United Nations Conference on Trade and Development

8th GLOBAL COMMODITIES FORUM

23-24 April 2018, Geneva

Opening Remarks

By

Ms. Arancha González
Executive Director, ITC

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

23 Apr. 2018

Address by ITC Executive Director at the UNCTAD Global Commodities Forum

Speech delivered by ITC Executive Director Arancha González at the UNCTAD Global Commodities Forum: "Building Skills for Sustainable Development"
23 April 2018, Geneva, Switzerland (SOURCE: ITC News)

Secretary-General Kituyi
Distinguished fellow panellists,
Ladies and gentlemen,

To set the scene for my remarks today I would like to share with you an anecdote from ITC's work in Africa.

Late in 2017, an ITC team travelled to a commodity dependent country to undertake consultations on how to create economic opportunities through trade at home and at the same time reduce irregular migration, taking the "back way" as they call it. The country wanted to find ways to match the needs of employers with unemployed young people from communities around the mines. The team met with mining companies in the capital but also visited their rural operations - which are the major employers in the area- local SME managers, young people and entrepreneurs.

The mining companies expressed frustration in their sourcing efforts from local suppliers because the quality was poor and the supply chains poorly structured. Their CSR efforts were stalled and they continued to import almost all services and goods. Producers and small businesses questioned the benefits from the mines in their day-to-day life. They complained of being abandoned because government support for new infrastructure was all focused on routes from the mine to the capital and the port. The scores of youth, including University graduates, spoke of unemployment, lack of opportunity and despair and 90% of them said they were seriously considering irregular migration.

This experience brings out many of the challenges I see in our work every day that arise from and which reinforces commodity dependency.

Supply and demand are mismatched. Value chains and infrastructure are oriented to commodity exports and limited value is added or retained. There is a chronic lack of dialogue and understanding among the parties. Add to this major barriers to diversification that affect many markets such as cumbersome and non-transparent export procedures, lack of market knowledge and low levels of policy integration, and you have a recipe for continued dependency. Underlying this is a lack of skills-the focus of this Forum.

Our challenge is to create comprehensive solutions

UNCTAD research shows what we have all seen in the field: commodity dependency can have a negative impact on human development and the causes driving commodity dependency are structural. Achieving the United Nations Sustainable Development Goals in many of the countries that are already starting form a low economic base, will in many ways depend on solving commodity dependency.

Our challenge will be to find comprehensive solutions that address the structural issues behind commodity dependency while addressing many of the visible issues that cannot wait, such as irregular migration in the case I mention. I want to focus my remarks on a subject that is core to ITC's mandate: trade diversification with a strong focus on MSME development. I would propose a solution to diversification built around four main elements:

• The first is to close the skills gap using approaches that combine building opportunity, with building employability and entrepreneurship, for men and women alike;

• The second is look at value addition and value chain development from a novel approach, following the principle that there is "no such thing as just a commodity" and focusing on creating added value and supporting diversification-especially with MSMEs.

• Third, in support of skills development and value addition, we need to ensure access to better trade information and greater transparency in supply chains.

• Finally, I will mention the opportunity presented by better trade integration, which is why I am so hopeful about progress made by African leaders towards the creation of a Continental Africa Free Trade Agreement.

Closing the Skills Gap

We need to put in place market driven approaches to closing the Skills Gap.

A study by McKinsey in 2012 identified a secondary and vocational skills gap of almost 50 million workers. Despite widespread improvements in basic education, enrolment in secondary and tertiary education remains low and some TVET systems do not attract youth due to their poor image. They also do not attract companies because often the curricula are disconnected from the real needs of industry. Analysis on labour demand and supply in developing countries consistently show the co-existence of high unemployment and shortages of skilled labor. This is what we have seen in our work on the ground.

At ITC we have begun to employ a three-fold approach to closing this skills gap around trade and value chain development:

• Raise the top line and create jobs through helping MSMEs grow their businesses, add new value and employ more workers in traditional sectors such as agribusiness but also in non-traditional sectors such as outsourcing.

• Support entrepreneurship through a wide range of assistance that matches skills with mentorship, mini-grants and industry partnerships; and

• Work on creating medium term linkages between TVET and industry and bringing real needs of industry to the forefront.

For ITC, it was an important evolution that we be “market agnostic” so that we focus on creating new jobs in regional and local markets and not just on export value chains to developed markets, which has often been the sole focus of export led growth.

Embedded in this process is private sector partnership. But most of the enterprises are names you have never heard of. These are the MSMEs that create 70% of new jobs worldwide. In The Gambia, for instance, these range from ground nut processors, to exporters of horticulture products, to outsourcing companies who are developing knowledge jobs.

Building skills, employability and entrepreneurship for women is a key component of this process

We have all heard the enormous potential empowering women can have for the global economy. With SheTrades ITC has been building hundreds of partnerships across the world to support women entrepreneurs to build skills and to connect to networks.

SheTrades already has commitments from partners to connect 1 million women to market reflecting the growing recognition across the world of the importance of economic empowerment of women. By 2021 we want these commitments to reach 3 million women. Just last week I was in London to launch a new partnership with UK DFID: SheTrades Commonwealth, to bring skills and networks combined with markets and new investment to thousands of women entrepreneurs in countries across the Commonwealth.

In looking at new approaches to value addition and value chain development, a key part will be addressing the commodity mentality through differentiation and generating more value

Commodity producers typically retain a small fraction of the value added of their produce. Even starting from distinctive varieties of commodities such as tea or coffee, studies show that producers retain as little as 3% of the final consumer price. Retail channels typically account for 40% of the value added, while importers also receive a similar share. The share of value retained by the producer can be increased through innovative distribution models, enabled by digital communications and e-commerce.

ITC is increasingly working on the principle there is “no such thing as a commodity”. All producers can focus on value, can find ways to differentiate and can build closer relationships with the customers that drive value. Just one example:

In a pilot with women coffee growers in Rwanda, we supported exports of raw coffee into Europe to be roasted, ground and packaged under contract. The resulting coffee, sealed in eco-friendly Nespresso compatible capsules was marketed online through e-bay and distributed direct to consumers through DHL. By retaining ownership the coffee farmers earn a price equivalent to 25 times what they could earn at the farm gate.

This inverted global value chain – starting from the producers, leveraging outsourced business services to sell in developed markets is possible on a bigger scale.

Digital communication technologies also increasingly enable farmers and cooperatives to search for and contract with service providers in developed markets. New marketplaces such as “Bean Auction”, a platform for coffee auctions, link international buyers to producers and have the potential to disintermediate the role played by exporters and importers. The challenge will be to capacitate groups of producers to understand and protect the value of their produce, and collaborate on fulfilling international logistics requirements. The value of branding – and IP protection including trademarks – is also evident. By building market-side awareness of the distinctive nature of their produce, the producers are able to command higher price premiums.

At the country level, we believe through Alliances, public and private sectors can build value chains to increase value added and support diversification

We have heard many commodity dependent developing countries have value chains built for low value addition, and in agricultural sectors especially, on mono-cropping. In many cases, development work has focused on improving existing value chains focused on one crop and one market. We believe there is huge potential in creating Alliances of the local public and private sectors, development partners and international buyers in focusing on developing new multi-market / multi-product approaches that support diversification and increased value addition.

Hand in hand with skills building and diversification is the need to provide better trade information and more transparent value chains

ITC’s surveys that “information transparency issues” are among the main obstacles to trade, especially for MSMEs. Challenges range from a lack of understanding of opportunities for product diversification, barriers to finding new markets for existing products and poor understanding of opaque trade facilitation processes. This is especially acute for new markets and non-traditional products that commodity dependent countries need to diversify. Compounding this is a lack of transparency in export value chains, for instance in pricing, that gives an inordinate amount of leverage to downstream actors such as traders. ITC’s tools are providing solutions to some of these issues. Sustainability map allows producers to manage their own data and have better visibility on supply chains; while our collaboration with WTO and UNCTAD to build a one-stop-shop on trade information for MSMEs: the Global Trade Helpdesk.

Finally, as we are in Geneva, I need to mention the case for better trade integration.

In this era of talk of trade wars, it is important to point out that strengthening rather than weakening the rules based trading system, and supporting trade integration, is also a big part of the solution to commodity dependency.

As we know, Sub-Saharan Africa is particularly prone to commodity dependency: 57% of exports are in commodities. This disproportionate dependency on commodities goes hand-in-hand with low intra-regional trade with only 13% of total exports going to other African markets. Mismatching supply and demand, cumbersome and non-transparent export procedures, and lack of market intelligence partly explains why this share is lower than in other major regions around the world.

New higher-ambition agreements such as the recently launched Continental Free Trade Agreement that go beyond tariffs to include NTMs, movement of people, trade facilitation and other areas can open up new markets, reduce cost and create huge opportunities for regional value chain development. Tapping into regional export opportunities by overcoming these frictions and putting in place adequate measures to leverage on the expected GDP growth would make an additional $18.3 billion of intra-African trade possible, according to ITC data. This also has implications for employment. In Ghana for instance, ITC analysis shows that exhausting the regional trade potential could create at least 45,000 additional jobs, more than half of which for women.

I have argued here for a holistic approach built around four points: skills, value chain development, more transparency and better trade integration. There are of course other important ingredients such as smart fiscal policy, good governance, social protection and long-term human capital development.

Perhaps as important as what we do, is the way we do it. Here SDG 17 is critical. Through the last five years, we have been breaking down barriers to create teams crossing agency, public-private and regional silos to create multi-stakeholder platforms including with our UN colleagues. This has not always been easy, but we see huge benefits. Partnerships amongst ourselves and with actors on the ground will be the way forward.

Thanks you for your attention.