValue

Who captures the value in global value chains? A perspective from developing countries

by Peter Draper and Andreas Freytag

Perspectives on the developmental impacts of global value chains vary substantially, and so do policy recommendations and strategic choice the developing countries face over their stance towards MNCs and GVCs. In defining elements of their industrial strategy, governments should minimize political barriers to trade and consider the importance of the institutional quality and governance structure in their country

Structural economic change occurs ever faster today, and challenges for individual workers, firms, and political entities grow in tandem with it. The global value chain (GVC) paradigm opens many opportunities and challenges for firms and workers both in developed countries and the emerging world. Their competitive situation is changing far quicker than before. Four paradigm changes can be attributed to the emergence of GVCs:

1. The strategic focus shifts from countries to networks, GVCs, or firms, meaning that specialisation is intensifying and comparative advantages are more dynamic.
2. The unit of analysis moves from industries to tasks and functions, implying that the units of decision-making become smaller and more decentralised.
3. Factor endowments and stocks are less relevant economically compared to flows, reflecting the enormous increase in speed and the dynamic nature of production today — knowledge has to be written off faster and acquired continuously.
4. A change of relevant barriers and stimuli from the public to the private shows that trade policy moves from taxing goods and services at the border, to a broader set of 'behind the border' measures, encompassing private standards.

Parallel to these recent developments in world trade is the increase of trade in services with foreign direct investment (FDI) flows shifting from the secondary to



Nestlé employee working on a Maggi production line in Nigeria. Photo: Nestlé/flickr/CC.

the tertiary sector. Services multinational companies (MNCs) are also establishing services GVCs in their own right. Further, the operation of GVCs increasingly depends on the availability of supportive services, which have become a key component of value added.

These changes are particularly important from the perspective of developing and emerging economies, which want to enter into upgrade in GVCs. The challenges are sharpened by the fact that GVCs are not evenly

distributed, and not all countries are equally well placed to leverage them.

New options for multinational companies

To understand the problems for developing countries, one should consider the matter from an MNC point of view, in which locational decisions are the dominant criterion. The primary issue is what motivates the investment: resource-seeking; efficiency-seeking; or market-seeking.

If the purpose is to extract natural resources from the host nation for export, the investor is not likely to consider horizontal investments in ancillary activities unless these are wholly lacking and the investment cannot proceed without them.

Efficiency-seeking investment consciously seeks to access low-cost, productive labour and take advantage of broader efficiencies in infrastructure and logistics. Some kinds of efficiency-seeking investments, such as in the clothing industry, are very low margin activities sensitive to marginal cost increases. Other kinds, such as logistics or transportation companies seeking to leverage their locations, can be more enduring and have wider, positive developmental impacts.

Market-seeking FDI is generally there for the long haul and is the most sustainable. Over time, MNCs investing for this purpose are likely to locate more of their tasks in the host nation and its broader region, through constructing regional value chains (RVCs).

With this in mind we now briefly consider three core issues in the broader debate.

Key issues for developing countries: entrapment in comparative advantage?

Since resources are furthest upstream in GVCs, it follows that simply extracting and exporting them does not generate much value for the host economy. Therefore, critics worry that developing country resource exporters risk becoming embroiled in 'resource traps', and advocate diversification from resource exports to higher value-adding activities, especially manufacturing. The primary objection to the GVC narrative, therefore, is that its liberalising impulse will simply entrap developing countries in resource-intensive comparative advantage. To encourage domestic value

addition, various coercive instruments are advocated, ranging from export to investment restrictions. This 'resource nationalist' perspective is gaining currency around the world.

The notion of resource traps is contested. The evident success of modern resource exporters such as the US, Australia, Sweden, Chile and Botswana suggests there is more to the story than the resource trap literature implies. Central to this is what happens to the rents derived from resource extraction. If they are invested in economy-wide cross-cutting enablers that upgrade conditions for business as a whole, positive outcomes are foreseeable. Much depends on the governance capacities and arrangements in the host nation.

Iniquitous outcomes?

Another concern applies primarily to labour-intensive GVCs. The fact that much of the value and profits, associated with, for example, the clothing-textiles-retail value chain are captured by 'lead' MNC retailers reinforces perceptions that the gains are unevenly distributed, while the human cost can be high.

Many observers also worry about the footloose nature of this FDI, since it is driven by low costs. MNC investors soon relocate to the next favoured destination. The core concern, then, is that the erstwhile host would not have built sufficient domestic value addition capability to reorient its participation in that GVC, notably to upgrade or diversify into other productive activities. Further, while the wage structure would have improved, and people would have been employed in low-wage activities for a while, some worry that the country risks becoming caught in a middle-income trap, unable to make the transition to higher levels of development. In addition, the low-wage jobs would have moved on. The notion of a middle-income trap

is contestable on the same intellectual grounds as resource or poverty traps. Nonetheless, most GVC proponents would recognise these concerns.

However, regarding the ethical environments characteristic of low-wage, assembly driven GVCs, proponents note that MNCs, especially from developed countries, operate under various codes of conduct promulgated at the national and multilateral levels. MNC home nations enforce these codes, and so do domestic pressure groups, principally through generating negative publicity leading sometimes to consumer boycotts, for example. Developing country MNCs, by contrast, often do not operate under the same ethical constraints.

As in the case of resource governance, the role of the MNC host state in regulating and enforcing domestic working conditions is crucial. For example, targeted investments into training facilities and trainers in the industry concerned can make a difference. If approached collaboratively, MNCs' global networks could be leveraged towards this end. Further, in the process of incorporation into GVCs, even if at the lower end, some skills and technologies will be transferred. The more absorptive the domestic environment is, the more likely this will lead to upgrading; host states can enhance the absorptive environment.

Race to the bottom?

A third argument derives from the liberalising logic inherent in the GVC perspective. Essentially, the business of attracting MNC FDI into host nations is akin to a beauty contest in which the contestants try to outdo each other to be noticed, and favoured, by the MNC 'judges'. The logic of providing generous incentives is particularly prevalent in the manufacturing sector, but also applies in certain services GVCs, notably finance and the attraction

of headquarters FDI. This could have substantial implications for host nations' overall fiscal position as governments become increasingly generous in a competitive 'race to the bottom' of the fiscal pool. Such an outcome would have deleterious consequences for necessary developmental expenditures.

This argument is essentially one for adopting sensible incentives packages. Further, international investment promotion experience suggests that while incentives play a role in FDI location decisions, they are probably not decisive. Strategic factors, notably comparative advantages; competitive advantages; and the overall orientation of the host state towards FDI are more important. And of course MNCs are not likely to go where they are not wanted, meaning competition to attract them could conceivably lead to a 'race to the top', through business environment reforms in particular.

Policy implications

Thus developing countries face a strategic choice over their stance towards MNCs and GVCs. The core policy prescription advocated by critics is formulating conscious industrial strategies underpinned by 'deliberative targeting', in which the state consults actively with business in an iterative, bottom up process of identifying key blockages to domestic industrial development. This approach is gaining ground in Africa.

In this light, infrastructure is a decisive bottleneck to development in many developing countries. Further, the workforce has to be fit for the requirements of GVCs, which implies a solid knowledge and skill base (stocks) and — more important — the ability to adjust to new challenges (flows). Therefore, education plays a decisive role. Crucially, where skills are not available domestically, foreigners can

be harnessed to fill the gap, and, in the process, train locals.

Additionally, business environment reforms are essential to improving economy-wide competitiveness, benefitting both local firms and MNCs. These are key horizontal elements of industrial strategy. But for many developing countries 'just' these horizontal elements require strong state capacities. Targeted interventions for particular firms or sectors also require strong state capacities but arguably deliver substantially lower benefits, and may also impose substantial costs. Ultimately, the success of all policies depends on institutional qualities of the state, and on the market power the country has relative to MNCs that have other choices. Moreover, rather than coercive policy approaches, we prefer that governments should minimise political barriers to trade. This includes tariffs, subsidies, and other non-tariff barriers. This would enable MNCs targeted for inward FDI to establish their tasks in the host nation as efficiently as possible, thus maximising sustainability and linkage potential.

Therefore, governments, especially in developing countries, should consider the importance of the institutional quality and governance structure in their country. Corruption, poorly defined property rights, weak rule of law and the like, render all measures directed at investment conditionalities, human capital formation, infrastructure investments, and trade facilitation ineffective. ■

This article is based on a longer paper, Draper, P. and Freytag, A. 2014. "Who Captures the Value in the Global Value Chain? High Level Implications for the World Trade Organization." E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum. It also draws on recent insights from Draper, P., A. Freytag, A., and Fricke, S. 2015. "The Potential of ACP Countries to Participate in Global and Regional Value Chains: A Mapping of Issues and Challenges." SAIIA Research Report 19; Johannesburg

About the authors



Peter Draper is Managing Director of Tutwa Consulting.

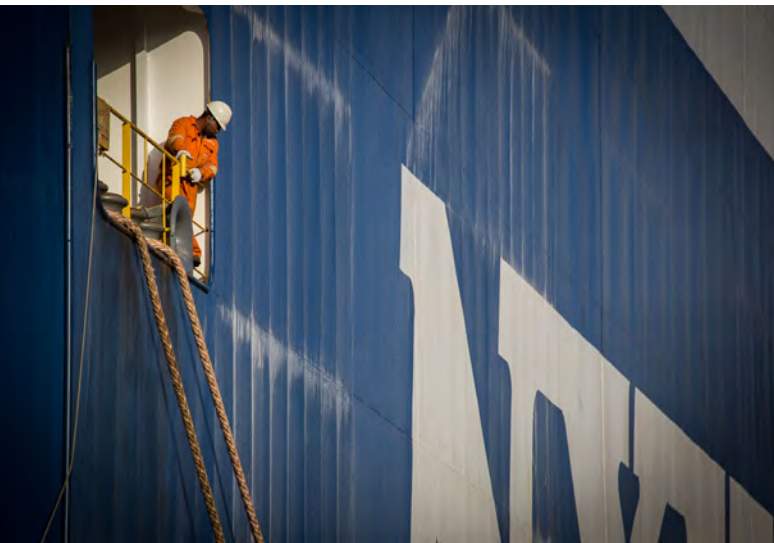


Andreas Freytag is Professor of Economics at the Friedrich-Schiller-University, Jena, Honorary Professor at the University of Stellenbosch and Director of Tutwa Germany.

GVC trade and the case for domestic economic policies

by Erik van der Marel

Today's trading patterns are marked by global supply or value chains (GVCs) which forces policy makers to focus more and more on domestic economic policies that lie outside the traditional scope of trade barriers.



In today's world, production and trade takes place among multiple stages of a chain stretching many country participants around the globe. A ship in Dar es Salaam Port, Tanzania. Photo: Rob Beechey/World Bank

Global value chains

In today's world, production and trade takes place among multiple stages of a chain stretching many country participants around the globe. This encourages countries to specialise in a so-called 'slice' of the global value chain (GVC) which can be either at beginning, middle or end of the production process. For some analysts, GVCs opens a new area of wide research trying to understand new types of trade patterns across the globe. For others, trade in GVCs are nothing new, just a refinement of what we have actually seen in the last two decades. Regardless of these two opposing views, GVCs does however, force us to think beyond traditional trade barriers. Since splitting up the value chain prompts trade and production to be much more intertwined with each other than before, policies that countries implement for production directly impacts their GVC trade in conduction.

Almost all countries participate in global supply chains through various industries in which they specialise. However, where exactly countries are positioned within the so-called wider GVC map with respect to trade and production remains to a larger extent an open question. Are countries really taking part in these value chains in different ways? If so, where are countries located within the overall spectrum of supply chains with regards to production and trade? Even more importantly,

what does the location within the GVC mean for the set of policies each country pursues in order to take advantage of GVCs? These are questions that occupy many policy makers across the globe in developed as well as developing economies. Each of these countries' priority is to reap greater levels of domestic value-added through these supply chains but how they determine which set of policies to focus on is largely unknown. Much depends on where countries are located on the map of supply chains.

Where on the GVC map?

On the one hand, countries can measure their location by the extent to which they participate in intermediates inputs trade. Since specialisation only takes place in a 'slice' of the entire chain, a country has to import for its exports whilst producing in between. This means that many inputs are imported only to be processed domestically so as to 'add' value to the input, which then in the next stage are shipped abroad. Some countries are participating in this intermediate inputs trade much more than others. Looking at the characteristics of countries, unsurprisingly many small open countries are naturally doing well in transshipping many inputs to and from abroad. For instance, countries such as Luxembourg, Slovakia but also Singapore and Taiwan score relatively well in

intermediate inputs trade. Countries such as Turkey, the US, the EU (as a whole) but also South Africa and even Indonesia show relatively lower intermediate inputs trade compared to other countries.

On the other hand, countries can also assess their location with respect to specialisation. This line of the GVC map relates to the side of production within the chain. The location of production matters a great deal since not all countries are involved in the same type of chain production where the value is added. The supply chain can be relatively long and depending in how many slices the chain is broken into, a country can produce in the relatively early, middle or later stages of the production chain. Looking at what countries look like, one could think that developing countries are placed at the beginning whereas richer countries are located at the end of the production process. However, that depends. Australia is rich and yet located relatively far away from final demand. Brazil is an emerging country but nonetheless located at the early stages of the chain production. In these two cases, both countries are resource-rich yet different in income-levels.

Obviously then, many factors related to the level of development, size but above all underlying economic structures all play a role where in the chain a country has its slice of production and hence where it consequently trades.

Room for policy?

Is there room for policy? Actually, uncovering a country's location on the GVC map is important as it can provide important policy guidance. This is because policies can influence the way in which countries are willing to 'shift' within GVCs. More importantly, with the rise of GVCs in recent years, various so-called 'new' policy measures going beyond traditional trade policy which are otherwise more related to production, have precisely become important factors for the slice in which a country produces and hence, trades. Examples of these new policy areas include investment barriers, labour market inefficiencies, or various obstacles to innovation. Hence, all these barriers which are usually key to production have now in addition, become important for trade within GVCs. Yet the scale and scope of these various policies for each country very much depend where a country produces and how many foreign inputs this country uses.

Indeed, analysing what defines the high extent of a country's intermediate inputs trade, policy factors such as human capital, product market regulations and logistical barriers do all explain high or low levels of this intermediate inputs trade. Some of these factors are unsurprising as there is a long trade literature that has indicated that most of these factors indeed do explain trade before the notion of GVC came in place. They are nonetheless important and precisely those smaller countries that depend on much intermediate input trade could prioritise the relative importance of removing these barriers. But there is more. There are additional factors that also explain high levels of intermediate inputs trade such as product market regulation, logistical barriers or factors related to R&D spending and the innovation climate. These categories are non-standard to the field of trade policy and seem to require further attention from policy makers as to how these measures can accommodate the smooth going-in-and-out of the many inputs countries trade.

A different set of non-trade-related policies are also found to matter for the pattern of specialisation (i.e. production) in

the chain. Factors such as ICT-capital or 'knowledge' capital, labour market flexibility or competition policy all seem to matter whether one produces at the beginning or at the end of the production process. Another example includes an effective competition policy which appears to matter more for countries at the early stages of the supply chain. Some of the policies influencing the location of production in the chain are more familiar to the world of trade policy. For instance, FDI restriction in both goods and services are strongly connected to production specialisation at the beginning of the value chain which also appears to be the case for services trade policies.

What do we know?

As one can see, there are many factors influencing a country's position regarding where they are located within the range of GVCs in which they take part. Since participating in supply chains both affect production and trade, some of these factors are related to the traditional trade barriers whereas others are more connected to production. One issue that stands out is that both trade and domestic economic policies do matter in tandem with each other as supply chains forces us to think in terms of the narrow slice in which both policy aspects are intertwined. Policy makers would do well to understand where their respective economies are placed with regards to which specific supply chain and which policies can optimally increase the domestic value added so a country can reap.

Moreover, GVCs are not static and countries follow a dynamic process in which they upgrade by moving up and/or down the supply chain to further increase value added. The set of policies that determine both production and trade, both traditional and non-traditional to trade, can further help these countries to move inside the chain.

Undoubtedly other factors also play a role in explaining a country's location regarding GVCs. However, more research will need to be done in order to explore these issues. This analysis has modestly introduced the many existing policy measures that are found and used to assess as to what affects GVC trade, but other policy disciplines which seem harder to quantify also matter. For instance, more and more industries are experiencing a so-called 'servicification' of the production process which requires the optimal allocation of information, often implying cross-border data flows. When more policy measures are at hand for economists to analyse, policy makers will be able to further scrutinise which domestic economic policies are in addition important for GVCs. ■

Reference:

van der Marel, E. (2015). *Positioning on the Global Value Chain Map: Where Do You Want to Be?* Journal of World Trade, 49(6): 915-950.

About the author



Dr. Erik van der Marel is Senior Economist at the European Centre for International Political Economy (ECIPE), Lecturer at the Université Libre de Bruxelles (ULB) and Consultant to the World Bank's Trade and Competitive Global Practice.

Tracing sustainability in global food chains

by Arthur P.J. Mol and Peter Oosterveer

This article briefly discusses the different systems for tracing sustainability in global food chains and pays particular attention to the marketisation of sustainability through certificates.



Fruit packing at the Bavaria fruit farm in Hoedspruit, South Africa, where the lemons, oranges and mangoes packaged are destined mostly for the export market. Source: Chris Kirchhoff, MediaClubSouthAfrica.com

Sustainability standards in globalising food chains

Sustainability is an important goal for (agro-)food supply chains but safeguarding the sustainability of food in the context of globalisation becomes increasingly complicated. Different strategies to promote sustainability of food have been developed, in which systems for tracing sustainability in food supply chains stand out. Such systems, articulated in sustainability standards and certification schemes, allow producers and consumers to trace sustainability claims along every step in the supply chain.

Sustainability of food often cannot simply be observed from food products when consumers buy them. So sustainability claims on consumer food can only be made on the basis of reliable information about upstream food production processes.

A traceability standard therefore requires transparency of the chain, traceability of the food product and verification of the sustainability claims throughout the chain (Mol & Oosterveer, 2015). Different sustainability instruments have been developed and are applied within distinct global food supply chains. These instruments operate in different ways in the global

food market. An interesting new development is that sustainability itself becomes a commodity in a separate market through the buying and selling of sustainability certificates.

Traceability in global food supply networks

Informational governance (Mol, 2006), that is regulation through information, involves activities such as collection, monitoring, disclosing, disseminating, framing and verification of information. These informational activities can help to transform food production and consumption towards sustainability.

Information about the origin of the product, eco-labels such as organic or Fairtrade, corporate social responsibility reporting, etc., allows producers, consumers, NGOs and governments to profile and advance sustainability of food products. But in order to do so, sustainability claims need to be traceable along the food supply chain.

Different models of tracing sustainability exist next to each other and sometimes even in the same commodity market (Bush et al., 2015; Smyth and Phillips, 2002). As Mol and Oosterveer (2015) show, these can be categorised into four different systems:

1. Identity preservation (also known as tracking and tracing) ensures that the certified product delivered to the consumer is uniquely identifiable and can be directly related to the producer. This requires full traceability, which implies high costs along the value chain. These high costs need to be compensated through price premiums.
2. Segregation is the physical separation of certified and non-certified products throughout the supply chain, without the possibility to relate a product back to its individual producer.
3. The mass balance system monitors certified sustainable produce administratively throughout the entire chain to ensure that the volume of certified products downstream equals the volume of certified resource base upstream. The mass balance system allows for the mixing of certified and non-certified produce at any stage of the value chain after the certified produce has left the farm gate.
4. The book and claim model takes away the physical link between the certified primary product and the certified final product. The certified produce upstream is booked in a central registry and the operator receives a tradable certificate. The producer then sells his certificates on the market to interested buyers through a trading platform. For each unit of certified sustainable product that is sold to customers/consumers, final sellers need to buy certificates from this platform. The price of a certificate depends on supply and demand for the certificates and may therefore vary widely. The major

advantage of this system is that no segregation or monitoring of the product is needed, thereby significantly reducing costs and complexities.

Figure 1 illustrates these different sustainability tracing systems.

Which traceability system is selected and why?

These four different systems exist next to each other and there is no clear trend visible towards a convergence into a particular model. How then to understand why and when a particular traceability system is selected?

We identified five factors that influence the selection of a traceability system.

The first factor relates to the identifiability of a product for consumers, because when final products are clearly identifiable for consumers (such as coffee, fish, vegetables), identity preserved or segregation is preferred above other systems.

Second, the (perceived) existence of inherent product quality differences, such as organic, makes identity preserved or segregation more likely to prevail as a preferable traceability system.

Third, when the lead firm in a global value chain is (perceived to be) vulnerable for questions and accusations from consumers and the public, one can expect segregation and identity preservation to be preferred.

Fourth, if institutional actors, which are only to a limited extent dependent on consumer legitimacy, dominate a value chain, one may expect book and claim systems to prevail.

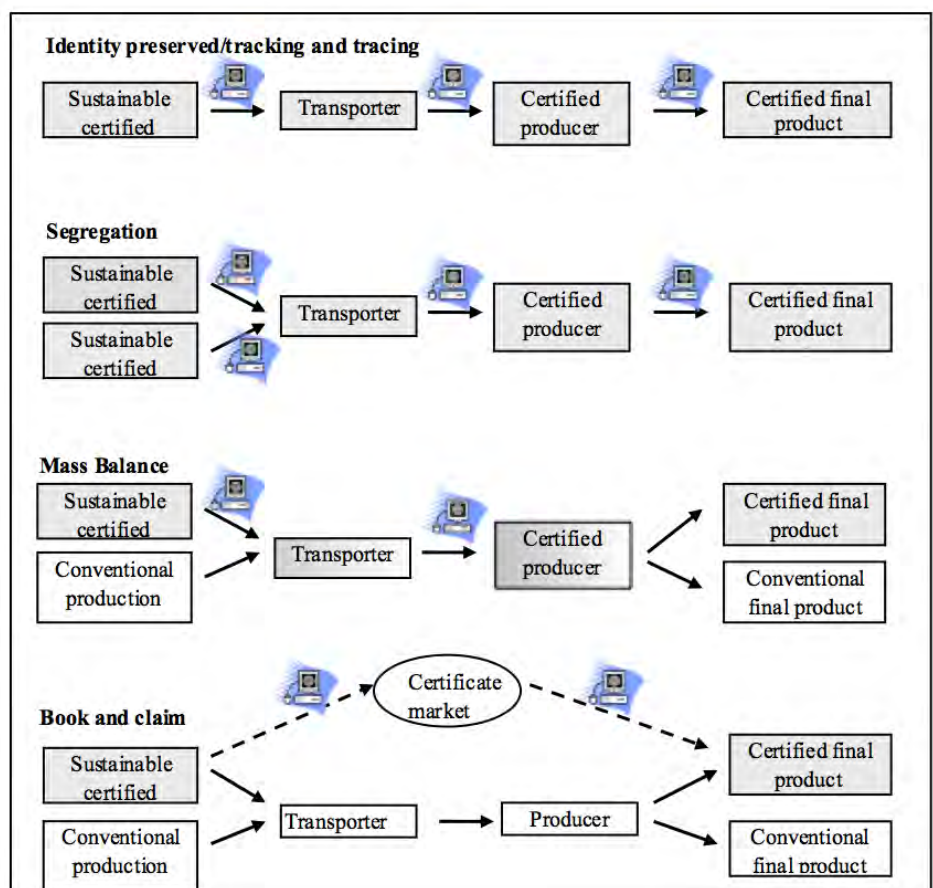
Finally, when supply chains extend their market geographically and in size and when the 'social distance' between producer and consumer increases, one may expect that book and claim and mass balance systems are preferred.

The combination of these factors explains why organic food uses identity preservation or segregation in the market and sustainable palm oil relies on book and claim.

Book and claim systems

Book and claim systems offer sustainability certificates on the market and this means that information about sustainability becomes of value. These systems provide a monetary value to sustainability and allow it to be traded independently from the material products themselves. These book and claim systems are relatively new in the (agro-)food market and

Figure1: Four sustainability tracing models



Source: Mol and Oosterveer, 2015, p. 12264.

therefore need our attention. Book and claim systems combine ecological and economic rationality in designing green global supply networks: they incentivise certified production, reduce transaction costs and thereby make certified products competitive with non-certified alternatives. In organising these book and claim systems and their certificates in practice, however, five critical challenges are faced.

First, book and claim systems bring in a new set of actors in sustainable global value chain governance, such as private brokers and financial institutions, each with their own roles, interests and rationalities. This means that traceability becomes a market in itself; sustainability certificates are traded and new companies emerge that make a profit from trading sustainability certificates or from setting up systems and companies that become traceability brokers. The relationship between these traded certificates and actual sustainability becomes indirect, while risks of price volatility increase.

Second, book and claim systems seem also more vulnerable to fraud than identity preserved and segregation systems.

Another challenge is the blurring of responsibilities when buying and selling sustainability certificates is detached from setting, monitoring and verifying actual production standards.

Fourth, because book and claim systems often have to compete with alternative traceability systems in the same market or on the same product, their favourable cost-efficiency does not necessarily convince all consumers. When consumer preferences for greater transparency towards initial producers are articulated through large retailers, book and claim systems may not be the preferred option.

Finally, book and claim systems may suffer from over-certification when larger volumes of sustainable primary commodities are produced than volumes certified in a market.

Conclusions

The increasing demand for sustainably produced agro-food products in a globalising market has resulted in the creation of different systems to certify sustainability claims. Traceability is a key element in each of these initiatives, but it can be (and is) arranged in different ways. The application of a particular form of traceability, i.e. how the certification of a final product is related to the sustainability qualities of production circumstances and products at different stages of the value chain, does not simply depend on a historical development. In fact, the kind of traceability model that is selected depends on the combination of five different factors in the architecture of the supply network serving a specified commodity market.

Deciding on the most appropriate traceability system is not a straightforward selection process on the basis of (economic and environmental) costs and benefits, but relates as much to fundamental consumer identities, ideologies and power relations in value chains. While technical-scientific claims can be straightforwardly rejected or accepted, debates on fundamental ideologies and power inequalities are never resolved easily. The debate on traceability systems is therefore likely to continue for some time (rather than closed on short notice) and we expect book and claim systems to remain part of that debate. Book and claim systems are a relevant option for commodities that cannot easily be identified by individual consumers, such as palm oil or soy. ■

References:

- Bush, S. R., Oosterveer, P., Bailey, M. and Mol, A.P.J., (2015). *Sustainability governance of chains and networks: a review and future outlook*. Journal of Cleaner Production, 107, 8-19.
- Mol, A.P.J., and Oosterveer, P., (2015). *Certification of Markets, Markets of Certificates: Tracing Sustainability in Global Agro-Food Value Chains*. Sustainability, 7, 12258.
- Mol, A.P.J. (2006). *Environmental governance in the Information Age: the emergence of informational governance*. Environment and Planning C: Government and Policy, 24, 497-514.
- Smyth, S., and P. W. B. Phillips (2002). *Product Differentiation Alternatives: Identity Preservation, Segregation, and Traceability*. AgBioForum, 5, 30-42.

About the authors



Prof. dr. Arthur P.J. Mol is currently Rector Magnificus and Vice-Chairman of Wageningen University & Research centre, The Netherlands. He was Professor and Chair of Environmental Policy at Wageningen University (e-mail: arthur.mol@wur.nl);



Dr. Peter Oosterveer is Associate Professor at the Environmental Policy Group Department Wageningen University, The Netherlands (e-mail: peter.oosterveer@wur.nl)

Extractives and global value chains: Where does Africa stand?

By Isabelle Ramdoo

Extractive resources accounted for 70% of Africa's intermediate input exports in 2013. Yet, the continent's value added participation in GVCs remains very low. Upgrading is therefore a necessary consideration to capture a bigger share of global markets.

Industrial realities and the nature of international trade have changed radically in the last twenty-five years. Production and trade are more and more structured around global value chains (GVCs). These changes are reflected in the way companies organise their production structures into operations that are conducted across the globe and in the changing trade dynamics, where firms specialise in capabilities and tasks rather than entire products. Today, the share of trade in intermediate inputs is estimated to represent more than 50% of imported goods by OECD countries and almost 75% of imports by countries such as China and Brazil (WEF, 2012). Several factors account for these changes. First, technological progress has substantially lowered transport costs and improved information and communication technology, making the coordination of real-time production more efficient and therefore making geographical location much less relevant. Second, trade barriers among developed countries have been brought down. Third, rise of new poles of production in emerging economies like China and India has significantly changed the dynamics of economic convergence and integration. Finally, companies are increasingly internationalising their production chains across several countries to always move to the most cost-efficient production locations.

Extractive industries and global value chains

It is not true to say that African economies do not participate in GVCs. Actually, the 2013 Annual Report of the African Development Bank showed that more than 70% of Africa's exports were in intermediate inputs from the extractive industries, for global production of such items as copper wire, steel and petroleum. This is because the large firms that have been driving the GVCs dynamics are vertically integrated with global suppliers and are themselves raw material providers for industries producing elsewhere. The value added participation therefore remains very low. In fact, Africa, on average, only adds value to 14% of its exports compared with 27% for emerging Asia and 31% for developed economies (AfDB, 2013).

In the past decade, the structure of the mining industry has undergone profound modifications. This was essentially driven by the need to cut down on costs and to focus on core activities. Similarly, in the oil and gas sector, low price of oil in the 1990s has led to the restructuring of the industry and companies have outsourced highly specialised exploration activities to independent firms. This has resulted in leaner supply chain management operations, including outsourcing of non-core activities to low cost and more efficient suppliers and procurement of goods and services from fewer but bigger suppliers.



Sishen Mine, a Kumba Iron Ore mine. The loading of the Sishen to Saldanha ore train; 216 wagons of 100 tons each make up each train, Northern Cape province, South Africa. Source: Graeme Williams, Medi-aClubSouthAfrica.com

That said, although companies are driven by the logic of outsourcing, the location specific nature of the extractive industry could nevertheless confer some advantages to resource-rich countries, to the extent that they can use their location to become an attractive hub for their region. For instance, an efficient supplier, based locally, can respond to flexible and tailored needs of the industry. South Africa for instance, carved its niche in certain specific service supplies given its capacity to develop tailor-made responses for the mining industry. The latter's (relative) advantages in GVCs is a result of well established companies with leading products and competencies, public research linked to firms, relatively well-developed and dense networks of local supply industries and services and geographical clustering.

In Africa however, due to inherent weaknesses, the capital, knowledge and technology intensity of these sectors has put local firms at a disadvantage compared to specialised

outsourced firms, accentuating the 'enclaveness' of the extractive sector. While local firms are slowly joining the bandwagon, they remain nevertheless mostly engaged in lower value, site-specific operations such as construction, support services and non-productive functions, in part to meet local content requirements rather than leveraging comparative advantages. Though there are notable exceptions, such as South African equipment and services suppliers, most domestic firms in Africa have not yet achieved upgrading in this sector.

There are several challenges inhibiting the sustainable inclusion of domestic companies in Africa in extractive industries GVCs. First, there is a set of structural factors that need to be addressed, such as the weak domestic industrial base. This is a result of the decades-long absence of proper industrial policies. Second, the lack of finance for industrial development, in particular for SMEs, is an important bottleneck to be addressed. Third, there seems to be insufficient specialised skills available at technical and professional levels to meet the requirements of global markets. Fourth, insufficient investment in R&D, science, innovation and technology is a major handicap to value chain upgrading. Fifth, in many cases, the cost of doing business is high and hence impact negatively on the competitiveness of companies and insufficient access to finance. Finally, many countries suffer from poor, insufficient and inadequate public infrastructure, expensive electricity, unreliable transport networks and slow telecommunication and internet connectivity.

GVCs upgrading in Africa: a necessary consideration

The objective now is to ensure greater value addition or attract other processing/manufacturing industries. The main question is therefore how to upgrade the current position in the production structure in such way to have a more meaningful participation in terms of capturing a higher share of value in the global economy.

Economic upgrading can take at least four dimensions: product, process, functional and chain upgrading. Product upgrading involves producing higher quality and more sophisticated products. Process upgrading supposes that companies rearrange the production process to improve efficiency and productivity. Functional upgrading means acquiring new or broadening the range of functions in the stages of production. Finally, chain upgrading means diversifying activities into higher value sectors or end products. It matters where countries position themselves along the value chain and the dynamics differ if they sit at the lower end of the chain (providing raw materials) or at the more sophisticated end of the chain (as suppliers of key products or specialised services). It also matters to what extent mining companies are able or willing to connect to global suppliers.

These different dimensions offer a wide range of opportunities for countries and companies to participate in various aspects of GVCs. While for countries the tendency is to foster essentially on the hardware part of GVCs, i.e. on product or chain upgrading (probably because those can be measured through economic indicators), the software part of GVCs, i.e.

process and functions are often overlooked. Yet, these are essential in positioning companies at a certain level in GVCs (upstream or downstream), and influence their capacity to strengthen their positions.

A number of African countries, such as Zambia and Botswana, have started to pursue efforts in this direction. By cutting and polishing diamonds, Botswana, for example, gained some 7.5% in value over rough diamonds production. But over 50% more value is still to be captured if it moved into jewellery and retail. However, that means acquiring new processes or attracting new industries that have those processes. Similarly, in East Africa, the discovery of oil and gas has led to a number of activities aimed at greater economic integration to capture as much value from these activities as possible in the region. For instance, Kenya has embarked on a new standard gauge railway line from Mombasa, which should extend later to Uganda and Rwanda. It has also started the construction of a new port at Lamu that will service the northern parts of the country, South Sudan and Ethiopian outlets to the sea. Nigeria is contemplating regionalising its cement industry to support the construction boom on the continent and fertiliser industries to feed into the agricultural value chains. However, such efforts are insufficient to be reflected in the share of Africa in global production and trade.

Finally, entering GVCs is not an end in itself. Low-income countries, because of their capability challenges, almost de facto enter at the lower end of GVCs. There is a risk that local operations remain confined at that level if new capabilities are not accumulated. There is also a risk that low-end tasks may move elsewhere, causing downgrading. ■

This article is based on a longer report, Ramdoo, I. (2015). Resource-based industrialisation in Africa: Optimising linkages and value chains in the extractive sector. ECDPM Discussion Paper 179. <http://ecdpm.org/dp179>

References:

African Development Bank (2013). *Annual Report*. Tunis
OECD: 2014.
World Economic Forum. (2012). *The Shifting Geography of Global Value Chains. Implications for Developing Countries and Trade Policy*. Global Agenda Council on the Global Trade System.

Author



Isabelle Ramdoo is the Deputy Head of the Economic Transformation and Trade Programme at ECDPM. Email: ir@ecdpm.org
Twitter: [@ir_ramdoo](https://twitter.com/ir_ramdoo)

Global value chains and resource corridors: The nexus is regional integration

By Perrine Toledano

To be more involved in the global value chains, sub-Saharan African countries should intensify their regional integration efforts. A first step in this direction can be implementing cross-border resource-based development corridors.

The end use and beyond

Global value chains (GVCs) have led to a growing interconnectedness between economies through the segmentation of the production processes and specialisation of countries into tasks activities within those value chains. Today, more than 70% of global trade is made of intermediate goods and services. This evolution of the production process is the result of technological progress, cheaper transportation and communications and the liberalisation of trade.

While participating in GVCs carries the risks of being exposed to international crises and external shocks, it is clear that there is a positive correlation between this participation and the level of income, economic development and diversification.

For a low-income country with a limited manufacturing capacity and a large unskilled labour force, hoping to increase its income level by participating in this global trade through an involvement in the intermediary segments of the production chain can appear somewhat easier than trying to participate through the production of a whole product.

However, countries participate at different levels in GVCs. Some countries will be very involved because they are the home of the lead firms or the suppliers of very specialised tasks and others won't have enough comparative advantages to be part of the game.

Those comparative advantages are either pre-determined by such factors as the geographic location or the

resource wealth of a country or they can be enhanced by sound and targeted government intervention in, for instance, building human capital to increase the absorptive capacity of the workforce, bridging the infrastructure gap that hinders the productivity of potential suppliers, facilitating access to finance, reducing the cost of doing business and improving the investment climate more generally to attract foreign investors while unlocking the potential of the domestic economy.

GVCs and regional integration

Achieving those public policy objectives for a small and poor economy might be difficult, but regional integration can assist in that regard. Indeed, regional integration allows leveraging economies of scale to deploy infrastructure at the least cost, experience sharing to better understand how to best elevate the absorptive capacity of a country's workforce and institutional resource pooling when those resources are scarce.

In fact, regional integration and the creation of regional value chains can give a region a competitive advantage in terms of participation in the GVC: for example, the East African Community (EAC) has been more successful in increasing its participation in GVCs as a regional trading bloc as compared to the rest of sub-Saharan Africa, which remains less economically integrated (in 2014, the share of exports with embedded foreign value added is 23%

in the EAC as compared to 15% in sub-Saharan Africa; IMF, 2015).

Regional integration has been on the agenda of the African governments for a long time and has however, made little progress.

Regional integration through resource corridors

An opportunity to accelerate regional integration could come from what is called the 'resource-based spatial development corridors'.

A resource-based spatial development corridor is a transport corridor financed by the high cargo volume and high cash flow of a resource project that enables the development of (1) other types of infrastructure (power lines, optic fibre cables, water distribution infrastructure) by leveraging economics of scope; and (2) other less profitable sectors of the economy (such as agriculture and forestry) by leveraging economies of scale.

According to the Spatial Development Initiative adopted by the South African government and NEPAD, the spatial development corridor approach leverages the anchor resource projects for more integrated growth along transport and service corridors, ensuring that the benefits of the high-rent investments translate into widespread development outcomes.

Africa presents a few interesting examples of cross-border spatial development corridors anchored on resources projects including: the Nacala corridor crossing Zambia, Mozambique and Malawi and anchored on the coal



Trucks outside Kampala, Uganda, East Africa. Source: Robert Lutz/CC

province in Tete, Mozambique; the Lapsset corridor anchored around the development of a deepwater port at Lamu on Kenya's north-east coast and an oil and gas pipeline linking South Sudan, Ethiopia and Kenya – and probably, Uganda – to the new Lamu port; and the Sundance corridor anchored on the iron ore deposits in Nabeba (Republic of Congo) and Mbarga (Cameroon) mines and linking to a greenfield deep water iron ore terminal at Kribi, Cameroon. Those cross-border corridors can, under certain enabling conditions, be a catalyst of regional integration.

There are several reasons for this. One relates to the profit maximisation objective of the resource companies: if the shortest route to the sea is across a national border, those companies are likely to favour such a route to avoid the additional capital expenditure that would be required to reach a port within the country's borders (see the long controversy on this issue between the government of Guinea and the mining companies owning resources in Nimba and Simandou near the border with Liberia). Needless to say the cross-border solution is required if the resources are located in land-locked countries. Furthermore, such cross-border transport solutions are likely to be cost-competitive and efficient given

the companies' incentive to minimise costs by maximising the efficiency of the logistics chain from pit to port to ensure the reliable and timely delivery of the resources which can, in turn, benefit other cargos being transported along the same route. Finally, having two or three governments collaborate around the more limited objective of operationalising a corridor can be a corner stone for the broader regional integration agenda.

What is interesting here is that there is a feedback loop between regional integration and spatial development corridor. While the latter leads to the former, it is also true that the former leads to the latter. Indeed, regional integration can be a catalyst for turning a mere logistic corridor into a development corridor through sharing the use of the corridor. Resource companies will generally resist opening up the access to their infrastructure to other users given the potential coordination costs and losses in efficiency to their operations.

However regional integration can help make the business case for shared use: regional integration leads to a cross border aggregation of demand for transportation, energy, water and ICT, which helps achieve economies of scale and the smooth institutional collaboration of governments reduces the coordination costs and the cost of doing cross-border business.

An interaction with challenges

Nevertheless, a number of practical challenges exist around realising the potential of this mutually beneficial interaction between spatial development corridors and regional integration.

Those challenges relate to the soft infrastructure requirements, which are as important to solve as the actual planning and development of hard infrastructure. For instance, implementing successful shared use of infrastructure arrangements require setting up an independent and impartial regulator that makes informed and predictable decisions when market failures arise. In addition, successful cross-border infrastructure arrangements pre-supposes some harmonisation of legal regimes in relation to border and customs procedures, as well as of the regulations governing the operations of the cross-border infrastructure more generally. Finally, such cross-border corridors need to be supported by a strong commitment to inter-governmental cooperation (e.g. Azerbaijan, Georgia and Turkey's treaty in relation to the cross-border oil pipeline). Creating an enabling environment for cross-border spatial development corridors is unlikely to succeed without consideration for the political economy on both sides of each border.

Containing the political economy requires aligning the key interests involved in the corridor: the various government ministries of the country owning the deposits, the resource company that is the anchor of the corridor, the smaller resource companies seeking access to the infrastructure, the non-mining sectors that also want to benefit from this infrastructure, the truck companies that fear the competition of another transport corridor, the financiers of the project that consider cross border infrastructure as being risky and the neighboring governments that may benefit from infrastructure investments in the country or may see a diversion of cargo being transported through the country (Toledano et al., 2014). Beyond the supranational planning efforts by the regional economic communities, from the Maputo corridor to the Antafogasta port in Chile to Bolivia corridor to the Chinese- Kazakhstan corridor passing through the Arctic circle corridor, it is clear that the alignment of private interests with public interests is key to making a cross-border corridor work, which will in turn be the anchor for further regional integration.

Aligning public and private interests

Aligning public and private interests might require some thought to be put into the ownership model of the corridor. Take, for instance, the Arctic Circle where the Ofoten and Ore lines constitute a cross-border multi-purpose railway line, connecting the mines (in Kiruna, Svappavaara and Malmberge) of the Swedish mining company Luossavaara-Kiirunavaara Aktiebolag (LKAB) and the Northland Resources' mine in Kaunisvaara to the ice-free Port of Narvik in Norway. For a long time, the Norwegian Governments resisted the integration of the mine-railway concessions fearing the discontinuation of the passenger railway services. LKAB was paying excessive access fees to the state-owned operators and threatened to divert the traffic to a Swedish port if the countries were not giving it the operations of the railways. Eventually, the countries understood that only LKAB was able to increase efficiency sufficiently to make the cross-

border corridor commercially viable.

The governments, however, retained the ownership of the tracks to ensure the continuation of the multi-purpose traffic.

The lesson learned here is that while the willingness of a resource company to get access to the shortest route to the sea can be the driving force behind bilateral or trilateral integration, this willingness however, will be stronger if the company owns the whole logistic chain from pit to port in order to prevent poor border management systems from exacerbating the coordination problem involved in a multipurpose corridor. Nevertheless, the experience proves that imposing shared use on an integrated ownership model can be challenging for the regulatory authorities (Toledano, 2012).

A solution that could solve this conundrum and that can be particularly suited in times of low commodity prices is to set up a special purpose vehicle (SPV) that separately owns the rail and port for one or several resources projects, while being in a long term off-take agreement with those projects. The resource owners would also serve as major shareholders in the SPV. Once again, the cross-border pooling of institutional resources and solution engineering capacity could alleviate those regulatory and operational challenges. This is where resource corridors and regional integration mutually reinforce each other.

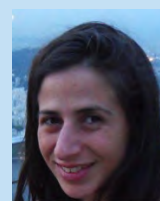
Seeking alignment of public and private interests by devising innovative models in the pursuit of higher development outcomes that would result from the chain of effects, corridor – regional integration – higher participation in the GVC will go a long way towards achieving the Sustainable Development Goal 17 that is about “strengthening implementation through revitalised global development partnerships.” ■

Note: The author would like to thank Sophie Thomashausen for her peer-review.

References:

- International Monetary Fund (2015). *Regional Economic Outlook. Sub-Saharan Africa: Navigating Headwinds*. World Economic and Financial Surveys, April 2015. Washington DC.
- Toledano, Perrine, Sophie Thomashausen, Nicolas Maennling, and Alpa Shah (2014), *A Framework to Approach Shared Use of Mining-Related Infrastructure*, Columbia Center on Sustainable Investment, Columbia University, available at: <http://ccsi.columbia.edu/2014/01/28/consultative-drafts-of-a-framework-to-approach-shared-use-of-mining-related-infrastructure>
- Toledano, Perrine (2012). *Leveraging Extractive Industry Infrastructure Investments for Broad Economic Development: Regulatory, Commercial and Operational Models for Railways, and Ports*, Columbia Center on Sustainable Investment, Columbia University, available at: <http://ccsi.columbia.edu/files/2014/05/CCSI-Policy-Paper-Leveraging-Mining-Related-Rails-and-Ports-for-Development-May-20121.pdf>

About the author



Perrine Toledano is the Head of Extractive Industries at the Columbia Center on Sustainable Investment (CCSI).

The GVCs train should not crush poor economies under its wheels

by Africa Kiiza

In order to upgrade on global value chains (GVCs) in the extractives sector, Africa should ensure that the WTO ceases to be a war machine.

The 10th WTO Ministerial Conference (MC) is on African soil for the first time. The MC comes at a very critical time when the proclamation of 'Africa rising' has, to quote Rist (2007), become part of the ordinary buzz or hubbub to be heard in countless meetings devoted to issues ranging from agriculture, urban planning, and international trade to poverty reduction, personal well-being, and industrial production. Presently, this hubbub has become a cousin to another catchword, global value chains (GVCs) which is being idolised as a proverbial golden straightjacket that fits all. Indeed, with economic growth projected by the African Economic Outlook to reach 5% in 2016, there is a lot of optimism on Africa's rising. This rising can largely be connected to Africa's rich endowment with immense natural resources, domestic market, and trade with other emerging economies. According to UNECA (2013), between 2002 and 2012, oil, metals and other mineral exports accounted for more than two-thirds of export growth in Africa, while crude oil alone accounted for more than 50% of Africa's merchandise exports in 2012.

Africa's quest to upgrade the extractive sector's value chains

However, despite an increase in the share of exports in the world market, Africa's contribution to total world's trade remains at 2.6%. This meagre share can be partially explained by the fact that Africa continues to be wrongly integrated in the GVCs as a supplier of raw materials to the developed countries. It has yet to upgrade to the higher value chain. Despite the lucrative extractives sector, Africa continues to face a daily widening gap of inequalities, aid dependence, indebtedness and a creeping trade deficit. In view of the failure of the extractives sector to help Africa's member states catch up (or to be more precise, rise), the African Union has adopted the African Mining Vision whose major aim is to promote transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development.

Why the WTO is relevant

As argued by the WTO (2012), the emergence of value chains offers a path to economic development, while at the same time has major policy implications for economic growth in developing countries. However, what the WTO fails to acknowledge is that globally, the poor have lost out, and that the loss has been greater still to Africa (refer to the LDCs issues, cotton issues and the overall Doha Development Round). It can be argued that the share of benefits from global economic growth reaching the world's poorest people is actually shrinking. This argument is shared by the 2013 African Progress Panel report which argues that "some resource-rich countries have made impressive strides in improving the lives of their people". However, the report cautions that "overall progress has been uneven and in some areas it has fallen short of expectations" and that "after a decade of strong growth, several Africa's resource-rich countries remain at the bottom of the international league-table for human development". It should also be noted that while resource-rich African countries have yet to catch up, they continue to bear an unfair share of the costs, including the effects of pollution and destruction of the ecology thanks to extraction of these minerals with, at times, no clear Environmental Impact Assessment and uncoordinated policies on mining.

While the WTO is an important body in ensuring that global trade rules are fair and non-discriminative (which is critical for LDCs to improve on their share of global trade), it continues to make trade rules that favour free trade in areas where rich countries are stronger. More prudently put, the WTO continues to be used by developed member states to push for rules and negotiations in areas that promote their strategic interests. The Trade Facilitation Agreement adopted at the 2013 9th WTO MC and the current push by developed member states, led by the USA, for the WTO to focus on areas like Information Technology Agreement (ITA), the Environmental Goods Agreement (EGA), and the Trade in Services Agreement



A staff member of Honey Care Africa works at the processing part of the honey production chain in Nairobi, Kenya. Photo: Nestlé/flickr/CC.

(TISA) are some examples. At the same time, WTO developed member states, with the USA in the lead, continue to dub issues like major reforms to agriculture (particularly reductions in subsidies and tariffs provided by developed countries), Non-Agricultural Market Access (NAMA), special and differential treatment for developing countries as “undoable” despite the fact that these issues are critical for LDCs development, and all WTO members agreed to prioritise under the Doha Ministerial Declaration.

There is also a great desire by some developed members of the WTO, to set aside permanently the entire development mandate of the Doha Round, and to replace it with another agenda of the Singapore issues that would further the profit interests of their corporations. Following the trail of WTO consultations before the Nairobi MC could lead one to conclude that developed countries are determined to see the introduction of the rest of the Singapore issues (after the Trade Facilitation Agreement was successfully concluded and adopted in the Bali MC 2013), in place of completing the Doha round. While Singapore issues are less likely to be tackled by the Nairobi MC, their negotiations are more likely to be introduced in the post Nairobi-work plan. In other words, the Nairobi MC is most likely to act as a “springboard” to the commencement of negotiations of the rest Singapore issues, with or without substantial delivering on the Doha Round. Developed countries strongly argue that if WTO member states do not make way for the introduction of these issues, they would be holding back the WTO system from being updated and from being a relevant player in the 21st century (refer to the speech by the U.S. Trade Representative Michael Punke during the 2015 Global Services Summit), which in fact, means a relevant player for developed countries’ interests.

Trade is War: Towards an offensive agenda

To borrow Yash Tandon’s axiom of Trade is War, the serial war that the WTO intends to further wage on LDCs through using

lethal weapons of already mentioned new issues will continue holding hostage LDCs’ economies and their efforts to upgrade to the higher end of GVCs. Singapore issues like investment need to be cautiously treaded given Africa’s inability to negotiate good investment Agreements, most especially in its extractives sector. The Africa Mining Vision accepts the fact that there is a need to improve the capacity of African states to negotiate with the resource Trans National Corporations (TNCs) on the resource exploitation regime, because these negotiations are generally extremely asymmetrical, where the TNC is highly resourced and skilled than the state. Also, because these resource exploitation contracts generally tend to have a very long tenure of 20 to 30 years (mining license), it is more pertinent that Africa gets the optimum deal at the outset. Therefore, LDCs should ensure that the WTO MC10 does not move to negotiating issues like investment and other new issues before it has had a strong foothold in the agenda setting and influence in the WTO, and before the present imbalances in the WTO are checked. To quote Rob Davies, South Africa’s trade minister’s remarks after the Bali MC: “We are of the view that there is structural imbalance in which the LDCs secured only best endeavour solutions while there is a binding agreement on trade facilitation” (South Centre, 2014). This is very true as expediting the entry of imports through a range of customs procedures (some which are very costly and administratively intensive) will not be a magic bullet in catapulting developing countries into competitiveness on the global scale.

The safe landing zone in the Nairobi MC that is being envisioned by the WTO should bring about balanced outcomes and should see the conclusion of the Doha Round, since the role of extractives sector in transforming Africa’s economy needs to be complemented by sectors like agriculture. However, unless developed countries reduce their trade distorting domestic support in the agriculture sphere (such as US cotton subsidies), Africa’s agricultural sector

will continue to be underdeveloped and the people whom it employs will continue wallowing in poverty.

Resource-rich countries upgrading

In conclusion, as the GVCs train continues in motion and as many countries hasten to get on it, Africa remains wrongly integrated in the global economy in terms of trade as a net exporter of raw materials and net importer of manufactured commodities; investments (because of its wrong investment models) and at times, development policy (claims of Africa outsourcing development policies are common). Because of this, the Africa Mining Vision seeks, among others, to promote local beneficiation and value addition of minerals to provide manufacturing feedstock; promote the development of mineral resources (especially industrial minerals) for the local production of consumer and industrial goods; establish an industrial base through backward and forward linkages; and encourage and support small and medium-scale enterprises to enter the supply chain. These are determined as the prerequisites to Africa's upgrading on her value chains in the extractive sector and subsequently connect to the GVCs at a higher and competitive end.

However, the above objectives risk being a mere rhetoric if the global rules do not favour LDCs "proper" integration in the GVCs. A well implemented Doha Round can indeed improve LDCs market access to the developed markets and subsequently reduce on their overly high trade deficits. Thus, whether we buy the argument of Africa rising, or that the upgrading of value chains in her extractive sector will help Africa 'catch up', the glaring reality is that Africa is presently engulfed in an exploitative and totally unfair global system. By daring to think differently, one can argue that the contemporary extractive sector in Africa is biased towards Export-Led Growth (ELG) strategy rather than the Domestic Demand Led (DDL) strategy. The former subordinates human needs and human rights to corporate (extraction firms) greed and profit, while the latter puts the needs and rights of the people first.

Therefore, in order to achieve objectives set in the mining vision, Africa needs to ensure that the GVCs train won't crush poor economy under its wheels. Since the Asian tigers have leapt, African lions should roar. However, this roaring can only be sustainable if Africa upgrades and effectively participates in the GVCs as a highly competitive player. Upgrading on value chains is a springboard for a country's joining the GVCs at a high end and helps in calibrating a country's efforts to achieve structural transformation and spatial development. Africa's effective participation in GVCs, especially under the extractives sector, will require significant investment in technology dissemination, skill building and upgrading, but most of all, will require fair and pro-development global trade

rules like implementation of rules in areas of agriculture, cotton, including Duty Free Quota Free Market Access, Special and Differential Treatment, NAMA among others before engaging on investment negotiations. Africa should not allow for the slightest chance of commencing on negotiations for Investment in the WTO before fully operationalising its vision. Africa should ensure that the WTO ceases to be a war machine that is being used by rich countries to ravage her economy and arrest her development efforts. This is more important than ever given Africa's prospects to upgrade the extractives sector's value chains. ■

References

- Rist, Gilbert (2007). *Development as a buzzword*. Development in Practice, Volume 17, Numbers 4–5, August 2007.
- South Centre (2014). *The WTO's Bali Deal-How Balanced?* South Bulletin, 4th March 2014, Issue 78.
- UNECA (2013). *Making the Most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation*. Economic Report on Africa 2013.
- WTO (2013). *World Trade Report 2013: Factors shaping the future of world trade*. World Trade Organization.

About the author



Africa Kiiza is currently a student of M.Sc. Governance and Regional Integration, Pan African University. He has also worked with SEATINI, a sub-regional NGO working in Eastern and Southern Africa on issues of trade, investment and development.

Aid for Trade works

by Frans Lammersen and Erik Solheim

The 10th Ministerial Conference of the World Trade Organization (WTO) offers an opportune moment to take stock of the substantial achievements of the Aid for Trade Initiative, which has been largely successful, and reflect on how to continue its relevance in the context of the Sustainable Development Goals.

The increasing importance of global value chains

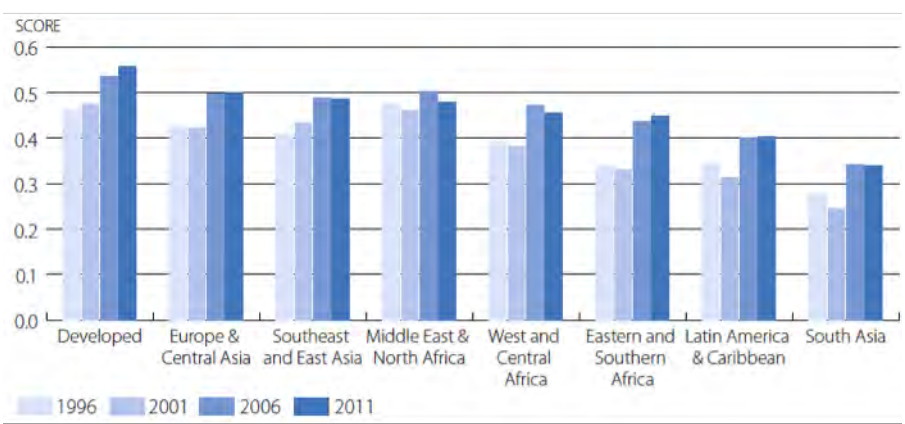
Openness to trade and investment is a key ingredient for generating economic growth and raising living standards.

Regional and Global Value Chains (GVCs) have become an increasingly prominent feature of world trade and investment. By providing access to regional and global markets, capital, knowledge and technology, integration into a value chain can offer a path towards economic development that is easier to follow for developing country firms than building a fully vertically integrated value chain.

GVC participation among developing countries is growing since early 2000s. Among developing regions, South East Asian economies and those in Europe and Central Asia show the highest participation rates with countries in the Middle East and North Africa also showing relatively high ratios. In contrast, Latin America, South Asia and Sub-Saharan Africa still trail behind although their participation grew by 26%, 34% and 28% respectively between 2001 and 2011. Despite these positive trends, developed countries still exhibit, on average, higher participation rates with European countries leading the way (see Figure 1).

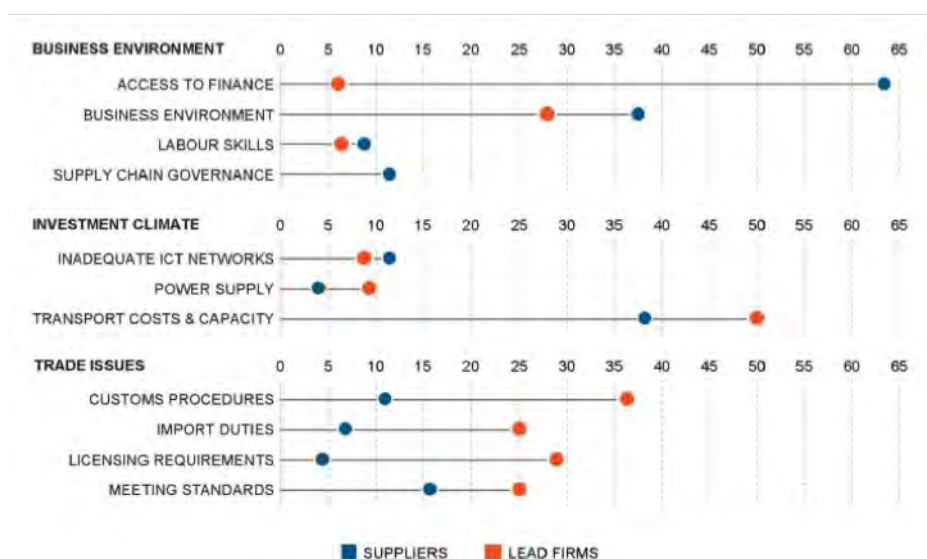
Developing countries can help their firms integrate into value chains by opening their markets to trade and foreign direct investment, improving their business and investment environment and strengthening their domestic supply-side capabilities. Many developing countries, however, still price their companies out of business because of inefficient border procedures, high tariffs

Figure 1: Average GVC participation index by region over 1996-2011



Source: OECD/WTO Aid for Trade at a Glance (2015)

Figure 2: Barriers faced by firms in entering value chains: Private sector views



Source: OECD/WTO Aid for Trade at a Glance (2013)

and non-tariff barriers that unnecessarily constrain trade in goods and services. Other things that also may raise prices are restrictions on the flow of information, impediments to foreign direct investment and limits on the movement of people. The challenge these economies face is to design and implement broad strategies that tackle these key barriers to integration and upgrading in value chains.

Transport costs are ranked as a big obstacle by the privates sector. Suppliers from developing countries rated access to finance (and in particular, trade finance) as the main obstacle preventing them entering, establishing or moving up value chains. They also cited the business environment and regulatory uncertainty as major obstacles, together with a lack of skills in the labour force. Other prominent concerns included regulatory uncertainty and standards compliance issues, while informal practices and payment requests were cited as a particular concern for GVCs (see Figure 2).

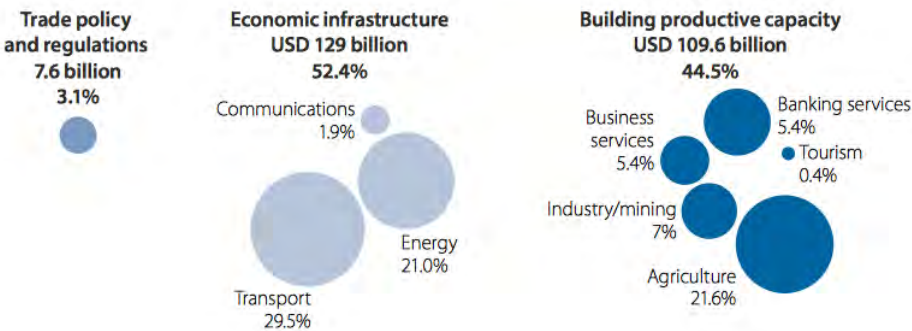
Aid for Trade matters

A total of US\$ 246.5 billion in official development assistance (ODA) has been disbursed by bilateral and multilateral donors for financing trade-related programmes and projects, since the Aid for Trade Initiative was launched in 2006. Programmes aimed at reducing the infrastructure gap in developing countries and programmes targeted at building productive capacities received almost all of the money, while a smaller part supports capacity building programmes in trade policy and regulation. To date, more than three quarters of total aid for trade has financed projects in four sectors: transport and storage energy generation and supply agriculture and banking and financial services (see Figure 3). In addition, a total of US\$ 190.8 billion in gross trade-related other official flows (OOF) has also been disbursed since 2006. Most of this non-concessional funding supported projects in economic infrastructure (47%) and building productive capacities (52%) and almost exclusively in middle-income countries (92%).

One dollar invested in aid for trade generates nearly eight additional dollars of exports from all developing countries – and twenty dollars for the poorest countries, OECD research found (OECD/WTO, 2013a). Results, may vary considerably depending on the type of aid-for-trade intervention, the sector at which the support is directed, the income level, and the geographic region of the recipient country.

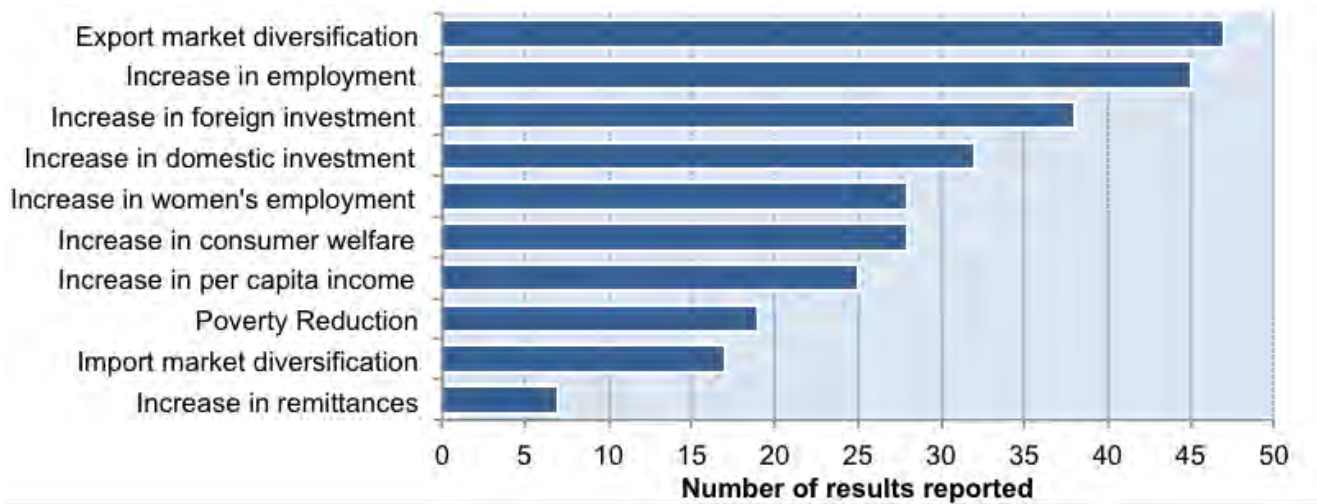
Aid-for-trade case stories buttress this evidence. The sheer quantity of activities described in these case stories suggests that aid for trade is becoming central to development strategies and has taken root across a wide spectrum of countries and activities. Although not always easy to attribute cause and effect, the stories show tangible evidence of how aid for trade is helping countries build the human, institutional and infrastructural capacities for turning trade opportunities into trade flow and helping men and women earn a decent living. The case stories mention 299 results. The most important ones are export market diversification, an increase in employment, including for women, and an increase in foreign and domestic investment. These results are closely followed by a rise in per capita income and poverty reduction (see Figure 4). The findings are rather similar to those reported in the 2011 exercise. However, any conclusion from the collection of case stories must be tempered by the awareness of its selection biases (OECD/ WTO, 2013b).

Figure 3: Aid for Trade disbursement 2006 – 2013



Source: OECD-DAC/CRS aid activity database

Figure 4: Aggregate results from 111 aid-for-trade case stories



Source OECD/WTO Aid for Trade Case stories (2015)

Country ownership at the highest political level and active local participation are often mentioned as critical aid for trade success factors. Integrated approaches to development, for instance, by combining public and private investment with technical assistance, also increase the success rate. Equally, long-term donor commitment and adequate and reliable funding are considered essential. Other factors highlighted include leveraging partnerships including with providers of South–South co-operation keeping project design flexible to facilitate adjustments in initial plans (see Figure 5)

Adapting aid for trade to a changing landscape

The Aid for Trade Initiative has achieved much since its inception in 2006. The delivery of aid for trade has been largely effective, but more could be done especially through regional approaches, while experimenting with new forms of aid delivery could strengthen accountability between donors and partners and help with improving results. It is also clear that there is still considerable scope to enhance the international division of labour by further integrating countries that have heretofore remained marginally engaged in trade in general and in regional and global value chains in particular.

The Initiative should focus on the fundamental changes that are taking place in the trade and development landscape. In response to the changing nature of the world economy and its rising complexity, new analytical approaches are needed to better understand the trade-offs and complementarities between policy objectives – e.g. between growth promoting policies and equity and environmental concerns. Addressing these concerns and dealing with these interlinkages requires integrated approaches that breakdown silos between policy communities. The Aid for Trade Initiative should be an integral part of this new approach to policy which is essential if we want to deliver the Sustainable Development Goals by 2030. The 10th WTO Ministerial Conference in Kenya offers an opportune moment to take stock of the achievements of the Aid for Trade Initiative and reflect on how to continue its relevance in the changing trade and development landscape. ■

Figure 5: Success factors mentioned in the case stories



Source OECD/WTO Aid for Trade Case stories (2015)

This article is based on a longer paper, Lammersen, F. 2015. Aid for Trade 10 Years On: Keeping it effective. OECD / WTO.

References

- OECD/WTO (2013a) *Aid for Trade at a Glance: Connecting to Value Chains*.
- OECD/WTO (2013b) *Aid for Trade in Action*.
- OECD/WTO (2015) *Aid for Trade at a Glance: Reducing Trade Costs*.

About the authors



Frans Lammersen is Principal Administrator at the OECD Development Cooperation Directorate



Erik Solheim is the Chairman of the OECD Development Assistance Committee

Has Aid for Trade helped African economies achieve structural transformation?

by Xavier Cirera and L. Alan Winters

While some changes have occurred in patterns of exports from Africa, it cannot credibly be attributed to Aid for Trade, nor are there signs that AfT has helped switch employment from agriculture to industry.

The volume of Aid for Trade has increased more than tenfold in the past twenty years with the objective of accelerating economic development in developing countries. Structural change is a necessary part, if not the core mechanism, of development. Hence, in this article, we ask: 'Has Aid for Trade (AfT) helped African economies achieve structural transformation?' Our conclusion is 'unfortunately, not as far as we can see.'

Structural change entails the reallocation of employment from low productivity "traditional" sectors, such as agriculture, to high productivity "modern" sectors, such as manufacturing and tradable services. Such reallocation increases average labour productivity and hence average incomes. International trade plays a key role in structural change as it allows countries to transform their production structures towards products based on their comparative advantage, without having to effect an equal change in consumption (as would be necessary if there were no trade). Many Sub-Saharan African (SSA) countries' exports are concentrated in minerals; mining is a high productivity activity but it typically employs very few people. Since mineral exports tend to discourage other exports because they appreciate the exchange rate, a focus on mining tends to reduce average economy-wide productivity and thus not entail positive structural change.

Aid for Trade is development assistance aimed explicitly at improving conditions for international trade – for example, by improving infrastructure and trade policy or by helping producers to meet exporting standards. If it were effective, we might reasonably hope that it would foster income-increasing structural change. Because we have such weak data on labour productivity

and the sectoral composition of employment, we adopted a two-part research strategy: first, we asked if structural change was likely to occur as a result of AfT, by testing how AfT affected SSA's costs of doing international trade and its volume of trade; second, we traced this through to actual structural change.

The evolution of Sub-Saharan Africa's trade 1995-2010

Trade patterns have changed, often for the better

According to the OECD-DAC database, disbursements of AfT to SSA countries have grown from US\$ 0.78 billion in 1995 to US\$ 7.5 billion in 2010. The flows increased strongly for nearly all African countries; the main recipient was Ethiopia, which absorbed around 9 percent of flows to the region, followed by Tanzania, Ghana, Mozambique and

Uganda. Decomposing AfT by sector, around 60 percent was concentrated on transport and storage, (35 percent, with 27 percent to road transport only) and agriculture (24 percent), followed by energy (13 percent) and the financial sector (6 percent).

As a first descriptive exercise, we looked at the structure of SSA countries' exports in 1995-2000 and in 2005-2010, disaggregating into three broad sectors: agriculture, extractive industries and manufacturing/industry. In 15 out of the 44 countries, the largest sector changed between these two periods, with 9 of these cases changing from agriculture to industry, albeit often by not very much. The largest changes were evident in the three countries that had major resource discoveries over this period, which pushed exports from the extraction industries into first place.



Nyirefami Limited, which employs 28 people in a flour milling and processing plant. The UK's Department for International Development is an example of promoting business partnerships with the aim of building prosperity. Photo: Ed Hawkesworth/DFID/CC

In a second exercise, we considered exports disaggregated by the approximately five thousand products distinguished in the Harmonised System Classification. We asked whether changes in trade patterns at this level tended to reinforce comparative advantage or work against it. Measuring comparative advantage with Balassa's Revealed Comparative Advantage (RCA - the ratio of the share of a product in a country's exports to the share of that product in world exports, so that a value exceeding one indicates comparative advantage), one very clear result emerged. In every country except one, the products for which the country had a revealed comparative advantage in 1995-2000 showed declines in RCA by 2005-2010 more often than increases. This might suggest that, on average, SSA countries were shifting their exports away from traditional products, exactly the sort of export diversification that AfT hoped to achieve.

Unfortunately, we cannot confidently attribute these shifts to AfT. We have no idea which sectors AfT would affect (and neither in many cases did policy makers, as AfT was used to make changes in conditions that pertained to all products). Hence, all we have to go on is the observation that while AfT increased, trade patterns diversified. SSA's aggregate exports and AfT have risen together although this does not prove a causal relationship.

Impact of AfT on trade flows and trade costs

AfT flows do not appear to explain changes in trade costs and in trade flows...

AfT boosts international trade by reducing trade costs. With a suitable set of assumptions one can infer trade costs directly from actual trade: you start by working out what the level of trade between each pair of countries would be if there were no trade costs; you would then ask what costs would need to be imposed on trade in order to reduce the volume from the predicted levels to the levels actually observed. We did this and found no sign that the changes in trade costs over 1995-2010 implied by this method are related to AfT.

In a more direct approach we also used data on (a) how long it takes to export and import goods from each SSA country, and (b) the cost of exporting a 20 foot container from each country. Measured AfT flows have virtually no explanatory power for the evolution of either of these measures of trade costs. The only exception is a hint that AfT devoted to policy development might help reduce the

time needed to clear customs (measure a). We also looked for the effects of AfT directly in international trade data. We asked whether the evolution of SSA countries' exports and imports either in total or disaggregated by partner were related to their receipts of AfT. This exercise generates large numbers of statistical results and occasionally one or two appear to be statistically significant. Overall, however, as far as we can discern, AfT played no significant role in shaping either SSA countries' aggregate or bilateral trade levels over 1995-2010.

...and have no discernible impact on the structure of the labour force

Our final econometric exercise was to ask whether countries' allocations of labour between agriculture and non-agriculture could be related to AfT. We calculated the labour force splits as averages over successive three-year periods between 1995 and 2010, although as we explain in Cirera and Winters (2014), deriving data as simple as those required rather heroic assumptions. Perhaps unsurprisingly, given the above, we also find no relationship running from AfT flows to the allocation of SSA countries' labour forces.

Conclusion

It would be easy to conclude from the above that AfT had no effect on structural change or even on international trade, and hence, has all been a waste. While our analysis clearly challenges simple-minded assertions that, 'of course, investing in reducing trade costs must be beneficial', concluding that AfT had no benefit is premature.

First, the challenges of constructing the data necessary to make these tests are formidable, not least in quantifying AfT itself. It is the donors who attach the moniker 'Aid for Trade' to a flow, rather than the recipients who could do so in the light of what AfT is actually spent on. Second, there is clearly great heterogeneity across countries in terms of trade, comparative advantage and structural change. Our search for general results is therefore competing with a plethora of country-specific factors and circumstances; our inability to find such results may just reflect the low power of our tests (using relatively small amounts of relatively weak data) rather than the absence of effect. It is possible, for example, that while some AfT has diversified international trade, commodity price increases have offset the potentially positive impact of this on overall economic structure

Third, structural change is not an explicit objective of AfT. Indeed, given policy-makers' and donors' imperatives not to be seen as making mistakes, AfT may be devoted to helping existing exporters – i.e. reinforcing existing patterns of trade and production – rather than stimulating new ones. Such an outcome is reinforced by the political power of incumbent exporters who will lobby for AfT to be spent on things that benefit them.

We have two recommendations from this research: first, we need better data and more analysis if we are to get more definitive answers on the effectiveness of AfT and particularly better impact evaluations where specific and focused interventions are supported; second, if we feel that AfT should be oriented towards structural change, programmes should be chosen and managed with that objective in mind. However, while those governments that are intent on development should make more space for structural change, AfT is not necessarily an ideal tool for doing so. Working to reduce the frictions on countries' current baskets of exports and imports can be useful as well. ■

This article was first published in ICTSD Bridges Africa, vol.4, no.5, May 2015. It is based on a longer paper Xavier Cirera and L A Winters (2014) Aid for Trade and Structural Transformation in Sub-Saharan Africa, Commonwealth Trade Policy Discussion Papers, No 2015/01, London, Commonwealth Secretariat.

About the authors



Dr. Xavier Cirera is an Economist in the World Bank's Trade & Competitiveness Global Practice.



Prof. L. Alan Winters CB is a Professor of Economics at the University of Sussex, former Chief Economist at the UK Department for International Development and former Director of the Development Research Group of the World Bank. He is chairman of the Global Development Network. e-mail: l.a.winters@sussex.ac.uk

Trade liberalisation and poverty: Did we learn anything in the last ten years?

by L. Alan Winters

Recent research reinforces the evidence that trade liberalisation boosts growth but potentially hits people in import-competing sectors. Labour mobility is key to sharing the gains from liberalisation equitably. Women seem to gain more than men from trade liberalisation.

In the mid-1990s I started to worry about how much we actually knew, rather than just thought we knew, about the effects of trade liberalisation on extreme poverty in developing countries. In the early 2000s, my colleagues and I concluded that there is no simple general conclusion about the relationship (Winters et al., 2004). There is a strong presumption that trade liberalisation will be poverty-reducing in the long run and on average through its effects on the level of national income, but there is no guarantee that the static and microeconomic effects will always be beneficial to the poor. Trade liberalisation will almost inevitably hurt some people (at least in the short term), and some of these may be poor. Since 2000, 'trade and poverty' has become a bit of an industry. I ask here whether a decade of research has taught us anything new? (Winters and Martuscelli, 2014). The answer is that we haven't learned anything fundamentally new, but that we now know a bit more about the mechanisms and can be a bit more confident about some of the earlier conclusions.

Trade liberalisation is good for growth

The literature of the past decade reinforces the presumption that trade liberalisation generally raises average incomes (i.e., at least temporarily boosts economic growth). The challenge has always been to show that liberalisation causes growth rather than vice versa, but at least some studies have done this to a reasonable degree of confidence. Recent research also suggests that the growth effect varies with a series of complementary conditions; among these the quality of institutions appears to be important, as does the ease with which factors of production can migrate between sectors, which, in turn, depends on conditions such as labour market flexibility, education levels and the ease of firm entry and exit. The conditions suggest that the growth effect of trade reform will be stronger for richer countries and that poorer ones may even lose. The latter conclusion is, however, as yet unproven and investigating it more fully seems to be a priority for future research. For example, the statistical association may just reflect Africa's poor growth performance when the Bretton Woods organisations were encouraging them to reduce trade

barriers, and the analysis depends at present on a number of strong and untested assumptions.

Ask how the poor earn their living

The new literature confirms that the effects of trade liberalisation at a household level cannot be guaranteed to be benign: they depend especially on the nature of the trade policy that is reformed and on how the poor earn their living. The poor spend a large proportion of income on food but many also depend heavily on agriculture for their livelihoods. Either way, reforming agricultural trade is potentially important for poverty: roughly speaking, if liberalisation raises the price of a food product, the rural poor will tend to benefit but the urban poor will suffer and vice versa for price falls. In many countries, the urban poor are the more numerous, so one should not conclude that driving down farm prices will always be regressive.

Similarly, trade restrictions may permit a host of small inefficient companies to remain in existence in particular manufacturing sectors; when the restrictions are removed there are general gains for consumers of the goods concerned as imports drive down prices, but the workers in those firms may still lose overall. Whether they do or not will depend critically on what alternative sources of income they can find.

Mobility is critical

This last point illustrates one of the issues that recent research has really brought to prominence. Factor, and especially labour, mobility is key not only to reaping aggregate gains from increasing international trade but also to sharing them reasonably equally and thus to the probable poverty impacts of trade reform. If labour cannot move between sectors or between locations, the effects of trade liberalisations are restricted to the places in which they have their initial impact and are potentially very large: if firms cannot bring more workers in, workers in the export sector will be able to extract much higher wages and if workers in import-competing firms have no other sectors to move to, they are likely to face significant wage cuts. That is, if mobility is low, the effects



The Volkswagen South Africa plant in Uitenhage is the largest vehicle factory in Africa.
Source: Volkswagen South Africa, Media Club South Africa.

are deep but narrow. If, on the other hand, successful firms can get more workers and failing ones shed them to other sectors, the wage effects of shocks are smaller in size but greater in extent. That is, they are more equally shared. Several recent studies have shown that large positive or negative effects of trade shocks correlate strongly with the absence of mobility. I conclude from this that a major policy objective for governments seeking to modernise their economies through trade reform (or any other means) should be to break down the barriers to mobility.

Two new results

Recent research has thrown up at least two other interesting conclusions. First, trade liberalisation may increase wage inequality. Recent advances in trade theory at the firm level suggest that liberalisation will disproportionately benefit relative well-performing firms. Good firms are likely to have better workers – they may pay more and they may be better at selecting workers – so if these firms benefit most, better (and hence better paid) workers will benefit more than weaker ones. However, very few studies show weaker workers actually lose – they just gain less from liberalisation than do better workers. Moreover, remember that wage inequality is not the same as household inequality because most households have several sources of income.

The second recent result is that women seem to gain relatively more from trade liberalisation than men; this is mainly because international trade seems to require relatively more brain than brawn than do traditional activities so that increasing trade switches demand towards female workers.

Conclusion

We have come to understand the connection between international trade and policy alleviation better over the last decade. The basic story has not changed: there is a strong presumption that liberalisation will stimulate growth which will boost the incomes of most people. And at a micro-economic level, trade liberalisation will probably hurt some people, and some of these may be poor; but its effects are

relatively straightforward to predict, depending, for example, on how the poor earn their living and exactly what trade policies are reformed. Thus if we garner the information required, liberalisation may be tailored to avoid the worst poverty impacts and may be accompanied by compensatory measures. What has become clearer over the last decade is that fostering labour mobility between sectors and over space will allow the benefits of trade liberalisation to be shared more equally and so help to turn into reality the theorist's claim that everybody could gain in the long run. ■

References:

Winters, L.A. and A. Martuscelli, 2014. *Trade Liberalization and Poverty: What Have We Learned in a Decade?* Annual Review of Resource Economics, Vol. 6: 493-512. And CEPR Discussion Paper No. 9947.

Winters L.A, N. McCulloch and A. McKay 2004. *Trade Liberalization and Poverty: The Evidence so far*. Journal of Economic Literature, vol. 42: 72-115.

About the author



Prof. L. Alan Winters CB is a Professor of Economics at the University of Sussex, former Chief Economist at the UK Department for International Development and former Director of the Development Research Group of the World Bank. He is chairman of the Global Development Network.
e-mail: l.a.winters@sussex.ac.uk

Mapping the potential of cross-border co-operation in West Africa

by Olivier J. Walther and Sebastian Vollmer

Mapping the socio-economic potential of border regions can provide great insights as to where cross-border co-operation could be intensified in West Africa.

Borders and cross-border co-operation

West African countries are divided by no less than 32 000 km of terrestrial borders, almost enough to go around the earth if placed end-to-end. Long seen as artificial barriers, these borders are now increasingly regarded as resources for regional integration due to the vibrant social, economic and cultural activities that take place in West African borderlands. African states and intergovernmental organisations have, for a few years now, recognised the potential of such borderlands for regional integration. The African Union Border Programme, for example, strongly encourages the development of cross-border integration dynamics supported by local stakeholders, and facilitates co-operation between states, regions and municipalities separated by national borders.

But where exactly should cross-border co-operation take place? Should cross-border initiatives be intensified anywhere in West Africa as long as the stakeholders agree to work together? Or should cross-border co-operation target certain regions that would potentially be favourable for the development of joint initiatives? One of the aims of the ongoing 2015-16 West African Perspectives programme of the Sahel and West Africa Club at the OECD is precisely to tackle this issue. Combining cartography and social network analysis, we study to what extent the existence of social, economic and political disparities constitutes a source of synergies for cross-border co-operation in the region, or, on the contrary, a barrier to joint institutional initiatives. Our assumption is that the 153 regions divided by a terrestrial border in West Africa widely differ in terms of political systems and socio-economic development. This heterogeneity, we argue, affects their ability to engage in cross-border co-operation.

Evaluating co-operation potential

Our analysis builds on nine indicators of regional integration, which condition – but do not determine – the potential of cross-border co-operation. For seven indicators, we expect a positive and linear relationship with the potential of cross-border co-operation. In other words, the greater the values of our indicators, the higher the potential of cross-border co-operation.

This is the case of the population potential, which measures the number of people that can be reached from any border in one hour, considering the existing transport network. Border regions with high population potential will also be highly likely to engage in cross-border co-operation, because interactions increase with population size. We also assume that accessible regions will be more likely to engage in cross-border co-operation than poorly connected

Table 1: Top five lowest and highest poverty border differentials in West Africa

Rank	Region (country)	Region (country)	Poverty differential
1	Cascades (BFA)	Sikasso (MLI)	0.0
2	Ouémé (BEN)	Ogun (NGA)	0.2
3	Gorgol (MRT)	Matam (SEN)	0.2
4	Boucle du Mouhoun (BFA)	Sikasso (MLI)	0.6
5	Nord (CAM)	Logone Oriental (TCD)	1.0
162	Donga (BEN)	Tchamba (TGO)	53.7
163	Donga (BEN)	Tchaodjo (TGO)	53.7
164	Volta (GHA)	Centre (TGO)	54.0
165	Atakora (BEN)	Savannes (TGO)	59.0
166	Kidal (MLI)	Tahoua (NER)	65.6

regions because proximity increases interactions between policy makers, business transactions between traders and information exchange within civil society. Another relevant indicator is the density of border markets, which are signs of interactions between producers, traders, and consumers. Their existence should facilitate the development of cross-border initiatives between local authorities that share similar market infrastructures. We also map natural and agricultural resources, such as water and cotton, assuming that cross-border co-operation is easier when shared resources provide incentives to collaborate along value chain segments. Finally we map the main linguistic discontinuities and assume that a common language – whether it is vernacular, vehicular or of colonial origin – should facilitate the development of shared norms and values between stakeholders involved in cross-border co-operation.

From an institutional perspective, cross-border co-operation is also greatly facilitated by the legal status of international boundaries. Therefore, we assume that regions with clearly demarcated and delineated borders should be more favourable to cross-border co-operation than those where the exact location of the border is unknown or disputed. We also identify existing cross-border organisations at various levels and assume that further cross-border co-operation activities should be facilitated when stakeholders have a prior history of collaboration and institutional structures are already in place.

For two of our indicators – human development and poverty rates differentials, which are measured as the difference between the values of two regions – it is assumed that the relationship with cross-border co-operation potential is not linear but follows an inverted U-shaped curve. Put differently, regions with relative low and high differentials for these development indicators should also have low cross-border potential. This assumption builds on earlier work conducted in European and American border regions, which showed that the highest potential of integration was achieved when two systems divided by a boundary were different but functionally close. Very small border differentials usually do not provide enough incentive to the local, regional or national actors to co-operate with their neighbours, while huge differentials discourage them to engage in joint initiatives due to the impossibility to find synergies.

Three ways of representing border differentials

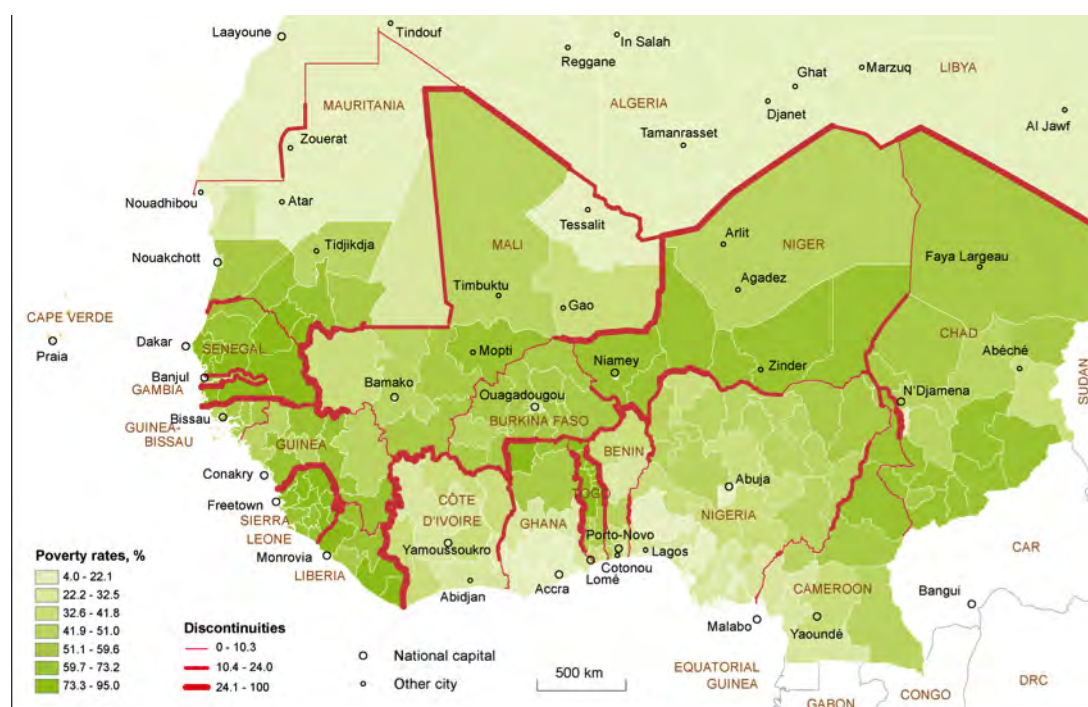
To illustrate the paradoxical relationship between development differentials and cross-border co-operation potential, we present poverty rates in three different ways: a territorial mapping of regional poverty rates, a linear mapping of poverty rate differentials, and a network analysis. Map 1 is perhaps the most conventional representation of a territorial indicator: each border region is considered as a zone assigned to a value class and is thus represented by a particular colour. The map confirms the unequal distribution

of poverty in West Africa. With a regional poverty rate above 80%, disadvantaged regions in dark green are particularly numerous in the northern parts of Ghana, Togo, as well as in Niger, Sierra Leone, Liberia and Senegambia. By contrast, low poverty rates are found along the Gulf of Guinea as well as in the Sahara regions of North African countries.

The second way of representing poverty differentials is to consider the boundaries themselves. On Map 1, the main cross-border discontinuities are indicated by red lines: the thicker the line the greater the gap between two border regions. The sharpest contrasts can be found between North African countries and their Sahelian neighbours. In West Africa itself, large poverty differentials exist between northern Togo, Benin and Ghana, between Côte d'Ivoire and Liberia, and between Mali and Senegal. In contrast, many regions have low poverty differentials, such as between Mali and Burkina Faso, or Guinea and Liberia. The coastal area of the Gulf of Guinea, from western Côte d'Ivoire to Cameroon, is also characterised by low poverty differentials (Table 1).

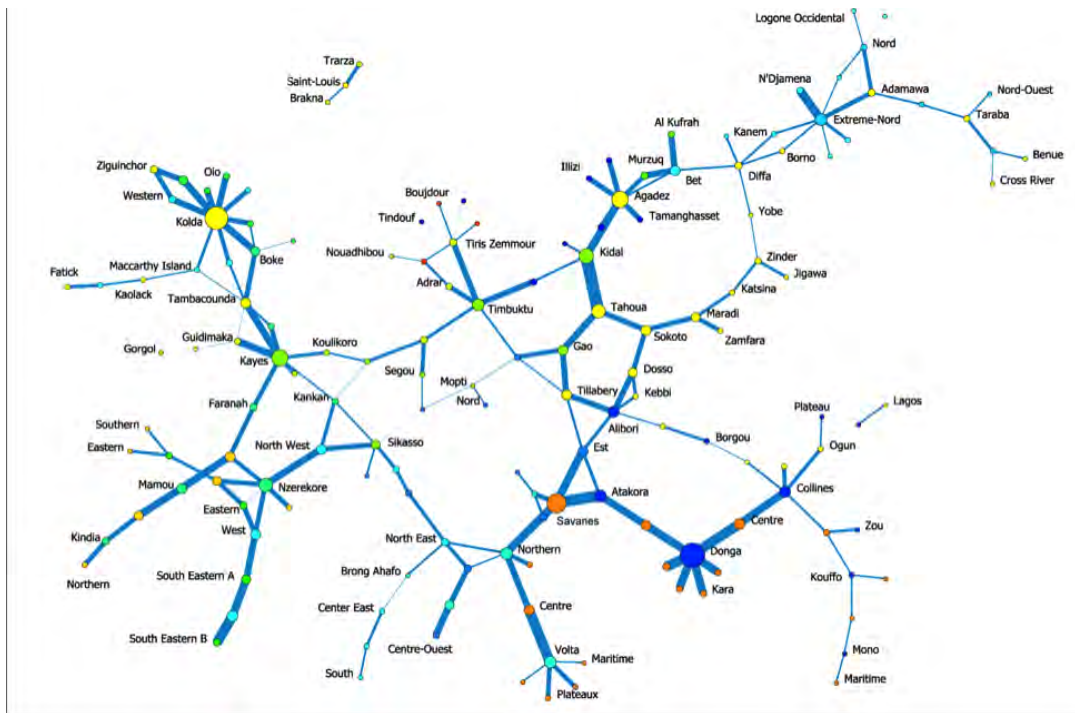
The third – and probably less usual – representation is to consider border regions as nodes and poverty differentials as links between contiguous regions. While territorial mapping highlights the attributes of the regions or the width of the boundary lines, network analysis focuses on the structure and content of the links between border regions. This highlights border potentials and constraints, as border regions are not only influenced by their own attributes or by their immediate neighbours but also by their structural position in the whole network of regions. On Figure 1, node colours represent countries and link widths represent poverty differentials between regions. The size of the nodes is proportional to the number of connections each region has, a measure known as degree centrality. The location of the regions on the figure roughly corresponds to their geographic location, with Senegal on the left hand side, Mauritania at the top, and Chad on the right hand side. The figure clearly shows that some regions, such as Donga in Benin and Atakora in Benin, or

Map 1: Regional poverty rates and border discontinuities (latest year available)



Source: Calculations and cartography by Walther and Vollmer (2015), based on UNDP and IMF reports

Figure 1: The network of West African border regions (degree centrality)



Source: Calculations and cartography by Walther and Vollmer (2015), based on UNDP and IMF reports

Kidal in Mali are connected to many others through high border differentials, while other groups of regions, such as the ones between Dosso and Diffa on the Niger-Nigeria border, have low poverty differentials. Both form clusters of regions, which share similar levels of poverty across countries.

The number of contiguous neighbours to which each border region is connected also greatly varies across West Africa. Donga (BEN), Kolda (SEN), Savanes (TGO), Kayes (MLI) and Agadez (NER) are among the most connected regions. This structural position offers interesting perspectives because being contiguous to many other regions allows for flexibility when it comes to intensifying cross-border co-operation. Border regions with many neighbours can choose which partners present the best accessibility, the most interesting complementarities or the closest institutional frameworks when they develop cross-border projects. The potential of collaboration is more limited for those regions that are structurally peripheral and depend on a single neighbour to engage in cross-border co-operation.

Tailored cross-border co-operation policies

The main policy implication of our approach is that cross-border co-operation should build on the great diversity of regions in West Africa and develop projects and institutional structures tailored to the potential of each region. Considering the variety of needs, and the unequal development patterns of West African regions, cross-border co-operation initiatives would work best, we assume, if policies provide public goods adapted to the specific challenges of each region. The heterogeneity of institutional systems also calls for policies based on the idea that local actors and institutions shape the development potential of cross-border co-operation and can be mobilised to foster economic development. Densely populated cross-border regions, such as Hausaland, will have different needs than cross-border regions with low population densities. Coastal and industrialised cross-

border regions, such as the Lagos-Abidjan corridor, will require co-operation schemes that are of little use in regions dominated by agriculture or mining. Cross-border regions polarised by several regional urban centres, such as the Sikasso-Korhogo-Bobo Dioulasso area, will not need the same institutional framework as smaller rural regions. Particular attention, we argue, should be paid to the local circumstances within which regionalism occurs, so that the 32,000 km of West African borders can develop unique cross-border co-operation initiatives. ■

For more on the above issue please refer to:

The Sahel and West Africa Club (SWAC) at the OECD is an international platform for policy dialogue and analysis devoted to regional issues in West Africa (@SWAC_OECD). For more information on the 2015-16 West African Perspectives programme please visit: <http://www.oecd.org/swac/ourwork/cross-border-co-operation.htm>

About the authors



Olivier J. Walther is a Consultant for The Sahel and West Africa Club (SWAC/OECD). He is Associate Professor at the Department of Border Region Studies at the University of Southern Denmark and Visiting Professor at the Division of Global Affairs at Rutgers University. Email: ow@sam.sdu.dk



Sebastian Vollmer is a statistician and a Ph.D. candidate at the Department of Border Region Studies at the University of Southern Denmark. Email: vollmer@sam.sdu.dk

Combining forces for more sustainable global value chains: A European perspective

by San Bilal and Jeske van Seters

The EU should take a lead role in enhancing the sustainability of global value chains. It has some of the leverage and many of the instruments to do so. It should strengthen and scale up its efforts, ensure stronger synergy and coherence between its instruments, and encourage multi-stakeholder engagement for more responsible business.



Logging trucks in Gabon. Photo: jbdodane/flickr/CC.

Appropriate private and public endeavours can significantly contribute to enhance the sustainability of global value chains (GVCs), in terms of responsible business practices, social, labour, environmental, and other broad human rights considerations. Building on the adoption of the 2030 Agenda for Sustainable Development at the UN Summit in September, the European Union (EU) can further stimulate such endeavours towards sustainable GVCs. Indeed, the 2030 Agenda requires multi-stakeholder engagement, with particular emphasis put on engaging the private sector. It calls for responsible business conduct, whereby companies integrate social ('people') and environmental ('planet') concerns in their business operations ('profit'), so as to achieve both developmental and economic sustainability.

EU frameworks

The EU has a number of policy frameworks and instruments, which should be further enhanced and more carefully articulated and coordinated, to better stimulate and when required better enforce the sustainability of global value chains. This entails a more dedicated and coherent approach among various policies, instruments and initiatives, in particular related to trade and investment, private sector promotion and development cooperation. Most of all, it calls for a multi-stakeholders approach, combining public authorities, private sector and civil society actors along the

value chains and beyond. In doing so, EU initiatives must take into account and build on incentives and own initiatives from various stakeholders, and in particular business.

Such objectives are well in line with the current EU strategic orientations and instruments.

The adoption in October of the new EU Strategy *Trade for All* is an important first step. Alongside a greater effectiveness of EU trade in facilitating value chain trade, its objectives are also to stimulate greater responsibility, in terms of process (transparency and accountability) as well as substance (towards sustainable development, human rights and good governance), from EU policies as well as private actors and partner countries.

The EU already recognises the importance of responsible business conduct in its framework of engagement with the private sector in development cooperation, adopted in 2014. The Commission Communication and following Council Conclusions on a Stronger Role of the Private Sector include a commitment that the EU and its Member States will seek to further promote Corporate Social Responsibility (CSR), in particular through the promotion of the implementation of internationally recognised guidelines and principles, such as the UN Guiding Principles on Business and Human Rights; the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy; the OECD Guidelines for Multinational Enterprises; the UN Global Compact; and the CFS Principles on Responsible Investment in Agriculture and Food Systems. This commitment includes specific reference to more responsible global value chains (GVCs) and responsible business practices, and is also embodied in the new EU Trade Strategy.

The revision of the joint EU Aid for Trade Strategy in early 2016, as well as the review of the EU policy on responsible business, will be important additional steps.

EU trade-related instruments

A number of trade related instruments are used to promote responsible conduct and enhance the sustainability of global value chains. These include various trade regimes and agreements, such as the Generalised System of Preferences (GSP), free trade agreements (FTAs), and plurilateral and multilateral agreements under the World Trade Organization (WTO); but also EU Regulations and Directives, for instance on illegal logging, conflict minerals, sustainability criteria for biofuels, corporate reporting on supply chain issues; as well as international standards and code of conducts, such as the

UN, OECD and ILO guidelines and principles referred above; and other private sector own initiatives, such as the Global Reporting Initiative, ISO 26000 on Social Responsibility, the Equator Principles (by financial institutions on environmental and social risk), the Conflict-free Gold Standard of the World Gold Council.

The characteristics and approaches adopted to promote sustainable value chains are diverse, and often complementary. They include the following elements:

The degree of international cooperation: some trade instruments and measures promoting responsible conducts along value chains are unilateral, such as the EU GSP, EU Regulations and Directives, resulting from the EU single initiative. Others are bilateral and regional, such as the clause contained in FTAs, in particular in the trade and sustainable development (TSD) chapter, generally resulting from negotiations and jointly agreed with the partner countries. Still others are plurilateral and multilateral (such as UN, OECD, ILO, WTO, UN), resulting from international commitments.

The level of references: some sustainable-related provisions refer to autonomous EU own rules and standards (e.g. EU regulations and directives). This is in particular the case for the Deep and Comprehensive Free Trade Agreements (DCFTAs), with issues related for instance to employment and social policy, the environment and corporate governance. However, the common approach is to refer to international standards and obligations. For instance, to qualify for the autonomous EU GSP+, developing countries must adhere to 27 international conventions. Trade and sustainable development chapters of EU FTAs also commonly refer to such international standards. The EU also seeks bilateral agreements to promote a specific issue. This is the case for illegal logging, where the EU Action Plan for Forest Law Enforcement, Governance and Trade (FLEGT) has been enshrined in voluntary partnership agreements concluded on a bilateral basis (already with six countries so far: Cameroon, Central African Republic, Republic of Congo, Ghana and Indonesia). The EU-Central Africa Economic Partnership Agreement (EPA) with Cameroon also explicitly refers to FLEGT.

The *type of commitments*: Some provisions have a *binding* language, subject to possible sanction or dispute settlement, whereas others are couched in *best endeavours* type of language, focusing on consultation, cooperation and general commitments to broader principles. For instance, the EU GSP scheme entails explicit binding requirements, and the serious failure to respect human rights led to the temporary withdrawal of EU unilateral preferences for some countries (Belarus, Myanmar/Burma and Sri Lanka) and investigation and engagement with others (e.g. China, El Salvador, India, Pakistan, Russia). DCFTA also entails several binding provisions. However, TSD chapters generally entail commitments with no explicit conditionality or sanction.

The *type of engagement*: the type of commitments relate to a great extent to the approach adopted by the EU. So far, the EU has put greater emphasis on a process-oriented approach based on constructive engagement, rather than a sanction-driven approach. This may explain why there has been only very limited sanction so far (only in the GSP context and in delaying the conclusion of the DCFTA with Ukraine). A process-oriented approach entails substantive standards (generally international ones) and procedural commitments,

based on dialogue, consultation and (technical) cooperation, stakeholder involvement, transparency, reporting and monitoring, and dispute settlement. This also translates in the institutional setting, to stimulate dialogue and interaction among stakeholders from the parties. This has led not only to the establishment of joint the Trade and Development Committees, but also to the reference to domestic advisory group(s), the establishment of the Civil Society Forum and the Panel of Experts, as in the case of the EU-Korea FTA and EU-Moldova DCFTA, and the Consultative Committee and the Joint Parliamentary Committee in the EU-CARIFORUM EPA, for instance.

The *targeted entity*: sustainable provisions in trade agreements are targeting the *partner country authorities*, as in the case of the EU GSP and FTAs. However, EU Regulations and Directives are often directly aimed at *companies*, as in the case of the Conflict Minerals initiative of the EU (targeting the tin, tantalum, tungsten and gold value chains), FLEGT and the EU Timber Regulation, or the Accounting and Transparency Directives (and their related new reporting and transparency obligations for large extractive and logging companies).

The *scope of the application*: depending on the instrument used, the scope of the sustainable commitments covers the whole economy, as in the case of the GSP and most FTA provisions, or some *specific sectors, activities or value chains*, as in the case of illegal logging, conflict minerals, reporting and transparency requirements by extractive and logging industries, or sustainable criteria for biofuels.

The *degree of support and cooperation*: Most of the sustainability dimensions of the EU trade and investment policy are *accompanied by development cooperation*, generally in the form of technical and information cooperation and/or financial support. Such commitments and endeavours are often explicitly referred to in the TDS chapters of the EU FTAs (and in voluntary partnership agreements), and/or are explicitly considered under parallel mechanisms.

EU development cooperation frameworks

Development cooperation is thus important to promote responsible business conduct in GVCs, related to trade and investment (Aid for Trade) and beyond. However, the Aft Agenda is much broader and has not explicitly targeted responsible business practices. The revision of the EU joint Aid for Trade Strategy in 2016 provides an opportunity to better link with the EU's approaches to private sector development and engagement, including beyond purely development cooperation instruments. It is also an opportunity to raise the profile of the promotion of responsible business conduct to guide increased and joint efforts of the EU and its Member States in this area.

Different types of development cooperation instruments to promote responsible business conduct are increasingly used by the EU, its institutions and its Member States, which could be further scaled up and whose coherence and synergy could be enhanced. They are generally directed at partner country governments as well as other stakeholders, in particular (European and developing countries) companies operating in GVCs. Examples of different types of development cooperation tools include:

- *Awareness raising among public and private stakeholders on internationally recognised guidelines and principles for responsible business practices*. This relates, for instance,

to raising the issue in established political and policy dialogues with partner countries and regions as well as information sharing and exchanges with companies and other social partners, which constitutes a core aspect of the EU CSR strategy.

- *Providing technical assistance and capacity development support to partner country governments to enact, implement and enforce domestic legislation conducive to responsible business conduct, also in line with internationally agreed guidelines and principles.* The EU FLEGT Facility is an example, which supports countries to better regulate and govern the forest sector in order to stop illegal logging, in the context of Voluntary Partnership Agreements between the EU and timber producing countries. Another example is the EU-Bangladesh cooperation to enhance the legal and institutional framework of the garment industry.
- *Using elements of responsible business conduct as eligibility criteria for companies to benefit from development cooperation instruments, including technical assistance and access to grants, concessional loans and other blending mechanisms.* They can relate to EU own sustainability principles or to internationally agreed ones, such as the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises. Examples include the DeveloPPP.de programme of BMZ and the Dutch Good Growth Fund.
- *Providing technical support and finance (in the form of grants, concessional loans and blending) for innovative and inclusive business initiatives to make GVCs more sustainable.* Examples are the Global Innovation Fund financed by SIDA, DFID, USAID, Australia and the Omidyar Network as well as the Africa Enterprise Challenge Fund (AECF), funded by the Netherlands, SIDA, DFID, Australia and IFAD.
- *Promoting and facilitating public-private partnerships and new forms of multi-stakeholder alliances for sustainable businesses.* Examples of such PPPs or multi-stakeholder alliances are the joint Danish, Dutch and Swiss-funded Sustainable Trade Initiative (IDH) and SIDA's Public Private Development Partnerships (PPDP).

Some programmes and instruments can fit into two or more of these categories. This holds true for the EU Switch Asia programme for example, which focuses on sustainable production and consumption patterns, by covering activities related to awareness raising, policy support and the promotion of environmentally friendly technologies and practices by businesses.

The way forward

These different types of instruments can be strengthened and further scaled up, both at the EU and Member States' level. Coherence and synergies between a range of policies and instruments, covering not only development and trade, but also issues such as environmental, human rights, private sector policy measures should be enhanced. Furthermore, coherence and synergies with (non DAC-able) EU private sector development support and economic diplomacy can be strengthened. The Addis Ababa Action Agenda on financing of the Sustainable Development Goals implicitly makes the distinction between development-oriented and commercially-oriented public financing instruments for private sector development less relevant. Commercially-oriented public finance instruments for private sector development can also be used to promote responsible business conduct along GVCs, for instance by having eligibility criteria related to sustainability. Many already have such criteria, while proper

application and monitoring of adherence to them is not always assured. Given their similarities, lessons can be learned across development-oriented and commercially-oriented instruments despite differing objectives. The coherence of EU policies for sustainable development should thus also encompass broader EU engagement with business and its external action and economic diplomacy, including the internationalisation of EU business (and SMEs in particular), the promotion of more stable and conducive regulatory environment in partner countries and at international level.

Particular attention must also be paid to international business own initiatives and incentives in that respect. More stringent regulations and trade provisions are not necessarily the most optimal option. Innovative approaches and initiatives from private sector and other civil society stakeholders must be encouraged and facilitated, not curtailed and undermined. In doing so, a balance must be found between constructive engagement and effective enforcement, including building on multi-stakeholder partnerships.

The challenge is to identify how the combination of trade and development cooperation instruments, and other initiatives, can best support business endeavours towards responsible practices along GVCs. But beyond policy frameworks, it is action that matter most, by public authorities of course, but most of all by private actors and civil society, in the EU and its member states and in partner countries. The question of implementation of well-intended ambitions and commitments should thus take centre stage. ■

About the authors



Dr San Bilal, Head of Economic Transformation and Trade Programme, and Editor of *GREAT Insights*, ECDPM. E-mail: sb@ecdpm.org Twitter: @SanBilal1



Jeske van Seters, Deputy Head of Food Security Programme, ECDPM. E-mail: jvs@ecdpm.org Twitter: @JeskeVanSeters

Business and human rights: Towards a German action plan and EU trade and investment agreements

by Evita Schmieg

Evita Schmieg gives a personal view on the German discussion on human rights and EU trade and investment agreements in the process of putting up a national action plan.



Worker in a textile factory, Eritrea. Photo:Andrea Moroni/flickr/CC

Africa is experiencing unprecedented economic growth, The UN Guiding Principles on Business and Human Rights, endorsed in 2011, are grounded on the States' obligations to respect, protect and fulfil human rights and fundamental freedoms, the role of business enterprises to respect human rights and finally the need for effective remedies when rights and obligations are breached. It is the role of states to further define how to apply these principles in different policy areas, amongst them trade and investment policy. The latter issue is covered by those principles dealing with policy coherence. These are principles: number eight – public institutions shall be aware and observe human rights obligations; number nine – states shall maintain policy space to meet human rights obligations; and number ten – which demands states to respect certain principles related to human rights in their capacity as members of international institutions.

The discussion process towards a national German action plan

At the end of 2014, the German government started a process that would lead to an action plan on 'business and human rights' with a first conference, which defined the relevant topics that needed to be discussed. From April until November 2015 a range of stakeholder hearings were carried through on these topics, with participation from the private sector, government agencies, civil society, associations as well as academia (see Reference). The whole process is under

the auspices of the Foreign Office, but other ministries are involved according to their responsibilities. A National Baseline Assessment, prepared by the German Institute for Human Rights, summarises the situation in Germany, defines open questions and serves as a basis for discussion, especially during the hearings. The hearing on human rights and free trade and investment agreements (FTA) took place in Berlin on 30 October 2015 with approximately forty participants representing the different stakeholder groups and moderated by the author of this article. It did not aim at finding consensus between different positions, but rather to get a complete picture of the issue in all its particulars.

Human rights and policy coherence in the area of trade and investment

The overarching task given by the Guiding Principles is to make free trade and investment agreements (FTA) more supportive to human rights and to strengthen policy coherence (following principles eight to ten). A central issue is the ambiguity of FTAs with regard to their effects on the policy space of partner countries to pursue human rights objectives. It is the fundamental idea of FTAs to create a stable and foreseeable environment for private economic activity, and to thereby contribute to economic and social development. The assumption is that this should eventually facilitate pursuing human rights objectives in the long run. At the same time, during implementation, FTAs might come with negative effects on human rights and unduly restrict the possibilities of states to apply instruments in pursuing those, e.g. by restricting the possibility to increase tariffs with the objective of food security. Agreements therefore, always have to maintain a certain flexibility (policy space) with regard to correcting harmful developments and do contain instruments to that effect, e.g. safeguard clauses.

Besides, FTAs are also seen as instruments for promoting human rights, e.g. via human rights and sustainability clauses. The final impact of an FTA depends, of course, on the concrete formulations negotiated, but to a large extent also on actual implementation. The latter can be an area for support by development co-operation in order to maximise benefits and minimise risks of FTAs. German companies are often amongst those most engaged in improving the human rights situation in partner countries. Corporate social responsibility

(CSR) can therefore be a helpful instrument to further pursue.

With regard to investment agreements, some stakeholders identify an imbalance between long standing and well anchored investor rights on the one hand and a lack of rights and possibilities especially of vulnerable groups with little voice, to sue human rights violations on the other. The Investor-State Dispute Settlement System is a case in point, with support in Germany for reforming this system, defining the right of the State to regulate and to link it with national legal systems.

The role of sustainability impact assessments

Sustainability impact assessments (SIA) have been used since 1999 to assess the possible impact of free trade agreements on partner countries. They do not cover human rights explicitly, but do touch upon related issues under the heading of sustainability (e.g. food security concerns). In the new EU trade strategy it is mentioned that the “effects of new FTAs on LDCs” will be analysed, whereas in the past SIAs have been applied to a larger range of FTAs. However, in future the use of the instrument should rather be expanded to all FTAs, and might also look at impacts within the EU.

Additionally, many SIAs carried out so far are not integrating human rights issues in trade policy as demanded by the UN guiding principles. A first range of proposals refers to improving their quality by clearly defining objectives and the structure of SIAs, taking due account of human rights issues. Transparency in the process should be ensured. Scenarios might not only cover different economic assumptions, but also different paradigms with regard to trade policy. SIAs should lay open the trade-offs between human rights and other policy objectives in order to allow for informed decisions.

A second set of ideas centres on the paucity of the actual role and impact of SIAs. Structures should be established to ensure that SIAs are discussed broadly, with stakeholders, within the European Council and the EU Parliament and that outcomes of SIA do have a real impact on on-going negotiations.

The furthest reaching suggestions demand a more comprehensive approach of SIAs. They should examine outcome and impact of negotiated FTAs at all stages: ex ante, during negotiations, and in the implementation phase (monitoring). SIAs should provide an analysis of effects and indicate where policy changes might be necessary in pursuing human rights objectives.

However the guidelines ask for human rights to be the guiding objective in designing FTAs from the start, rather than developing instruments to cope with upcoming problems. FTAs should in principle be supportive to human rights and create an enabling environment to pursue those.

Substantive law – human rights clauses and sustainability chapters

During the last few decades, human rights clauses are included in all EU FTAs, at least in the form of a reference to an umbrella agreement (e.g. Economic Partnership Agreements refer to the Cotonou Agreement). These clauses are the basis for applying sanctions in case of human rights violations in partner countries and the demand has been raised that all EU FTAs should contain such clauses in future. Possibly, human rights issues could be integrated in the list of general exceptions contained in all FTAs. Limitations stem from the fact that FTAs are often negotiated with partners

which do not in the same way want to include strong wording on human rights issues. There are, of course, different views on how to deal with this situation.

An important question is how such clauses could be strengthened in order to use FTAs for promoting human rights issues including employment rights and core labour standards. The institutions created by FTAs should be playing an important role in monitoring, with possibly a strong role for civil society in that regard (with the EU CARIFORUM Consultative Committee as a possible example). Independent control and appeal instruments are also important in that respect.

Demanding partner countries to implement steps towards improving the human rights situation before FTAs are ratified (ex ante conditionality) is interesting, but requires careful consideration. Although this has proven effective when applied in several cases by the USA, the approach can be seen as paternalistic and might not take into account enough partner countries' need for support in improving human rights conditions.

GSP+ to promote human rights

The specific incentive arrangement of the EU General System of Preferences (GSP+) has been designed as an incentive for improving governance in third countries, but has shown limited effects. Withdrawal of preferences might be used more actively in order to strengthen the incentive character of the scheme. Preconditions for withdrawal should be formulated more clearly, foresee an independent assessment and a transparent discussion process. This should eventually lead to less arbitrariness in application. Sanctions could be applied in a more targeted manner – by excluding not whole countries from preferences, but only specific products in sectors where human rights problems occur. An additional positive way to support human rights might be to agree with partner countries on a continuing improvement process supported by development co-operation.

A new instrument to be examined with regard to the GSP revision in 2018 would be to grant additional preferences for products complying with sustainability standards. The European Union would need to define criteria for such standards and in a next step, standard organisations such as Fair Trade, Maritime Stewardship Council (MSC), Forest Stewardship Council (FSC) etc., could apply for registration. Such preferences might create an incentive for private companies to increasingly switch to sustainable production methods respecting human rights. ■

Reference:

Protocols of German hearings on business and human rights are available at http://www.auswaertiges-amt.de/DE/Aussenpolitik/Aussenwirtschaft/Wirtschaft-und-Menschenrechte/NAPWiMr_node.html

About the author



Dr. Evita Schmiege is working as associate researcher in the German Institute for International and Security Affairs (SWP) on issues of trade and development.

Talking Points

Our blogs aim to deepen the dialogue on policy issues, and get to the heart of the matter in an honest and concise way.



CSO-business partnerships - bringing mozzarella to the masses?

Talking Points, Karim Karaki and Bruce Byiers, 20 November 2015

The Africa Milk Project (AMP), which partners the Italian civil society organisation CEFA with the largest Italian milk cooperative Granarolo, just won the first prize at Expo 2015 in Milan for best practice in “Sustainable development of small rural communities in marginal areas”. This rewards their work on the dairy value chain in the rural district of Njombe, Tanzania, along with the local producer organisation Njombe Livestock Farmers Association (NjoLiFA).



The development politics of the Sahel: The slow delivery of a promised integrated approach

Talking Points, Damien Helly, 13 November 2015

Finding solutions to the complex security and development challenges facing the Sahel region is not about the money or continuously multiplying the number of platforms that coordinate action. It is about political leadership and making informed decisions – and neutral brokers can play a role. For the next EU Global Strategy there are some lessons to learn.



The Valletta Summit : A bond or a knot between Europe and Africa?

Talking Points, Anna Knoll, 13 November 2015

This is part one of a two-part blog on ECDPM's reaction to the EU-Africa Valletta Summit. Part two will focus on the EU's new Trust Fund for African states that aims to provide the leverage for cooperation and funding for implementation of the Valletta Action Plan.



Le riz : grande star de la conférence de Dakar

Talking Points, Carmen Torres, 6 November 2015

La révision de la politique agricole de l'Afrique de l'Ouest (ECOWAP/PDDAA) en cours est un exercice fascinant avec des enjeux majeurs. J'ai fait partie des plus de 60 personnes qui se sont rendues à Lomé le mois dernier pour participer à l'atelier préparatoire de la conférence « ECOWAP+10 » qui aura lieu en novembre (17-19) à Dakar et dont l'objectif est de réviser et éventuellement ajuster l'ECOWAP, 10 ans après son adoption en janvier 2005 à Accra.

The Weekly Compass

Want to know the direction in which development cooperation is sailing? Stay informed of all the latest news on EU-Africa and EU-ACP development cooperation with the ECDPM Weekly Compass (WECO)



ECDPM dossier: Value chains and industrialisation

Weekly Compass, 20 November 2015

In today's globalised world, the production of goods is increasingly fragmented, and production processes are located in different countries, and even across continents. Intermediary goods and services now account for the majority of world trade. Global value chains are the result of this dynamic process. Developing countries, including in Africa, face numerous challenges in their attempts to reap the benefits from international (and regional) value chains. Many run the risk of being trapped at the low end of the value chain. ECDPM focuses on how upgrading global and regional value chains, and moving away from conventional export of raw commodities, can lead to development. This dossier puts all of ECDPM's work on value chains and industrialisation into one place. Watch out next week for the latest issue of our GREAT Insights magazine, with a focus on global value chains. ECDPM colleagues will also be attending The Netherlands Ministry of Foreign Affairs meeting on the EU and global value chains in December.

EU Trust Funds: Shaping more comprehensive external action?

Weekly Compass, 20 November 2015

EU Trust Funds provide opportunities for the EU and its Member States to deliver more flexible, comprehensive and effective joint support in response to emergencies, fragility and thematic priorities. As such, they can help to increase the EU's global visibility and allow it to speak politically and operationally with one voice. This ECDPM Briefing Note finds that while the three funds set up to date differ substantially in scope and funding volumes, they raise a number of relevant generic issues. Their success depends substantially on the EU Member States' willingness to contribute to an instrument which allows the European Commission to exercise more weight on external action. And political pressures to react quickly entail a risk to forget about valuable international cooperation lessons.

Our take on the Valletta Summit:

Weekly Compass, 13 November 2015

The Valletta Summit: A bond or a knot between Europe and Africa? African and European leaders met in Valletta this week to discuss cooperation on migration and asylum. The outcome of the historic Summit is a Political Declaration, an Action Plan and a Trust Fund launched by the EU providing more than €1.8bn for implementation. With clear interests and power politics at play, the EU aims to control and limit migration. The logic of 'more aid for less migration' raises questions about whether the Action Plan provides the framework for a progressive governance of mobility that is sustainable and adequate for an increasingly mobile world. ECDPM's Anna Knoll gives her reaction to this week's #VallettaSummit in the first of a two part blog series. Watch out for part two next week.

Linking migration to development | What's at stake in Valletta?

NEW DOSSIER: Linking migration to development

Migration is one powerful way out of poverty and has great potential for sustainable development. Over the years, the European Commission has – at least on paper – developed a broader and forward-looking policy framework on international migration and mobility in relation to development cooperation and its relations with third countries - including Africa. However, the current 'crisis response' mood in the wake of the global refugee crisis has led to more short-sighted responses with the risk to approach mobility as a burden rather than a long-term development opportunity. This dossier brings together ECDPM's work on migration and development. ECDPM connects its long-standing work on policy coherence, EU external action, EU-Africa relations and security and resilience with the topic of migration.

LISTEN: What's at stake in Valletta?

As part of this Dossier - you can listen to our latest podcast with ECDPM's Anna Knoll, as we ask what exactly is at stake at the Africa-EU Valletta Summit and what challenges lay ahead for the EU's 'Emergency Trust Fund for stability and addressing root causes of irregular migration and displaced persons in Africa.

Latest ECDPM publications



Hauck, V. Knoll, A. Herrero Cangas, A. 2015. "EU Trust Funds – Shaping more comprehensive external action?". Briefing Note 81. ECDPM (Maastricht). November 2015.

EU Trust Funds (EUTFs) are a new instrument in EU external action. Their creation responds to the EU's will to deliver more flexible, comprehensive and effective joint EU support, and increase the EU's global visibility and political weight in particularly challenging contexts.

So far, the EU has been extremely swift in setting up Trust Funds, building a momentum for change which European diplomats have qualified in the corridors as "unrivalled in the history of EU external action".

EU Trust Funds provide opportunities for the EU and its Member States to deliver more flexible, comprehensive and effective joint support in response to emergencies, fragility and thematic priorities. As such, they can help to increase the EU's global visibility and allow to speak politically and operationally with one voice in very different contexts and regions.



Knaepgen, H., Torres, C., Rampa, F. 2015. Making agriculture in Africa climate-smart: From continental policies to local practices. (Briefing Note 80). Maastricht: ECDPM.

There are various approaches to make agriculture "climate smart". These can be complementary, and it is therefore an important challenge to link their best practices. African policy-makers generally promote climate-smart agriculture (CSA) and aim to mainstream this approach in agricultural policies and interventions at continental, regional and national levels. But a lack of knowledge, weak governance and insufficient finance impede smooth mainstreaming.

Moreover, despite mainstreaming efforts, "climate" and "agriculture" are treated in silos. There is also a disconnect between policies and frameworks at the global, continental, regional, national and local levels.

A multistakeholder, bottom-up, intersectoral approach can overcome these challenges. At the same time, top-down frameworks such as the UN climate debates should give "agriculture" its deserved priority, given its relevance as "victim and vector" of climate change.



Bolaji-Adio, A. 2015. The future of financing for development in Africa: Insights from the Annual Meetings of the AfDB in May 2015. (Briefing Note 79). Maastricht: ECDPM.

A critical focus of African and world leaders in 2016 and beyond will be how to develop concrete and actionable policies to support the implementation of the Sustainable Development Goals (SDGs). How to ensure sustainability and achieve greater impact have been key elements shaping thinking around the post-2015 development agenda. African governments have shown great enthusiasm for developing innovative ideas for financing for development. The third International Financing for Development conference was a good start in terms of emphasising the need for better domestic resource mobilisation.

To effectively raise finance for development, however, African governments will need to create conditions for inclusive economic growth and at the same time improve tax policy and public financial management systems. Moreover, international efforts to combat illicit financial flows can help Africa to raise the resources needed to finance its development. Ultimately though, such reforms will accomplish little without political stability and inclusion, government accountability and transparency, social protection, and the availability of key infrastructure and public services.



Herrero, A., Knoll, A., Gregersen, C., Kokolo, W. 2015. Implementing the Agenda for Change: An independent analysis of the 11th EDF programming. (Discussion Paper 180). Maastricht: ECDPM. See also the shorter version of this paper, published as Briefing Note 77 in English and French / La version française est disponible ici

Effectively programming the European Development Fund (EDF) is a major political, policy and bureaucratic challenge, involving multiple stakeholders, namely the European Commission (EC), the European External Action Service (EEAS), 28 EU member states, the European Parliament, 74 governments from the Africa, Caribbean and Pacific (ACP) group of states and domestic accountability actors.

The EU is currently implementing its 11th European Development Fund for the period 2014-2020, with an aid budget of €30.5 billion for many of the ACP countries and Overseas Countries and Territories (OCTs), covering both national and regional programmes. This Discussion Paper presents the key findings of ECDPM's independent analysis of the 11th EDF programming experience. Our study focuses on the programming of national funds directed at ACP countries. Our work is intended to inform both EU and ACP decision-makers about the implementation of the EU's Development Policy – the Agenda for Change.

Next issue of *GREAT Insights*:
Economic development in fragility and conflict
contexts.
February/March 2016, Volume 5, Issue 1

To subscribe to *GREAT Insights* or other
ECDPM publications go to:
www.ecdpm.org/subscribe
To read previous issues of *GREAT Insights*, go
to www.ecdpm.org/GREAT