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Agricultural Commodities of Ethiopia, Madagascar and Tanzania

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Abstract

The authors assess to what extent the Enhanced Integrated Framework (EIF) provides assistance to LDCs through its "Diagnostic Trade Integration Study (DTIS)" towards more effective trade and development policies. The DTISs raison d'étre is to improve LDC's trade capabilities and - thence - reduce their levels of poverty. A key feature of LDCs economies are their agricultural commodities. DTIS are intended to guide LDCs in increasing the quantity, quality and value-addition of exports of agricultural commodities; creating jobs and increase welfare. Thus, better understanding how products best fit into the global supply and global value chains (GSC/GVC) becomes critical. Our analysis shows that the new guidelines for the DTISs of 2018 do not sufficiently address the Global/Regional Supply and Value Chains*.

Keywords: DTIS, EIF, agricultural commodities, global supply chain, African LDCs, sustainable development.
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* www.enhancedif.org/en/guidelines "Guidelines for the Diagnostic Trade Integration Study (DTIS) and DTIS Update (DTISU) under EIF Phase Two", pg 4.

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Introduction

This study aims to contribute to the implementation of the UN's Sustainable Development Goals (SDGs) - specifically to SDG 17 and its target 11 – namely: to "significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries (LDC)' share of global exports by 2020".[1]

A key feature of many LDCs economies is their dependence on agricultural production and on commodity exports at low value-added prices according to the 2019 UNCTAD report "State of Commodity Dependence".

The authors assess to what extent the Enhanced Integrated Framework (EIF) provides assistance to LDCs through its "Diagnostic Trade Integration Study (DTIS)" towards more effective trade and development policies. The DTISs *raison d'être* is to improve LDC's trade capabilities and - thence - reduce their levels of poverty. . A key factor of improving production and trade in agricultural commodities is to know how their products could best fit into the global supply and global value chains (GSC/GVC). The logic behind this is that – until efforts at industrialisation and/or industrial transformation bear fruit - it is easier to build on current exports of commodities; giving a potential short- to medium-term boost to exports revenues (and their positive upstream socio-economic effects).

The study undertakes an analysis of three LDCs' agro-commodities and of their position in the respective commodities market. It closes with suggestions how the EIF could improve its DTIS for its clients namely the 36 WTO member based LDCs, while helping them implement the SDGs.

In order to understand to what extent the DTISs help LDCs increase their exports in agricultural commodities, three African LDCs have been selected for this study namely **Ethiopia, Madagascar and Tanzania** and three agricultural commodities namely **cocoa, coffee and cashew nuts** which are important contributors of economic and social growth for the three African LDCs economies and for their export-trade performance.

The authors used as a benchmark the previous **UNDP study (2009)** and other relevant literature on GSC and GVCs. DTISs were scrutinised for factors of GSCs and GVCs analysis, and the results compared with the initial 2009 UNDP study. That study was based on the analysis of 29 LDCs and covered all the commodities mentioned in the DTISs, of which there were 44 agricultural commodities.

Similarly, the authors reviewed some of the copious GVC literature, including some of the works by Gereffi, Low, de Backer and others.

The scope of this study is narrower since it analyses only three agricultural commodities of only three African LDCs. On the other hand, this study goes much more in depth with regard to the analysis of the links provided or absent between the countries' commodities and the GSC/GVC.

This study consists of the following steps:

1. General information is provided of each of the three LDCs regarding their social and economic situation. Further, the importance of each commodity is given by jobs and exports, and comparisons are provided about the global markets pertaining to the three commodities such as total market size, key sellers, buyers etc.).
2. An initial analysis of the three DTIS is provided in separate chapters.
3. Another chapter is dedicated entirely to the Global Supply Chains (GSCs) and Global Value Chains (GVCs). Each Chain is broken down into individual steps and related literature is used. Graphs and tables are used to provide a better understanding of the picture.
4. A gap analysis is provided to show what the three DTIS reports state in regard to GVCs and GSCs of the three agricultural commodities. Are there gaps between what the DTISs' state versus what the realities are regarding the GVC/GVS? Are there differences among countries and commodities?

[1] https://sustainabledevelopment.un.org/sdg17

To conclude, a final chapter offers recommendations how to improve the GSC/GVC of the three countries' commodities. The main focus is how to improve the DTIS to better suit the needs of the three countries GSC/GVC related to the three commodities selected for this study.

As this study goes to the press, the effects of COVID-19 lockdown are beginning to show be this on the supply or demand side of interantional trade. The lack of relevant statistical and other data make the analysis of their impact on GSC/GVCs- at this stage – not possible. Future developments of the pandemic and the concomitant impact of health protection policies on economic and social development will show to what extent GSC/GVCs will be affected and trade impacted between LDCs and their trade partners.

1. Country profiles

According to the United Nations classification system[2], **Ethiopia, Madagascar** and **Tanzania** are low-income countries struggling with severe structural impediments, high vulnerability to economic and environmental shocks and a low level of highly skilled human assets[3]. The main criteria to establish if a country could be listed as Least Developed Country are three:

1. Income as in Gross National Income (GNI) which provides information on the income status and the overall level of resources available to a country.
2. Human Assets Index (HAI), which is a measure of level of human capital.
3. Economic Vulnerability Index (EVI), which is a measure to structural vulnerability to economic and environmental shocks.

Ethiopia

The country profile includes data pertaining to the composition of its GDP, then GDP growth and its population growth.

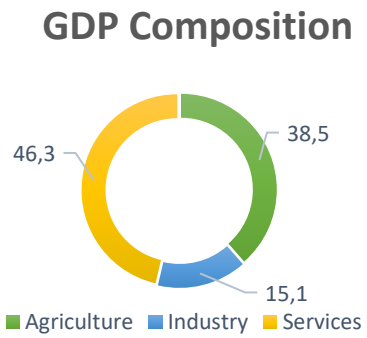


Figure 1.A Data from World Bank

[2] https://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx
[3] https://www.un.org/development/desa/dpad/least-developed-country-category.html

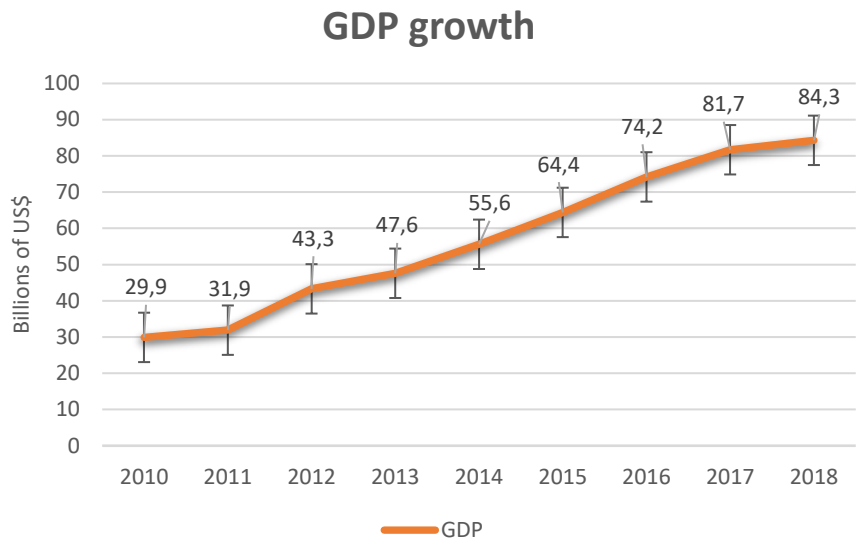
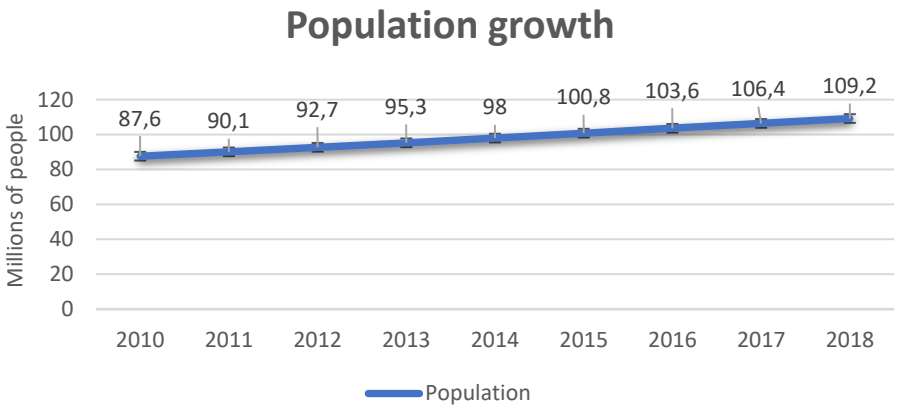


Figure 2.B Data from World Bank



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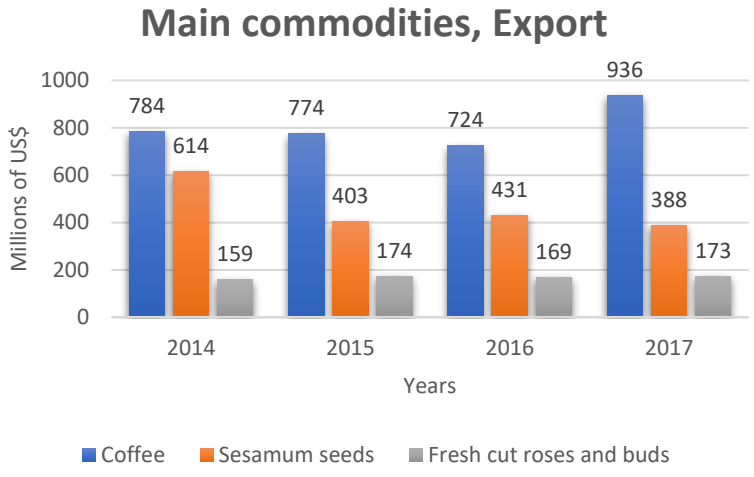


Figure 4. Data from ITC Trade Map

Ethiopia is the second most populous country in Africa located on the eastern part of the continent with 109 million citizens; most of them are under the age of 24 (63%)[4] and 80% of them living in rural areas. The life expectancy at birth is 65.9 years and people are expected to spend 8.5 years in school. The employment to population ratio (% of age 15 and older) is 78.2 according to the Human Development Index report of UNDP in which Ethiopia places 173th out of 189 countries with a score of 0.463. Furthermore, the country scores poorly on the Global Competitiveness Index as well, ranking 126nd out of 141 with a score of 44.4.

Ethiopia's GDP stood at $85 billion in 2018 (WB) and it is one of the fastest growing GDPs of the last decade ranging from 8% to 11% growth rate and a GDP per capita of $790 (2018). Furthermore, **trade accounts for 19.5% of GDP** (WTO, 2014-2016). Ethiopia has a share in the world total export of 0.02% and the main commodity group exported is "Agricultural products" (40.5%) - with the European Union as its main destination (23.1%)[5]. In 2017 the merchandise exports accounted for $3.1 billion.

Overall, Ethiopia's economy is still agriculture-based employing over 70% of the population, and export driven, with coffee being the number one commodity, thanks to Ethiopia being the 5th largest coffee producer in the world. However, the country is still unable to perform at the same level as Brazil, Vietnam, Colombia and Indonesia, which are the 4 largest exporters of coffee.

Despite reforms to trade and the economy, the performance of exports and manufacturing is below par, considering that Ethiopia is a commodity-and export dependent LDC. The inability to retain value of exported goods and the lack of diversification make the country vulnerable to external shocks. Coffee is a good example because - despite the high-quality product and the export driven economy - the country still exports mainly low-value-added raw coffee beans.[6]

Madagascar

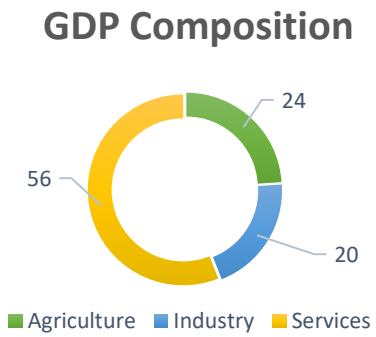


Figure 5.A Data from World Bank

[4] https://www.cia.gov/library/publications/the-world-factbook/geos/et.html

[5] http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=ET%2cMG%2cTZ

[6] CHAPTER 32 The Value Chain: A Study of The Coffee Industry (WILLIAM H. BYRNES, NIMA KHODAKARAMI AND CARLOS NAVARRO PEREZ)

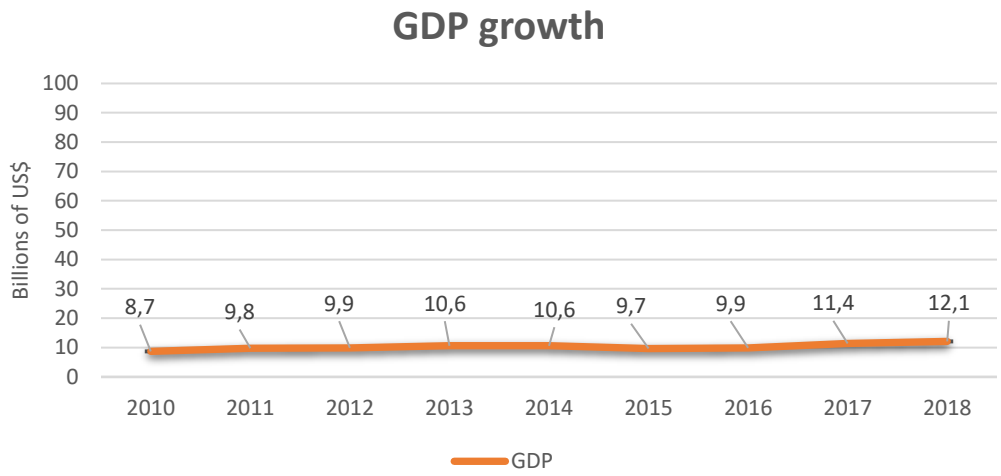


Figure 6.B Data from World Bank

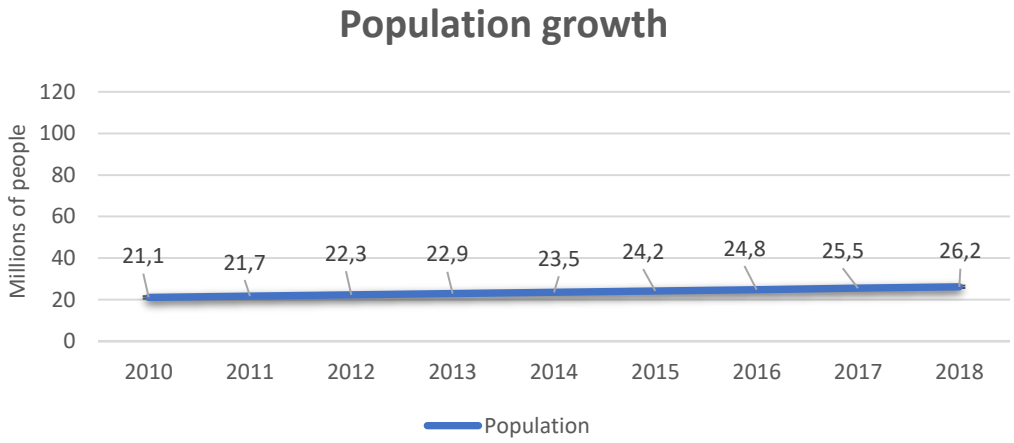


Figure 7.Data from World Bank

Madagascar is an African country located in the eastern part of the African continent. It is a very large island home to 26 million people, 60% of which are under the age of 25. On average, an individual is expected to live 66.3 years and spend 10.6 years in school according to Human Development Index report in which Madagascar ranked 161st out of 189 with a score of 0.519. The employment to population ratio (% ages 15 and older) is 86.4. The GDP accounts for $13.8 billion (WB, 2018) and the GDP per capita is $527 (WB,2018). **Merchandise trade accounts for 33.4% of GDP** according to the WTO[7] (51%, WB 2018) but it only makes up 0.01% of the world total exports. "Agricultural products" is the main commodity group exported (41.7%) with the European Union as the main destination (45.2%). In 2017, the merchandise exports accounted for $2.3 billion.

Overall, Agriculture makes up 24% of the GDP, Industry 19.5% and Services 56.4%, making it the most relevant sector for production.

For Madagascar, the original DTIS was published in 2003 and received an update in 2015 by the World Bank.

[7] http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=ET%2cMG%2cTZ

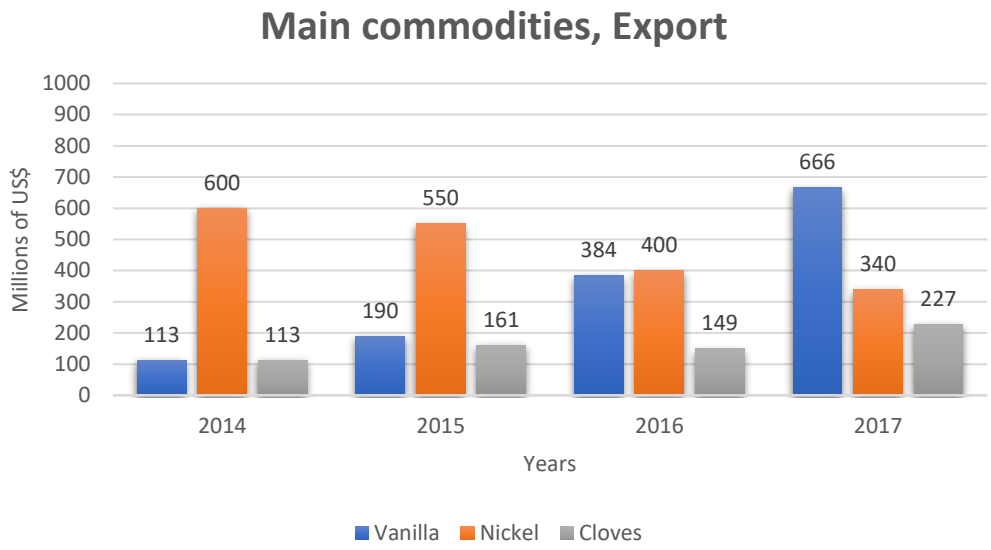
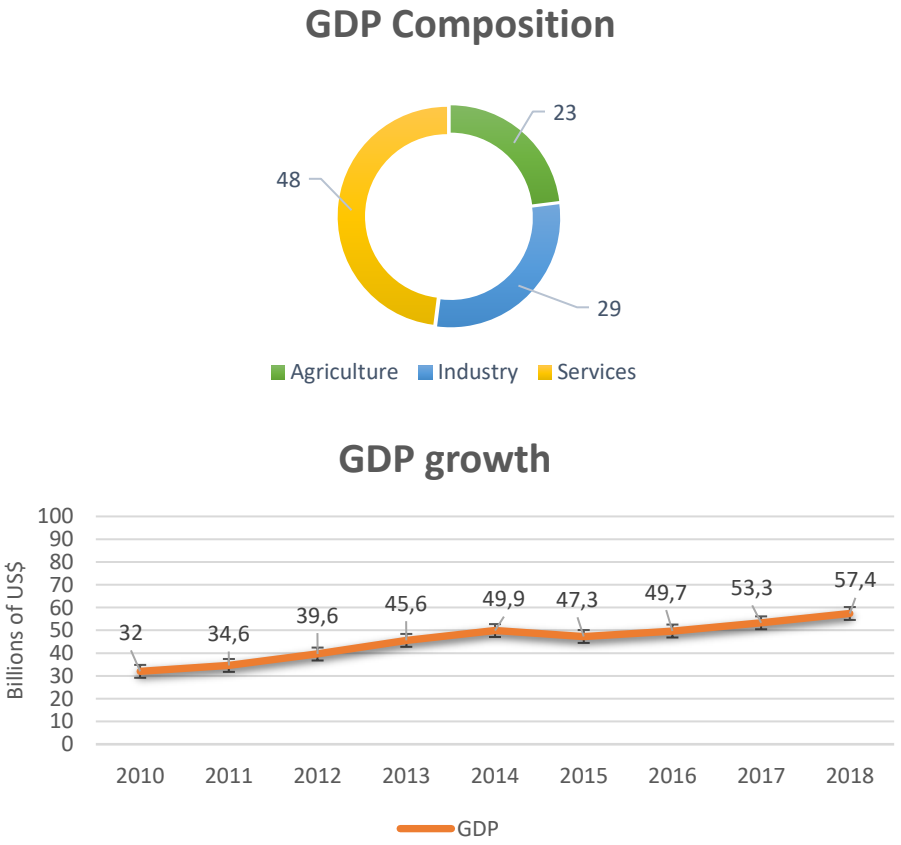


Figure 8.Data from ITC Trade Map

Tanzania



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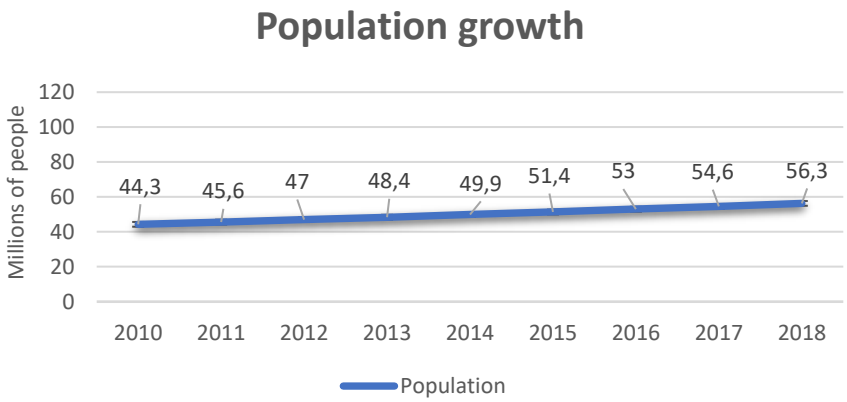


Figure 10.Data from World Bank

Tanzania is an African country located on the eastern part of the continent where 55 million people live, 63% of which are under the age of 25. In addition, almost a third of the entire population is located in urban areas. Moreover, the overall population is also growing fast, due to the high total fertility rate of 4.8 children per woman. On average, an individual is expected to live 66.3 and attend school for 8.9 years, according to the Human Development Index Report in which Tanzania ranked 154th out of 189 with a Human development index of 0.538.

The total GDP of the country is $52 billion and the GDP per capita is $1.113, furthermore, **trade accounts for 20% of GDP** (WTO 2015-2017[8]). In 2017, the share in world total exports was 0.03%, with "Agricultural Products" as the main commodity group (37.1%) and Switzerland as the main destination. Overall, the merchandise exports in 2017 accounted for $4.5 billion.

Agriculture accounts for nearly half of Tanzania's total merchandising export although it must be noted that part of the country's agricultural trade is unrecorded, due to exports going through informal channels.

The main commodity exports are as follows:

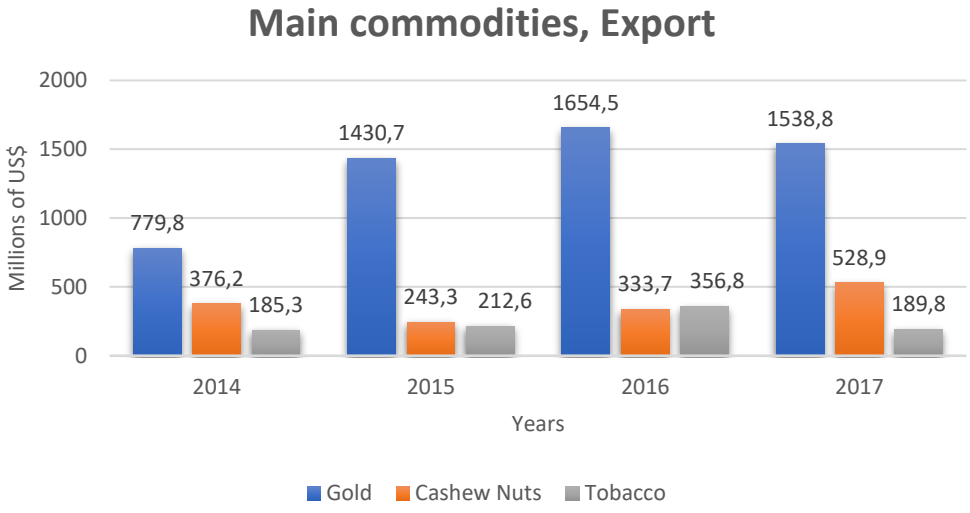


Figure 11. Data from ITC Trade Map

[8] http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=ET%2cMG%2cTZ

2. Agricultural Commodities

Coffee, Cocoa and **Cashew nuts** are all agricultural commodities which are relevant for the economies of Ethiopia, Madagascar and Tanzania respectively. For instance, **Coffee** is a valuable commodity for Ethiopia which is one of the largest exporters of coffee in the world but is much less important for Tanzania and Madagascar, the latter barely exporting any coffee at all. Due to these differences in market share, each commodity his going to have its dedicated section.

Cocoa

Cocoa is produced in countries located between 10ºN and 10ºS, where the climate is appropriate for growing cocoa trees. The production of cocoa is done by a few producing countries. At global level **Africa** accounts for 73% of total production (3.2 million tons of cocoa beans), with 60% of the production coming from **Ivory Coast and Ghana**[9]. Cocoa supply may thus be considered highly concentrated in a limited number of countries. However, cocoa is typically produced by a number of dispersed small-scale growers; an estimated 5 million to 6 million farmers globally[10].

The cocoa processing segment has witnessed high market concentration. In 2016, four big companies, namely **Barry Callebault, Cargill, ADM** and **Blommer Chocolate Company**, controlled about 61% of this market. Consolidations in cocoa processing over the past few years have been driven primarily by the recent boom in commodity prices. High prices of inputs, including cocoa beans and energy, have increased production costs for processing companies, resulting in narrower margins for most of them (Hardman & Co, 2014). Therefore, merger and acquisition strategies in this segment were used by existing players as a means to increase cost efficiency and attain greater economies of scales. This is particularly true for cocoa processors, as they compete primarily on costs (Gilbert, 2009). Moreover, cocoa processing is capital-intensive with high sunk costs, which might also have discouraged potential new entrants.[11]

The vertical and horizontal integration of the past decade have left behind small farmers who ultimately are the backbone of the production cycle. Farmers tend to be disaggregated and don't have the bargaining power to stand up to major companies. Moreover, these companies take advantage of the poor enforcement of anti-competition laws at domestic level to further increase their market position.

The revenues for farmers are also very low. According to the International Labour Forum, the net earnings of a typical cocoa farmer with 2 hectares of land in Côte d'Ivoire and Ghana, are about $2.07 and $2.69 per day, respectively, which is barely above the poverty line of $1.90 per day.

According to UNCTAD, vertical integration in the cocoa industry has helped transnational corporations ensure the traceability and quality required by their customers. For example, Barry Callebaut company has stated that it can ensure full traceability of cocoa sourced through its subsidiary, Biolands International, based in the United Republic of Tanzania[12].

[9] https://unctad.org/meetings/en/SessionalDocuments/tdb63d2_en.pdf, pg. 4
[10] World Cocoa Foundation, 2012, Cocoa market update, March, available at http://worldcocoafoundation.org/wp-content/uploads/Cocoa-Market-Update-as-of-3.20.2012.pdf
[11] https://unctad.org/meetings/en/SessionalDocuments/tdb63d2_en.pdf
[12] https://unctad.org/meetings/en/SessionalDocuments/tdb63d2_en.pdf, pg. 9

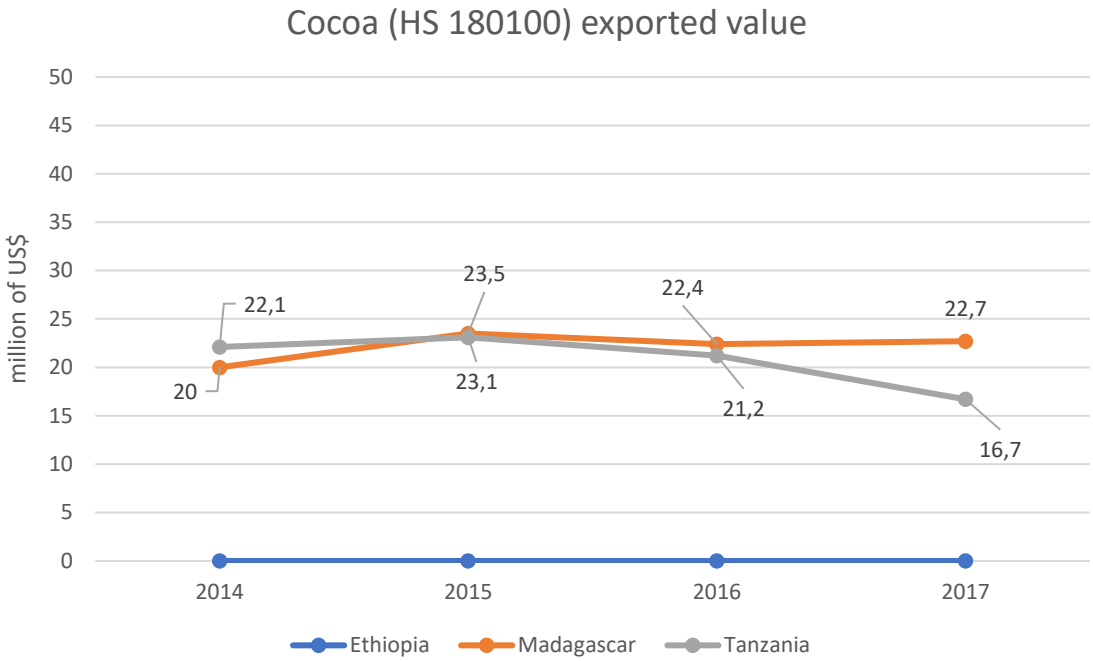


Figure 12.Data from ITC Trade Map

Cocoa in Madagascar

It is important to underline that Vanilla (HS 0905) is still the most important agricultural commodity for Madagascar accounting for 24.6% of the total export in 2017, according to the International Trade Centre (ITC) data. The export of Vanilla accounted for $703 million in 2017 and it has been growing in the last few years, going from $118 million in 2014 to $703 million in 2017. Compared to this, cocoa is much less prominent, accounting for less than 1% of the total export (0.8%) and $22 million in value.

Coffee

The coffee industry has been growing sustainably for over 500 years (Clarence-Smith et al., 2003). Today, coffee is one of the most highly consumed beverages in the world. According to the International Coffee Organization (ICO), more than 120 million people rely on activities related to coffee production for their livelihood. In developing countries, coffee was the second most exported primary commodity after oil, in value terms, during most of the 1970s and until the 2000s. However, since then, it has lost its prominence to other agricultural commodities, such as palm oil and soybeans (Talbot, 2004). In 2016, trade in coffee, whether roasted or decaffeinated, was worth $30.7 billion according to the ITC Trade Statistics.

For many producing countries, coffee is a major export product and a vital source of foreign exchange. It also is an important contributor to rural employment. For most of them, coffee production contributes significantly to their economic development. For instance, **Ethiopia** exported over 247.000 tons of coffee in

2017[13] accounting for $937 million, roughly 32% of the total export. **Tanzania**, however, exported 42.000 tons of coffee in the same year[14] and **Madagascar** barely exported any coffee at all.

Nonetheless, not all coffee is destined for export. Ethiopia, for instance, produced 447.420 tons of coffee according to the International Coffee Organization (ICO) in 2017[15] but exported 247.000 tons (55% of total production) the same year, leaving 200.000 tons for the domestic market.

Overall, **South America** is the region that produces the most coffee in the world, in 2018 it produced 4.9 million tons of coffee. Within the region, **Brazil** was the top producer with 3.7 million tons, followed by **Colombia** with 831.000 tons.

Asia is the second region of the world for coffee production with 2.9 million tons produced in 2018. In this region, **Vietnam** is the main producer with 1.8 million tons, followed by **Indonesia** with 565.000 tons in 2018.

Africa is producing more and more coffee in recent years. Since 2015 the production has increased by 5.9% going from 947.000 tons to 1.1 million tons. In the region, **Ethiopia** is the main producer but other states such as **Tanzania** are increasing their production going from 47.000 tons in 2017 to 70.500 tons in 2018.

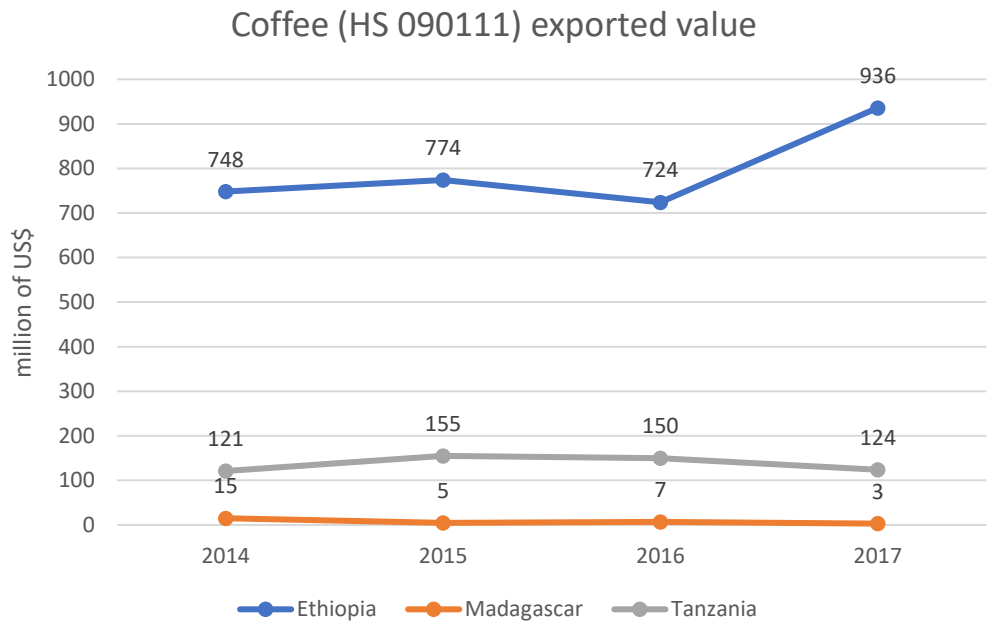


Figure 13.Data from ITC Trade Map

Coffee in Ethiopia

As shown by the data collected from the International Trade Centre (ITC), Coffee is a very important commodity for **Ethiopia,** accounting for 41.2 per cent of the country's total merchandise exports in 2016. Most of the coffee (90 per cent) is produced by small-scale farmers and cooperatives on less than one hectare of land per farm, and the remaining 10 per cent is produced by some medium-sized producers and large-scale plantations.

[13] ITC Trade Map (https://www.trademap.org/Product_SelCountry_TS.aspx?nvpm=1%7c231%7c%7c%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c2%7c1)

[14] ITC Trade Map https://www.trademap.org/Product_SelCountry_TS.aspx?nvpm=1%7c834%7c%7c%7c%7cTOTAL%7c%7c%7c4%7c1%7c1%7c2%7c2%7c1%7c1%7c2%7c1

[15] http://www.ico.org/prices/po-production.pdf

According to UNCTAD[16], roughly 2.7 million people, between coffee farmers and workers, are involved in growing coffee cultivating a total area of 509.000 of hectares.

Coffee in Madagascar

Coffee's export value has plummeted over the last few years going from $15 million in 2014 to $3 million in 2017 (ITC). This decline - mentioned in the DTIS update - notes that coffee production is now around 500.000 bags per year. On top of that, almost all the coffee produced is exported raw under the code HS 090111, which means profits are much lower due to the low added value of non-processes coffee beans.

Coffee in Tanzania

The export of coffee accounts for $124 million in 2017 (ITC). However, most of the coffee is exported in its raw form under the HS code 090111 meaning that only $2 million worth of coffee is exported after roasting the beans. This leads to low added value that is one of the causes for lower profits for producers.

According to UNCTAD[17], the area under **coffee cultivation** is 275.000 hectares but the total number of **coffee farmers** and workers is only 0.45 million people.

Cashew nuts

The main product in the cashew value chain is the raw Cashew Nut. According to the statistics from Cashew nuts Board of Tanzania (Hanga 2010, personal communication) 40% of these raw nuts are processed domestically into cashew kernels which are sold on local markets or become exported; the rest is exported in raw form.

Current global production of raw cashew nuts exceeds 2.1 million tons valued at nearly US $ 2 million, which corresponds to a quarter of the world edible cashew nuts production. Some 60% of the global output is harvested in Asian developing countries and 35% in Africa. Processing takes place mainly in India, Vietnam and Brazil. Only 10% of the African cashew is locally processed representing a considerable loss in regard to potential value-added profits. World cashew demand is growing strongly in both volume and value; prospects are for world consumption to continue to increase. Main buyers from US and Europe, as well as processors from India, Vietnam and Brazil increasingly source cashew from Africa. The interest in this origin has intensified in the past 5 years, with major Indian, Vietnamese, Chinese, Brazilian and European companies investing in medium and large-scale processing units in the major African production areas. The prevailing competitive disadvantage of Africa as far as processing is concerned could change through the implementation of mechanized processing.[18]

[16] https://unctad.org/en/PublicationsLibrary/ditccom2018d1_en.pdf
[17] https://unctad.org/meetings/en/SessionalDocuments/tdb63d2_en.pdf
[18] http://www.intracen.org/uploadedFiles/intracenorg/Content/Exporters/Market_Data_and_Information/Market_Insider/Edible_Nuts/Cashew%20sector%20at%20a%20glance.pdf

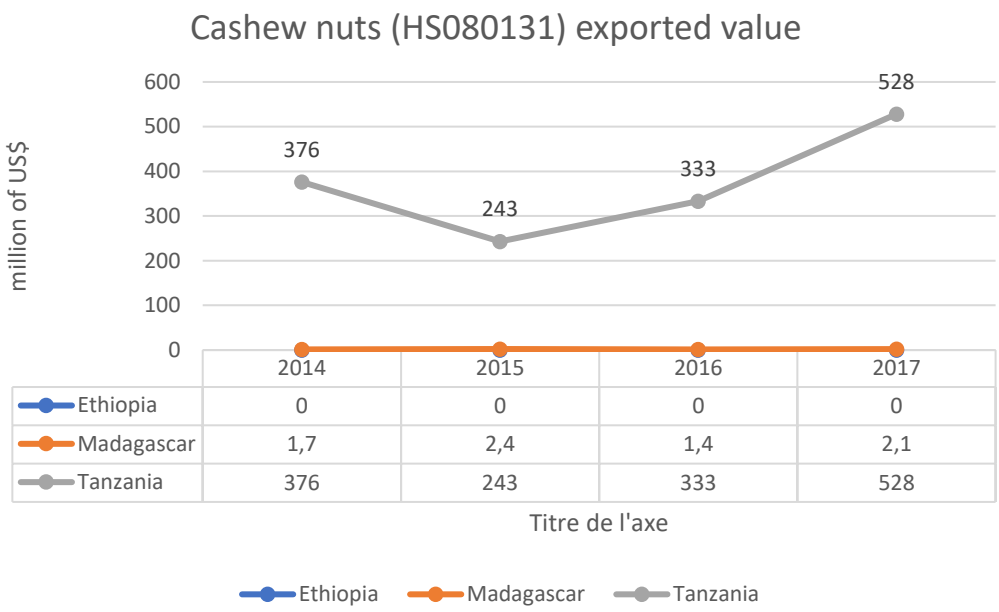


Figure 14.Data from ITC Trade Map

Cashew nuts in Tanzania

According to official data available, cashew nuts are the most valuable commodity exported, reaching $528 million in 2017 or 12.6 % share in value. The export of this commodity has been fluctuating, with an increase between 2016 and 2017 going from $333 million to $528 million.

Tanzania is a leading exporter of cashew nuts with exports accounting for 10 percent of the global trade - almost all of it is exported in raw unshelled form. By leaving only 10 percent of them to be processed in Tanzania, much of the value of the product doesn't stay in the country. The data from the ITC prove that only $12 million worth of unshelled cashew nuts were exported in 2017.

There are roughly 734.000 households in Tanzania's Southern Zone growing cashew. Assuming there are at least 3 individuals in these households directly benefiting it, the number of beneficiaries is around 2.1 million people. This number does not include other northern coastal regions. The area under production ranges from 80.000 to 90.000 hectares, with the Mtwara region accounting for 70% of the national production.

3. The Enhanced Integrated Framework (EIF)

The **EIF** - a multilateral partnership of 51 countries, 24 donors and eight partner agencies - works with governments, development organizations, civil society and academia to assist **least developed countries (LDCs)** use trade as an engine for development and poverty reduction.

The EIF was originally born as The Integrated Framework (IF), as established in October 1997 at the High-Level Meeting on LDCs' Trade Development held at the WTO. Other agencies joined as core partners namely: The IMF, the ITC, UNCTAD, UNDP and the World Bank. [19]

In its first phase, the programme allocated US$200.6 million to 134 partnerships. Now in its second phase of work, EIF continues to support LDC governments and small businesses to trade, developing the kinds of jobs that improve lives and spur sustainable economic development.

DTIS Matrices

Having addressed the general framework of EIF and its work, the DTIS of Ethiopia, Madagascar and Tanzania were analysed following the same approach as was done in the 2009 UNDP study "Commodity development strategies in the Integrated Framework"[20].

The matrices are relevant as a visual indication of the presence of certain elements in the DTIS. The criteria used were: warehousing and storing, electricity, IT and telecom, transportation and production inputs for the supply chain side. Processing the production inputs, standard setting, quality culture, quality infrastructure, distribution system, business linkages, pricing mechanism and investment climate for the Value Chain side. In addition, social sustainability and resilience to climate change were added.

Ethiopia

	CRITERION	MENTIONED ?	POLICY				INSTITUTION				ENTERPRISE				Comments
			1	2	3	4	1	2	3	4	1	2	3	4	
S.C.	Warehousing and storing	yes				pg 23				pg 174				pg 107	Commodity not directly specified
S.C.	Electricity	yes				pg 21									Commodity not directly specified
S.C.	IT and Telecom	yes				pg 21				pg 56					Commodity not directly specified
S.C.	Transportation	yes				pg 99				pg 102-103					Commodity not directly specified
S.C.	Production inputs	yes		pg 189											
V.C.	Processing the production inputs	yes				pg 174									Commodity not directly specified
V.C.	Standard setting	yes				pg 86				pg 87					Commodity not directly specified
V.C.	Quality Culture	yes				pg 18-47									Commodity not directly specified
V.C.	Quality Infrastructure	yes													
V.C.	Distribution System	yes				pg 81-170				pg 82					Commodity not directly specified
V.C.	Business linkages	yes		pg 22, box 11											
V.C.	Pricing mechanism	yes				pg 24-93				pg 51				pg 66	Commodity not directly specified
V.C.	Investment Climate	yes				pg 16-136				pg 143					Commodity not directly specified
V.C.	*Social Sustainability*	*no*		X											
V.C.	*Resiliance to climate change**	*no*		X											

* = the ability of households to withstand natural catastrophes e.g. droughts (Micro-resilience of indexing resilience paper).

1: Cocoa			
2:Coffee	HS090111 (Coffee excludin roasted and decaffeinated) = $936m	HS090112 (Decaffeinated, excluding roasted) = $0,1m	HS090121 (Roasted coffee) = $0,9m
3:Cashew Nuts			
4:Overall			

Figure 15.DTIS Analysis, Grey for the 2003 DTIS, Orange for the 2016 update. Red for both.

[19] https://www.wto.org/english/tratop_e/devel_e/teccop_e/if_e.htm

[20] UNDP, "Commodity development strategies in the integrated framework", 2009

According to UNCTAD, the current supply of coffee does not match the projected demand[21] providing potential opportunities for Countries such as Ethiopia, Tanzania and Madagascar**.** A country such as **Ethiopia**, which is already an established player in the coffee market should focus more on the development of high-valued coffee, the inclusion of the roasting phase within national border and the promotion of speciality coffee. On the other hand, Tanzania and Madagascar might benefit from a knowledge sharing process between them and Ethiopia but also South America, to help them with the value-added production of coffee.

As observed in the 2016 DTIS, [22] the agro-food industry, gross value of output increased more than six-fold over the past 10 years, but the share of the agro-processing industry in Ethiopia's GDP has remained low and behind target. Export competitiveness of processed food from agro-industrial activities has improved somewhat but is still very weak. Poor output quality constitutes a major constraint for Ethiopia's agro-industry exports, as evidenced by high rejection rates for some food items. There has been little diversification in Ethiopia's food exports into processed and higher value-added goods, and Ethiopia's trade in food and beverages continues to be dominated by raw vegetables, coffee, oils and fats, and meat.

Madagascar

Electricity	yes		pg xvii - 24		pg ix	pg 53	Commodity not mentioned directly
IT and Telecom	yes		pg 63		pg 50 - 60		Commodity not mentioned directly
Transportation	yes		pg 61		pg 28 - 41	pg 46	Commodity not mentioned directly
Production inputs	no						
Processing the production inputs	yes						mentioned, see pg 59
Standard setting	yes				pg 35		
Quality Culture	yes						
Quality Infrastructure	yes, but the link is missing (pg 30)						
Distribution System	yes						
Business linkages	yes				pg 75		Commodity not mentioned directly
Pricing mechanism	no						
Investment Climate	yes		pg xv				Commodity not mentioned directly
Social Sustainability	no						
Resiliance to climate change*	no						

* = the ability of households to withstand natural catastrophes e.g. droughts (Micro-resilience of indexing resilience paper).

1: Cocoa		HS180100 (Cocoa beans, whole or broken, raw or rosted)= $22,7m	all data from ITC 2017
2:Coffee		HS090111(Coffee excluding roasted or decaffeinated) = $3,2m	
3: Cashew nuts		HS080131(Fresh or dried Cashew Nuts, in shell) = $2,1m	HS080132 (Fresh or dried Cashew Nuts, shelled) = $0,7m
4: overall			

Figure 16.DTIS Analysis, Orange for the 2015 DTIS Update.

Overall, Madagascar has managed to implement only 16 out of the 59 actions proposed in the original 2003 DTIS. At the request of the government of Madagascar, the World Bank took the leading role in preparing the DTIS update, however, the result was 94 pages long that did not address commodities such as Coffee and Cocoa directly. **Coffee,** for instance, is still an important commodity for Madagascar despite the decrease in production of the last 20 years (in 1992 the production was 660.000 tons). However, no policy advice was provided to improve coffee production overall, let alone the different phases of the Value Chain that ultimately bring the product on the shelves.[23]

Throughout the Madagascar 2015 DTIS[24] update many references to trade constraints are made such as:

- **export tariffs** remain higher for raw materials than for intermediate goods, making firms focus more on the domestic market rather than going international;
- Half of the **Non-tariffs Measures (NTMs)** are put in place by the Government of Madagascar;

[21] UNCTAD, "Commodities at a glance, special issue on coffee in East Africa", pg. 3
[22] https://www.enhancedif.org/en/system/files/uploads/dtis-update-june2016_ethiopia.pdf?file=1&type=node&id=5357, p. 10; EIF, Geneva 2016
[23] https://www.enhancedif.org/en/system/files/uploads/madagascar_dtisu_2015.pdf?file=1&type=node&id=4148, pg 68, section 216.
[24] https://www.enhancedif.org/en/system/files/uploads/madagascar_dtisu_2015.pdf?file=1&type=node&id=4148

- Uneven playing field, larger companies in **Export Processing Zones (EPZs)** have a major advantage over non-EPZ players as stated on page XII.

Tanzania

CRITERION	MENTIONED?	POLICY				INSTITUTION				ENTERPRISE				Comments
		1	2	3	4	1	2	3	4	1	2	3	4	
Warehousing and storing	yes			pg 50	pg 73			pg 50						
Electricity	yes				pg 96				pg 96					
IT and Telecom	yes				pg 44									
Transportation	yes				pg 140				pg 140					
Production inputs	yes			pg 76-77				pg 76-77				pg 76-77		
Processing the production inputs	yes			pg 57-77	pg 54									
Standard setting	yes				pg 69				pg 69-146					Commodity not directly mentioned
Quality Culture	yes		box 5.4				pg 60	pg 77						
Quality Infrastructure	yes								pg 38					Commodity not directly mentioned
Distribution System	yes			pg 76-77				pg 76-77						
Business linkages	yes			pg 76-77				pg 76-77						
Pricing mechanism	yes		box 5.4	pg 76-77			box 5.4	pg 76-77						
Investment Climate	yes				pg 54				pg 67-76				pg 54	Commodity not directly mentioned
Social Sustainability	no													
Resiliance to climate change*	yes				pg 46-149				pg 46					Commodity not directly mentioned

* = the ability of households to withstand natural catastrophes e.g. droughts (Micro-resilience of indexing resilience paper).

1: Cocoa	HS180100 (Cocoa Beans, whole or broken, raw or roasted)= $16,7m			data from ITC 2017
2:Coffee	HS090111 (Coffee excluding roasted or decaffeinated) = $124m	HS090190 (Coffee husk and skin) = $1m	HS090121 (Roasted Coffee) = $2m	
3: Cashew Nuts	HS080131 (Fresh or dried Cashew Nuts, in shell) = $530m	HS080132 (Fresh or dried Cashew Nuts, shelled) = $12,1m		
4: Overall				

Figure 17.DTIS Analysis, Grey for the 2005 DTIS, Orange for the 2017 Update, Red for both.

The 2017 **DTIS update** for Tanzania is the most comprehensive out of the three analysed for this study[25], it is the first time that an agricultural commodity - cashew nuts - is directly mentioned in the DTIS update regarding specific issues, constraints or policies. It reserves a section specifically for cashew nuts and highlights the main constraints along the supply chain of cashew nuts.

The cashew board of Tanzania (CBT) and its Warehouse Receipt System (WRS) launched in 2007, are at the core of this industry. However, there are concerns on whether they are having a positive impact. In addition, the price received by cashew farmers is reduced by high taxes, high cooperative operating costs and high export margins deducted by traders. In fact, farmers receive between 67-80% of the auction sale price, and it can get significantly lower if the cost of shipping from the warehouse to the port is included (57-65%).

In 2011, a diagnostic of Tanzania's Cashew Value Chain was published by UNIDO and Tanzania's Ministry of Industry and Trade. The study provides a more in-depth analysis of the Cashew Value Chain by deconstructing the whole chain and showcasing the actors involved. The DTIS update for Tanzania does not provide the same in-depth analysis for the value chain of **cashew nuts** and **coffee** and it does not provide any analysis at all on **cocoa**, which is not addressed at all in the entire document.

[25] http://documents.worldbank.org/curated/en/527091529931822621/pdf/TanzaniaDTIS-highRes-05.pdf

4. Global Value Chains / Global Supply Chains

The global supply and value chains of **Cocoa, Coffee** and **Cashew nuts** are somewhat different from one another, with each commodity undergoing different processes and steps to become the final product. Therefore, each one has a dedicated section to elaborate on its GSC/GVC.

Drawing on Gary Gereffi, (*1994) and* Gary Gereffi et al (2005) and focusing on the three agricultural commodities, the following observations can be made.

Cocoa

As previously mentioned in chapter 3, the value chain for Cocoa is characterized by a vertical and horizontal integration which took place over the last two decades. The **grinding process** produces cocoa powder that ultimately ends up being used in the production of chocolate or related products, this stage is highly concentrated and captured by 4 companies as shown by the figure below.

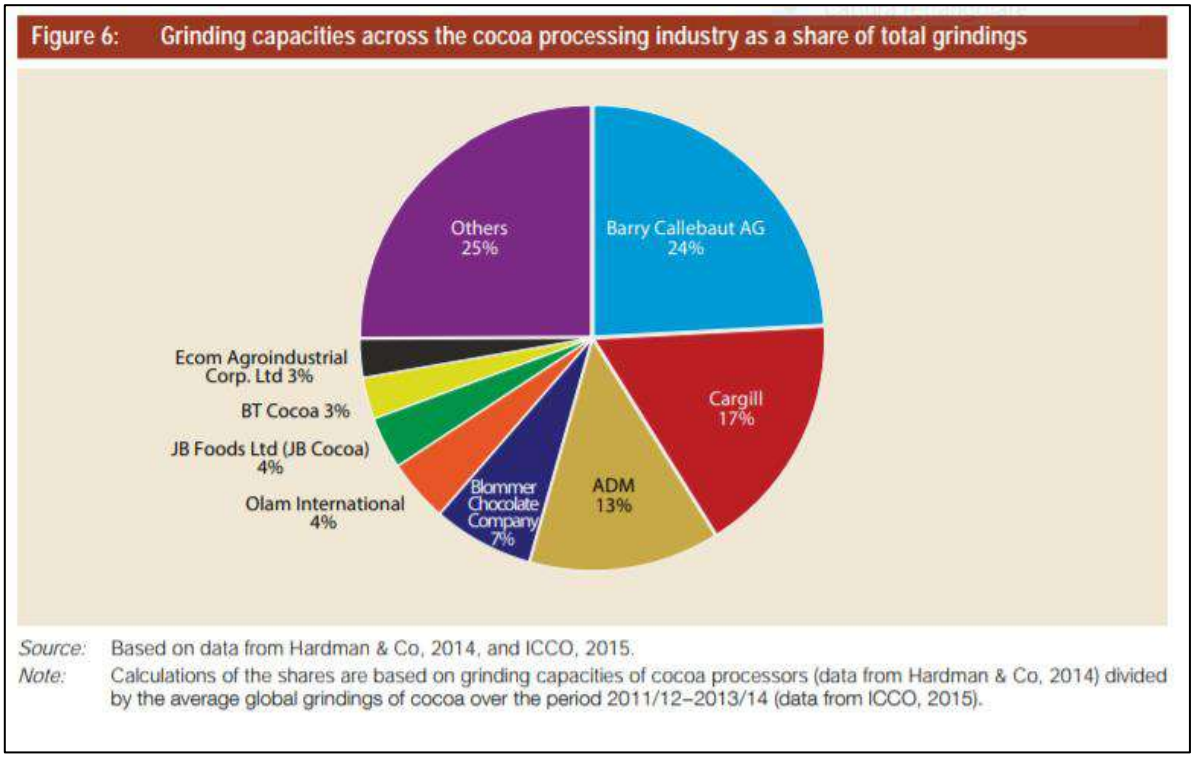


Figure 18. Source: UNCTAD

The grinding processes have traditionally been done in Europe and North America due to the presence of processing companies capable of meeting the market requirements. Nowadays, in stark contrast to the past, producing countries are more and more involved in the first stages of processing thanks to Government incentives and investments by national and transnational corporations in countries such as Ivory Coast, Ghana and Indonesia. Moreover, the development of local and regional markets for chocolate products in cocoa-growing areas in Africa and Asia offers investment opportunities for manufacturers, which contributes to retaining greater value added in these regions. However, the processing is usually undertaken by transnational corporations with a low involvement by local companies like in the instance of Ivory Coast where in 2014, the five leading grinders were either transnational corporations or their local subsidiaries, accounting for almost 58% of the country's grinding capacity. Therefore, much of the created value is captured by foreign investors. [26]

[26] UNCTAD "Cocoa Industry: Integrating small farmers into the global value chain", 2016

Some companies have extended down to the farm level, creating blurred boundaries between trading and processing companies. In the case of Archer Daniels Midland (ADM) and Cargill, they have diversified their business into grinding and producing cocoa powder, liquor and manufacturing chocolate in addition to trading.

Other companies such as Blommer Chocolate Company and Barry Callebaut used to process beans and produce semi-finished cocoa products. They are now involved in both sourcing beans and producing chocolate. In addition, Mars and Nestlé are following the same example, resulting in only a few companies remaining in one specific segment of the value chain. However, this concentration is restricted to the value chain side. Regarding the supply segment, it still remains fragmented among scattered smallholders creating a scenario in which a large number of sellers have only a few numbers of buyers resulting in weak bargaining power. It is estimated that about 7% of the total value added to 1 ton of cocoa beans is kept by the farmers.

The Global Value Chain

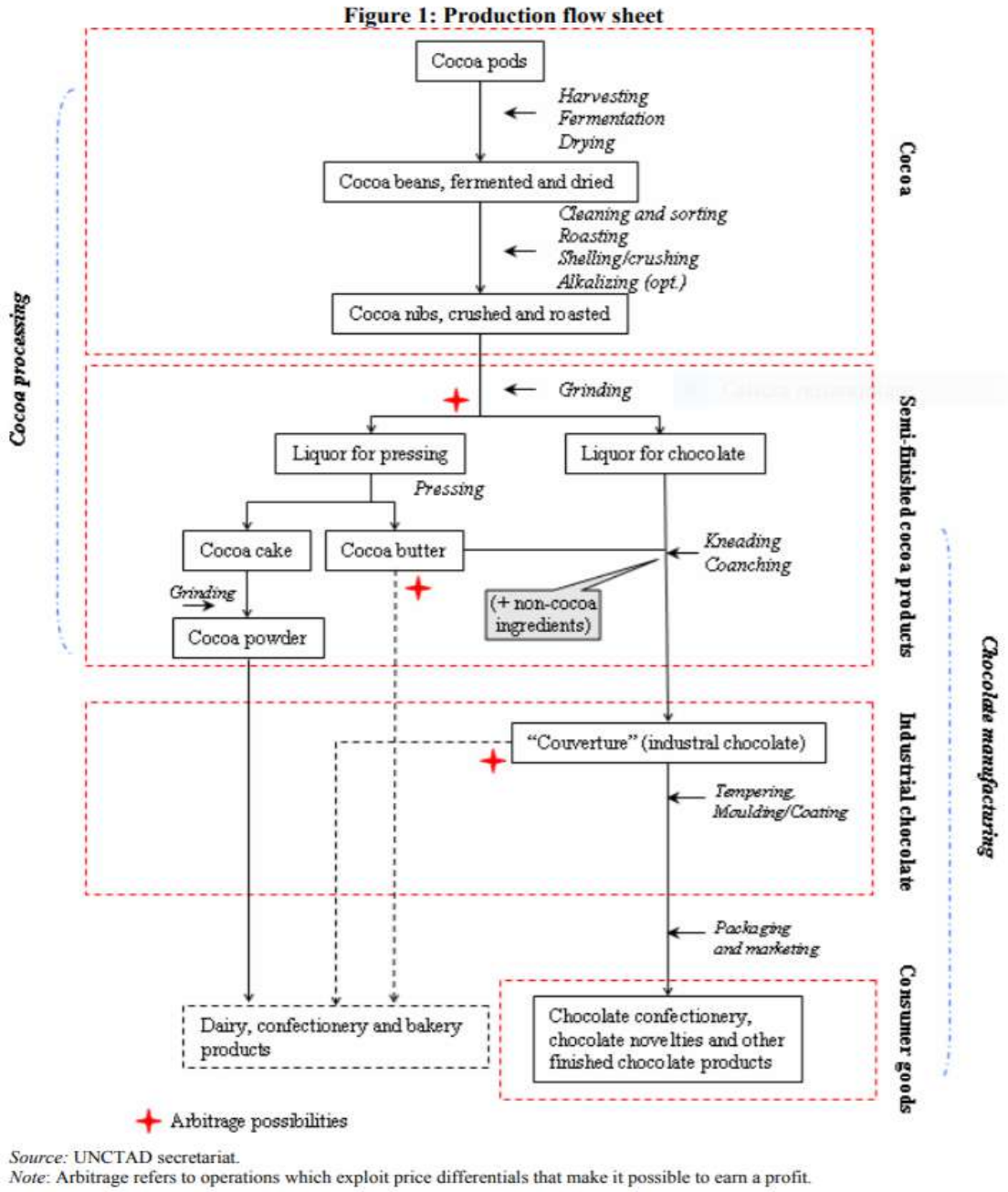
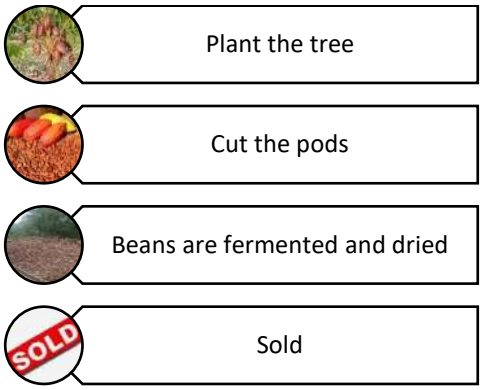


Figure 19.Cocoa Value Chain. Source: UNCTAD

Cocoa passes through the hand of three key players along the supply Chain, namely: **Farmers**, **local buyers** and **importing companies**.

FARMERS

- **After planting,** the tree generally takes 3-5 years to bear fruits, with one crop every 6 months (a main one and an intermediary).
- **Cutting the pods** to collect the beans.
- **Fermenting** the beans.
- **Drying** the beans.
- **Selling** the beans by the farmers to either National boards, or directly to traders and brokers. [27]

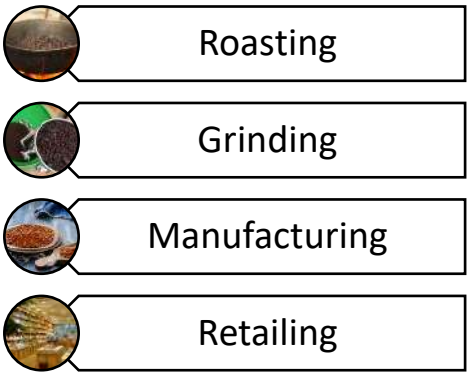


LOCAL BUYER

Beans are bought from local farmers and sold to exporting companies.

IMPORTING COMPANY (Nowadays, the producing Country is more involved in processing than in the past)

- **Roasting**.
- **Grinding.**
- **Manufacturing.**
- **Retailing.**



[27] UNCTAD "Cocoa Industry: Integrating small farmers into the global value chain".

Current pricing

The pricing of cocoa beans is listed below on Figure 2. The prices refer to beans which have not been roasted or undergone any manufacturing process beyond farm gates. The terminal market prices represent the basic commodity before any manufacturing has taken place, and as such they are the base prices for the sector of bulk cocoa in the market.[28]

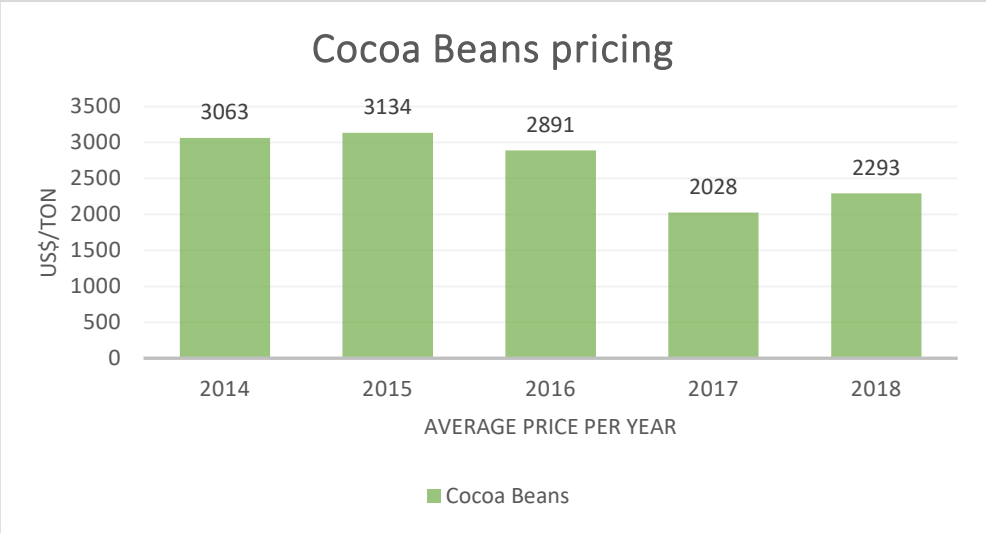


Figure 20. Average price of Cocoa beans per year. Source: International Cocoa Organization

Coffee

The **Global value chain** for Coffee is characterized by a complex system of stakeholders involved in growing, picking, processing, trading, storing, roasting, brewing, and selling. Overall, the chain could be divided into three segments as showcased in *Figure 4*, moreover, coffee passes through four major entities in the global coffee market: Farmers, international traders, roasters and retailers. In addition, small-scale producers make up for 70% of the total production of coffee.

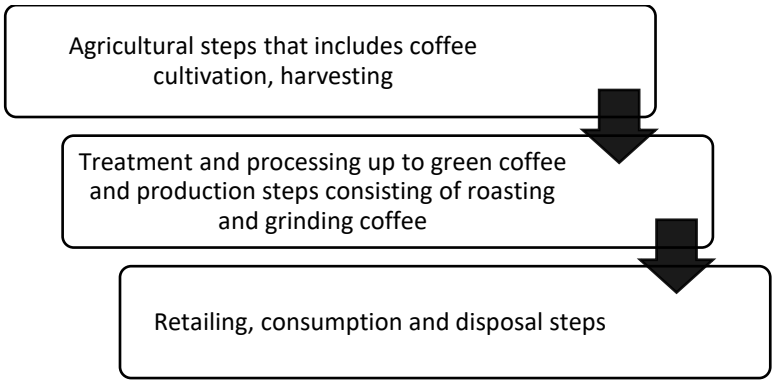


Figure 21. Summary of the Coffee Value Chain. Source: UNCTAD

[28] International Cocoa Organization (ICCO)

In more detail, the main steps are as follows:

After primary and secondary processing, over 80% of **green coffee** is internationally traded by different private agents such as dealers, brokers, specialized traders/exporters etc. The processes after that, especially roasting, are highly concentrated into the hands of few actors.

As of 2016, almost 50% of **coffee trading companies** are owned or controlled by 8 companies, namely: Neumann (12%), Ecom (9%), Olam (7%), EDF Man-Volcafe (6%), Louis Dreyfus (6%), Noble (4%), Sucafina (3%) and Coex (2%).

In regard to **Roasters** and **Manufacturers**, JDE and Nestlé have the biggest market share with 13% and 11% respectively, close to a fourth of the global market. Together with the other major players (JM Smucker, Elite-Strauss, Tchibo, Starbucks and Lavazza) they control almost 40% of the total market share as showcased in Figure 5. [29]

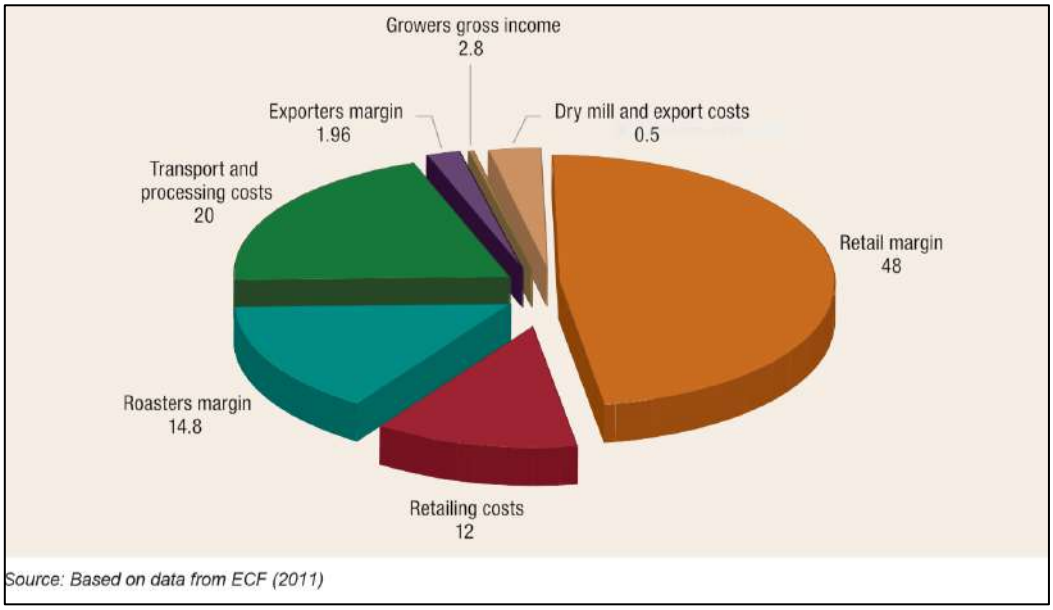


Figure 22. Ethiopian Speciality Coffee, Distribution of Value (2011). Source: UNCTAD

[29] UNCTAD "Commodities at a glance. Special issue on coffee in East Africa", 2018

Situation in Ethiopia

Ethiopia has set up a **Commodity Exchange Platform** (ECX) in 2008 with a public-private partnership. It is a good example of a functioning multi-commodity exchange in Africa and it provides trust and transparency through market data dissemination, clearly defined rules of trading, warehousing, payments, delivery and dispute settlement.

Current pricing

The price of coffee is subjected to a few variables, namely: the type (Robusta, Arabica etc) and the level of added-value (green coffee beans, roasted beans etc). For instance, the prices of **Arabica coffee** are showcased in Figure 6 and highlight the volatility of the price of certain agricultural commodities, with small producers ultimately bearing the burden of price drops.

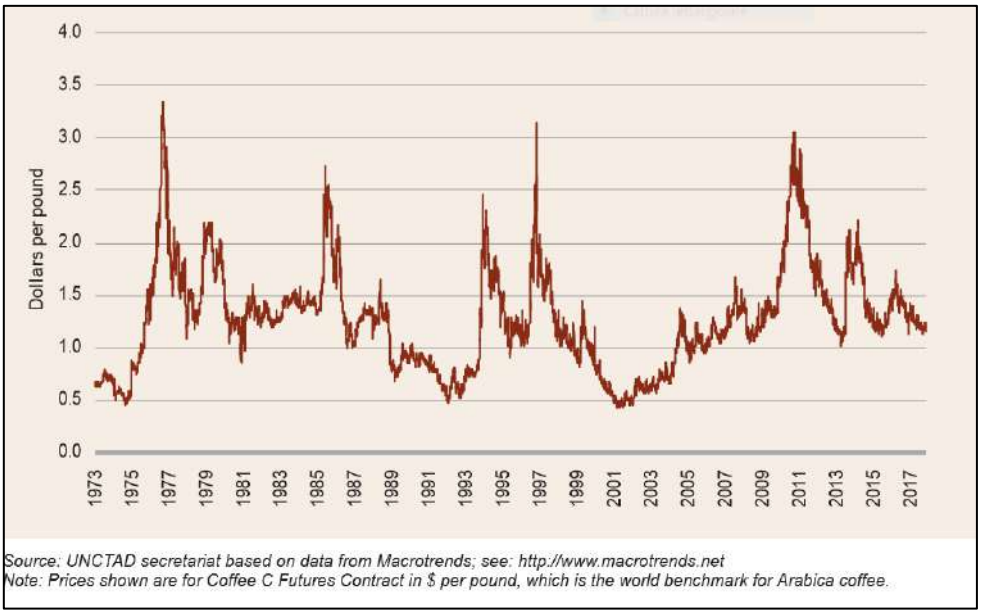


Figure 23. Coffee price. Source: UNCTAD

Cashew nuts

Unlike the other commodities, this section focuses primarily on Tanzania's cashew value chain, given the in-depth analysis provided by the 2011 UNIDO study[30], according to which the primary **actors** involved in the value chain are:

- Farmers;
- Primary Cooperatives Societies (PCSs);
- Regional Cooperative unions;
- Processors;
- Exporters;
- Roasters;
- Retailers.

The entire **processing** of raw cashew nuts is showcased in Figure 7, the image refers specifically to Tanzania's cashew value chain according to the 2011 UNIDO study.[31]

[30] UNIDO "Tanzania's Cashew Value Chain: a diagnostic", 2011
[31] UNIDO "Tanzania's Cashew Value Chain: a diagnostic", 2011

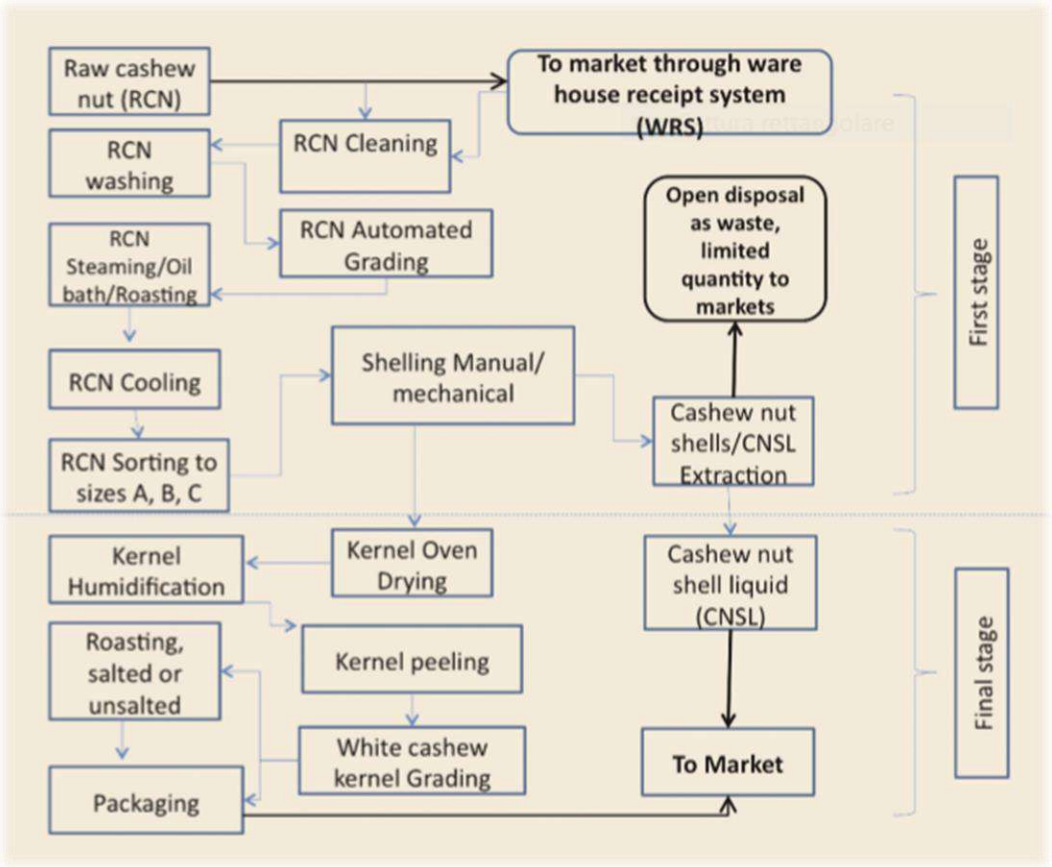
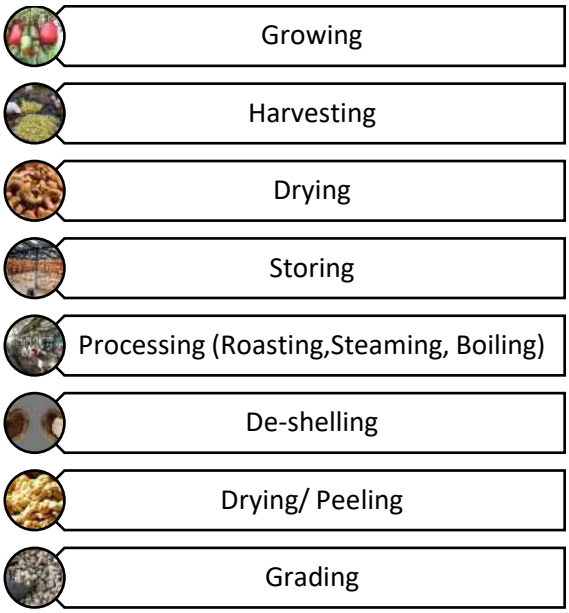


Figure 24. Cashew nuts processing flow. Source UNIDO

To summarize, the process is as follows:



In Tanzania, raw cashew nuts are sold through auctioning to end-buyer and can either remain in the domestic market or be destined for export. Around 10% of total cashew production is used for domestic consumption while the rest is exported[32]. In addition, around 40% are processed domestically. The processing of raw

[32] http://www.fao.org/3/a-i5041e.pdf

cashew nuts becomes profitable due to economies of scale; at small volumes the cost structure limits its profitability.

5. GAP Analysis

The DTIS is a document intended to provide Least Developed Countries with an in-depth trade analysis, highlight trade constraints to export development and advise on key measures that could help achieve that goal. DTISs should, therefore, provide guidelines on the development of more efficient and effective value and supply chains; given the export-commodity dependence of LDCs.

Social and environmental dimension

In contrast to the 2009 UNDP study, **social and environmental dimensions** have been added to the analysis. This dimension tends to be overlooked in a trade analysis given its debatable lack of importance at the macro-economic level, therefore, it is present in this GAP analysis.

The three DTIS provide little to no mention of **climate change** nor on the impact that climate change might have on the three countries. Crops are particularly vulnerable to bad weather, longer drought and unpredictable rain patterns are certain to affect the ones who are economically dependent on agricultural commodities.

The DTIS update for **Tanzania** is the only one that reports actions taken by the State in form of a National Climate Change Strategy which was launched in 2012 to strengthen the resilience of the agriculture sector and cope with variations in rainfall and temperature. The DTIS also stresses the need for regional integration as a crucial strategy to cope with climate change.

Regarding **labour conditions** and **living wage/income**, there are little to no mention in any of the 3 DTIS, marking the lack of an overall social dimension to the trade analysis.

Value Chains Analysis

The methodology for this analysis expands upon the one used on chapter 3 to evaluate the policies in place for the generic steps of supply and value chains.

In this instance, each process that coffee, cocoa and cashew nuts go through is laid out in the DTIS matrices. Evaluating the trade and development, each country can use three criteria to choose from. Depending on how the DTIS addresses the specific steps, the category “to some degree” indicates that the step has been at least discussed in some way, even at a rather basic level.

Coffee

Figure 25. Comparison between Coffee GVC and provisions in the DTIS update

The DTIS update for **Ethiopia** does address coffee given its importance for the overall economy, food security and source of income for many households, however, as Figure 1 shows there are no specific policies to help in the value addition process (e.g. Box 11.1). Constraints are mentioned but few practical solutions are given for the supply chain. Regarding the **grading** process for instance, a coordination has been mentioned between ministries on page 47, however, the bottom end of the value chain (farmers) are left to figure out a way to be better involved in this process. The same story holds for the **roasting** process which is extremely important for coffee because it adds the majority of the value of the final product. In addition, the presence of bottlenecks for the export of coffee is mentioned but not expanded upon.

The DTIS update for **Madagascar** only addresses **storage**, by discussing the village-based warehousing *"grenier commun villageois"* (GCV) which has actually been undermined by government intervention leading to significant losses. The growing of coffee is barely mentioned; the variety of coffee produced and the quantity need further explanations to address the issue of how the production might be improved and supported.

In the DTIS update for **Tanzania** there is a section on the limitations on export marketing regarding coffee[33] but it only regards the Tanzania Coffee Board (TCB). Therefore, it does not expand upon the issue of how farmers could grow quality coffee to match the required standards.

Overall, there is too little information and space given to ground level issues regarding the entire coffee supply and value chain, as shown in chapter 3 and further illustrated by figure 1.

Cocoa

Figure 26.DTIS provisions for the Coca Value Chain

[33] 2017 DTIS update, Tanzania, page 60, box 5.4

As Figure 2 shows, not a single match was found in the related matrix. Considering the fact that cocoa is much more important in West Africa in countries such as Ivory Coast and Ghana, it is somewhat understandable that cocoa is not given much space in the DTIS analysed but it is quite peculiar how the two DTIS of **Madagascar** and **Tanzania**, which both produce and export cocoa, barely mention this commodity at all.

Cashew nuts

	ETHIOPIA			MADAGASCAR			TANZANIA		
	Yes	To some degree	No	Yes	To some degree	No	Yes	To some degree	No
Growing									
Harvesting									
Drying									
Storing									
Processing (Roasting, Steaming, Boiling)									
De-shelling									
Drying/Peeling									
Granding									
Transportation									
Production input									

Figure 27.DTIS provisions for the Cashew nuts Value Chain

Overall, the DTIS update for **Tanzania** does a somewhat better job at addressing the cashew nut value chain as figure 3 shows, however, something is still missing regarding the ground floor of the value chain. Generally speaking, farmers and small players alike are still left out while room is given to macroeconomic issues such as tariffs and economic constraints. Notwithstanding their importance they don't discuss the perspective of the people involved at the low level of the value chain.

Regarding **storing,** the Cashew Nut Board of Tanzania (CBT) launched the Warehouse Receipt System in 2007 and is mentioned in the DTIS update, however, the focus of the analysis is not on the small producers of cashew nuts and no practical solutions are provided for the people in need of storage which prevents them from selling directly after harvesting which could lead to a potential increase in revenues.

Given the importance of the cashew nuts market to Tanzania's economy and to the over 300.000 smallholders who grow cashew nuts, it is surprising how little space is given to the provisions to help these smallholders improve their income and living conditions.

6. Suggested improvements to the new DTISs

Following this analysis, and to summarise our findings, the following main elements can be discerned:

1. Although the DTIS improvements undertaken under the EWIF (as compared to the IF DTISs) have attempted to address **GVC/GSCs**, our analysis indicates that they fall short; both in depth and scope. The DTISs have provided limited advice on how to address the export-market/player concentration, the fragmentation of producers of agro-commodities in LDCs, the potential sources for financing quality/processing/transport upgrades, lobby for improvements of standards in importing countries… etc.

2. Our study also shows that - despite the clear importance of macroeconomic policies, FTAs and preferential market access for LDCs such as the EBA (Everything-But-Arms)[34] - there is a discrepancy between the theory and the reality of the countries. For instance, the existence of **preferential market access** – while undeniably relevant – cannot, by itself, allow a doubling of LDCs exports on their own.

3. The three DTISs provide little to no mention about **climate change** nor on the impact that might have on the three countries. Climate change and natural disasters are important risk factors for LDCs and should be covered and discussed by the DTIS which cover their situation.

4. Regarding **labour conditions** and **living wage/income**, there are little to no mentions in any of the 3 DTIS, marking the lack of an overall social dimension to the trade analysis a serious shortcoming. It must be appreciated that advice on overall social and economic coherence in planning is an important role for DTIS (and DTIS-type documents like PRSPs) are supposed to provide.

5. Although the three DTISs produced in favour of three LDCs under the EIF have, in general, guided the beneficiaries towards ways to develop their international trade, they have not – in general – addressed **trade in its relationship with the SDGs,** and particularly SDG 17.11. It has also been apparent that these three DTISs have not attempted to guide LDCs towards achieving other SDG goals through their trade strategy formulation.

6. Although the three DTISs, the 2009 UNDP study and our current work address the detail of GVC/GSCs in varying degrees, the fact that they have not been written by **professional practitioners of trade** in these three agricultural commodities tends to render their advice as more policy oriented. Decision-makers in LDCs developing production and export strategies of their agricultural commodities are advised to draw on sector specific experts to deepen and to make their strategies more comprehensive and aligned to the development goals of the 2030 Agenda.

[34] https://trade.ec.europa.eu/tradehelp/everything-arms

7. Recommendations

There is no doubt that the EIF, and the DTISs and action matrices developed under them, are a big step in the right direction. The 2015 review of the EIF guidelines helps to improve the DTISs even further. Future improvement of the EIF guidelines are expected to provide a deeper and more detailed analysis of the domestic and external barriers facing LDCs in achieving their trade-development goals, strengthen the advice for LDCs regarding GSC/ GVCs of trade in their agricultural commodities and provide better inputs into their overall socio-economic development plans.

Having stated that, there is always room for improvements.

It is, therefore, recommended that all, or some, of the following be taken into account:

1. Better inter-agency coordination with respect to each agency's fortes is needed to improve the quality of 'improved' DTISs. Inputs should be sought and incorporated **from all the participating agencies** not only the one agency only which acted as consultant for the respective single LDC.
2. Given the importance of achieving higher trade performance **as well as** the SDGs, and since all EIF parties are also SDG partners, more should be done in the analysis and authorship of DTISs to link the two together. Trade development and SDG achievement should be mutually supportive.
3. DTISs should be more critical of the **out-of-border issues** that face LDCs in their quest to raise exports and incomes, and provide advice in this respect to the respective LDCs. This is particularly important as far as commodity GVC/GSCs are concerned, given that LDCs tend to trade mostly with northern partners who are in control of such chains.
4. Broadening the "**agency mix**" in the EIF could be one way to address some of the SDG-related shortcomings. Possible solutions would see the ILO and the regional UN Economic Commissions included in such "mix"; given their knowledge on their issues and regions.
5. Introducing the concept of **"peer reviews"** for the quality of DTISs in addressing some of the shortcomings in chapter 6. The review should take place before the DTISs are released, and be undertaken – at least in the parts relevant to GVC/GSCs - by a professional trade practitioner well-versed in the commodity under study.

8. Concluding remarks

If the global community genuinely wants to achieve SDG 17.11, the social and environmental dimension should be included since they directly affect the bottom line of supply chains. There is no such thing as an increase of export share without considering where the exported goods originate from. More broadly, to give greater attention to where people get their income from is to consider the real ground level.

Human Rights due diligence in Supply Chains should be another element to be taken in consideration if one accepts the view that a social dimension is part of basic understanding of trade and development. To disregard social and environmental aspects is wrong since it creates opportunistic and short-term ways to conduct business in a way that might offer short term moments of profit maximisation at the risk of unstained and hence failure prone business behaviour.

The need for due diligence of good governance, environmental and social (ESG) behaviour of companies from developed or emerging countries operating in LDCs is indispensable given the weaker position of LDCs when dealing with multinational corporations in their territory. Recently, it has been found that there are still cases of businesses not complying with the UN Guiding Principles[35] such as the Cocoa Supply Chain especially regarding tracking and remediation[36].

With reference to labour conditions, the ILO called for a collective action by brand manufacturers in order to respect decent work conditions for the wide community of farmers [37]. On the same report it is showcased, through the example of coffee from Colombia, that the local production can be the right choice compared to industrial production since a growing number of consumers are willing to pay a premium for responsibly sourced products.

Intra-African trade has been growing in the last few years, but it is still characterized by small and isolated markets, in addition, the establishment of the Regional Economic Communities (RECs) has resulted in overlapping memberships and seems to complicate trade relationships[38]. These issues could be overcome with the implementation of the African Continental Free Trade Agreement (AfCFTA) whose framework agreement was signed in 2018 by 44 African Countries and should be considered for further updates of the DTISs. The AfCTFA could allow for the creation and the prosperity of Regional Value Chains (RVCs) and help achieve SDG 17.11, However, the doubling of the share of LDCs in world exports doesn't necessarily imply a fair sharing of the profits along supply chains. Equitable sharing of profits along GSC/GVC should be included in an assessment of trade and development of LDCs and could take as an example the profit-sharing principles of the Nagoya Protocol.

[35] https://www.ohchr.org/documents/publications/GuidingprinciplesBusinesshr_eN.pdf
[36] ICI, "Human rights due diligence in supply chains" 2019 (https://cocoainitiative.org/wp-content/uploads/2019/10/HRDD-Report_ICI_Final.pdf)
[37] https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---lab_admin/documents/publication/wcms_593280.pdf
[38] https://unctad.org/en/PublicationsLibrary/ditctab2019d3_en.pdf

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"Sur quoi la fondera-t-il l'économie du monde qu'il veut gouverner? Sera-ce sur le caprice de chaque particulier? Quelle confusion! Sera-ce sur la justice? Il l'ignore."

Pascal

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