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Regional Value Chains in East Africa

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Trade, FDI & Regional Value Chains Workshop

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Recap of Some Key Messages

- The external sector can be a powerful catalyst of **structural change**
 - Successful firms in East Africa crucially *connected* to the external sector (whether through exports or imports)
- **Services** as a vehicle to promote exports and boost the competitiveness of other sectors
 - Services such as finance, transport and business services as intermediate inputs ('backbone') in value chains.
- Value creation & upgradation through **participation in GVCs**:
 - Backward linkages (know-how and technology transfer) -> **Escalation of domestic production quality and capabilities.**

GVC Analysis can be used to identify the potential for expanding exports & upgrading into higher value-added positions in a chain.

Higher participation in RVCs facilitated by EAC & COMESA (specialization)

Duke CGGC Project focussed on 3 priority sectors: **maize, dairy** and **tourism**

- **Goal:** Understand the structure of regional value chains (RVCs) in selected industries and identify opportunities to upgrade firm capabilities.
- Studies focus on **6 key elements:**
 - Value Chain Mapping
 - Geographic Scope
 - Governance Structure: Lead Firms & Industrial Organization
 - Local Institutional Context
 - Industry Stakeholders
 - Upgrading

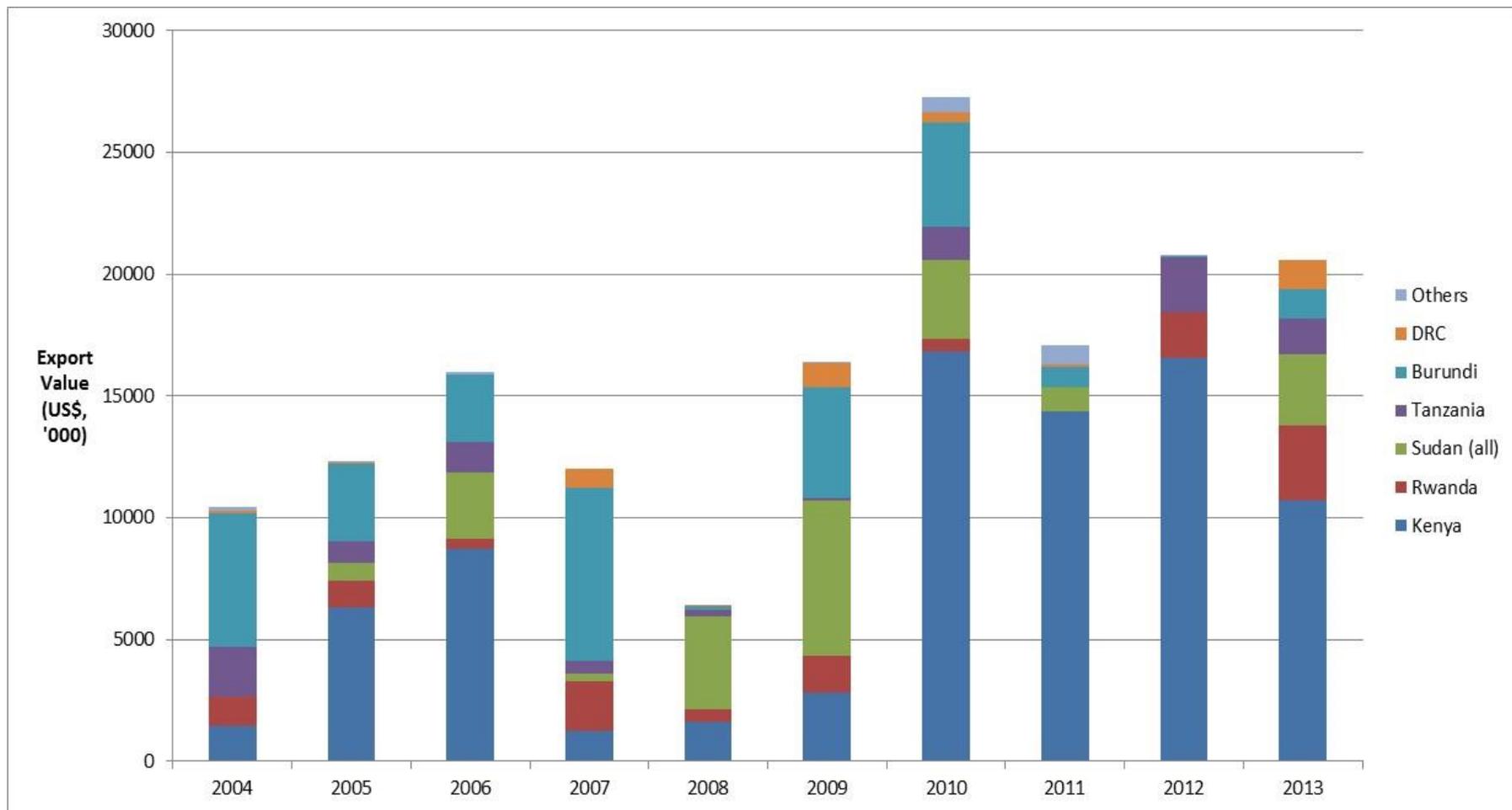
Regional Trade in the EAC

From Commodities to Speciality Niches in RVCs?

Variable	Maize	Dairy Processing	Tourism
Primary Orientation	— Regional	— Domestic	— Global
Individual Country Profiles	<ul style="list-style-type: none"> — Kenya: Major consumer — Uganda: Large producer and exporter of maize — Rwanda: Small exporter of maize flour 	<ul style="list-style-type: none"> — Kenya: Major consumer and exporter — Uganda: Low-cost producer and exporter — Rwanda: Small exporter 	<ul style="list-style-type: none"> — Kenya: Major supplier of safari products to global markets — Uganda: Gorilla tourism, ecotourism — Rwanda: Luxury gorilla tourism & emerging MICE sector
Significant of Informal Market	— High	— High	— Low
Regional Characteristics	<ul style="list-style-type: none"> — High volume of informal trade — Low quality in selected markets 	<ul style="list-style-type: none"> — Domestic oriented industries — Low consumption of dairy products 	<ul style="list-style-type: none"> — Reliance on foreign visitors — Prominence of package booking distribution channel

Maize Value Chain in Uganda

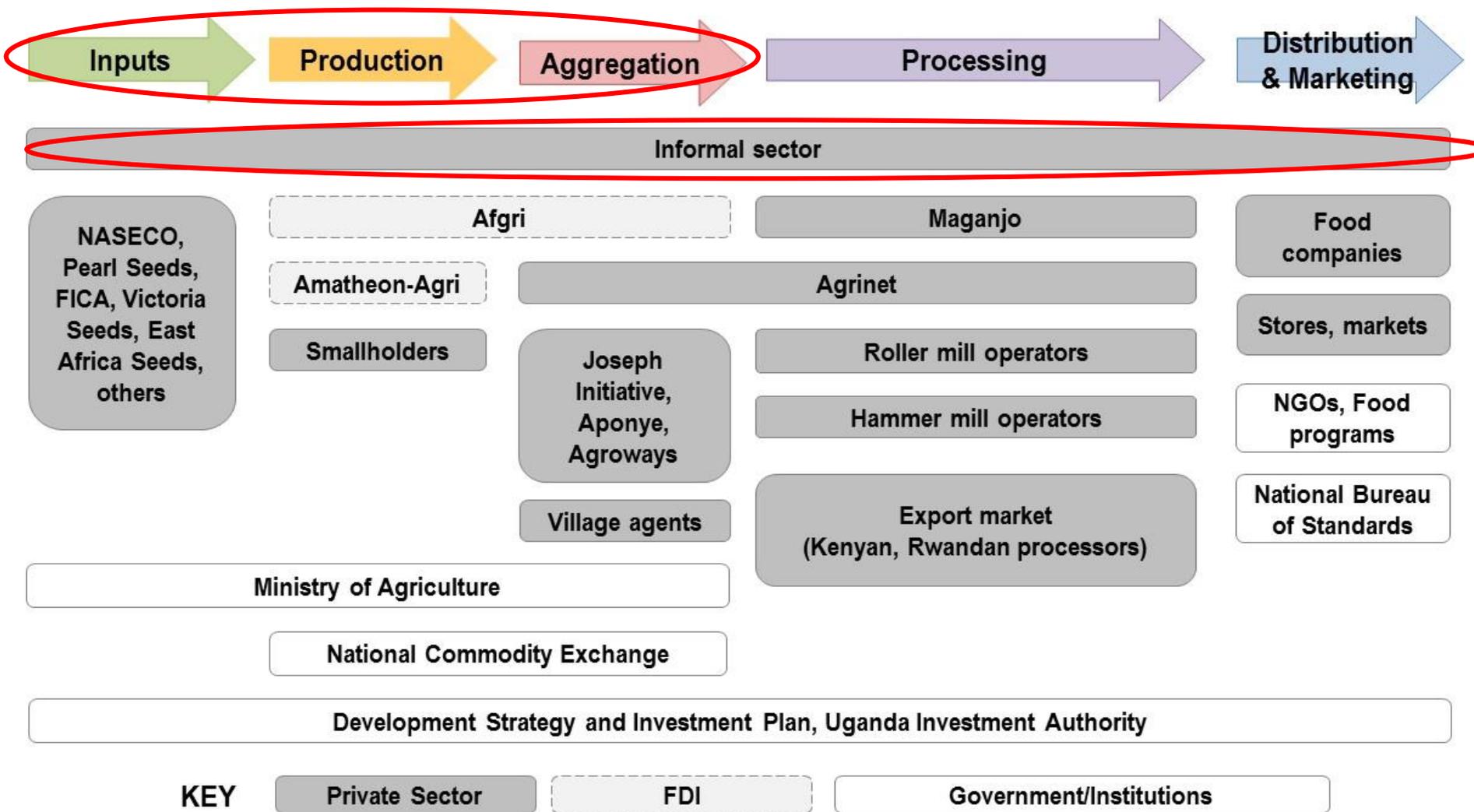
Increased Exports to Kenyan Processors





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Maize Value Chain in Uganda





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Challenges & Barriers to Upgrading

3 fundamental constraints: limited access to finance, lack of scale & lack of communication of market signals & standards -> poor quality maize.

Other constraints to competitiveness of the maize industry:

- **High levels of segregation within private sector:** reduced communication of market signals; misalignment of incentives.
- **Limited implementation of government programs (DSIP)**
- **Low compliance capacity for maize standards** (incentives & enforcement)
- **Poor Quality of Infrastructure, high transport costs & NTBs**

Svensson et. al (2015) highlights the critical need to address constraints in the upstream segments of the maize VC in Uganda (input quality, storage conditions)



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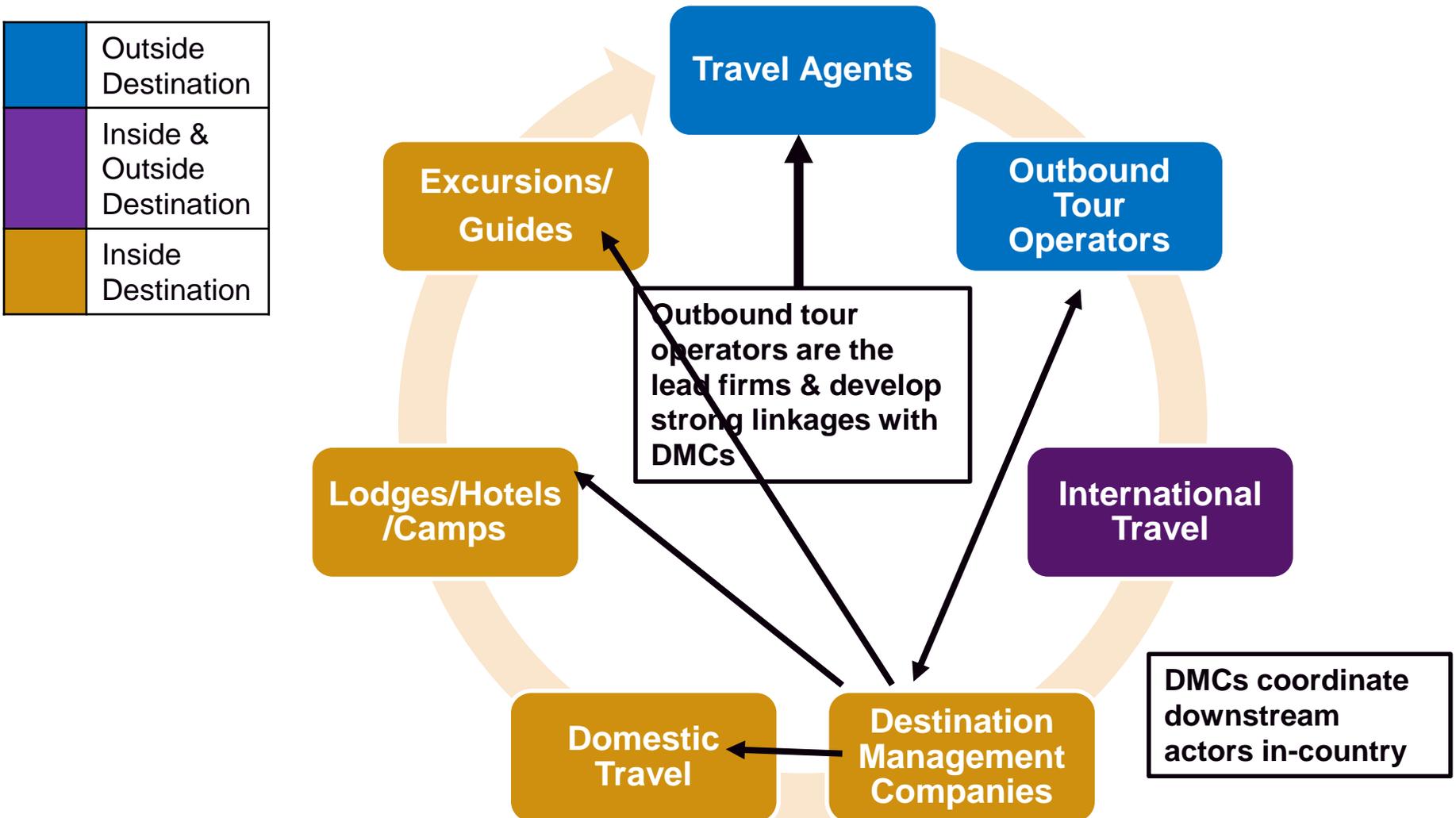
The Tourism Value Chain in Uganda

- Tourism as a leading **service export** from Uganda
- **Actors**—consumers, distribution intermediaries, and service providers
- **Distribution intermediary** segment of the chain critical for linking global businesses with domestic actors (upgrading potential)
- **3 separate value chains:** leisure, business, and conference
 - North America and Europe are **key source markets** for Uganda's leisure tourism products
 - Need for a **formalized conference sector:** reliance on service providers
- **Focus on leisure tourism chain in Uganda:**
 - Low domestic demand-> **dependence of local firms** on global tour operators for clients
 - Lead firms (DIs) in GVCs help to access markets & eliminate trust deficits.



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The Leisure Tourism GVC



Source: Gereffi (2015)

Leisure Tourism Chain

Example of Product Upgrading in Rwanda



Barriers to Regional Integration in Tourism

- **Quality of Road & Air Infrastructure**
 - Cost of accessing national parks; Investor incentives
- **Control or management of tourism attractions**
 - Concessions to elite businesses around national parks in Uganda
- **Regulating markets such as aviation** (domestic & regional markets)
- **Setting quality, training, and environmental standards**
 - Establishment of common classification standards in the EAC
- **Developing border policy**
 - Common EAC visa (Tanzania) & cost of trading goods
- **Stimulating tourism demand and investment**
 - Funding shortfalls & discordant approaches to management of tourist attractions (regional investment barrier)



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Priority Recommendations

Variable	Maize	Tourism
Potential Future Upgrading Trajectories	<ul style="list-style-type: none">• Process upgrading to improve quality of maize and increased adherence to EAC standards	<ul style="list-style-type: none">• Process upgrading to facilitate stronger links between domestic and global distribution intermediaries
Priority Recommendations	<ul style="list-style-type: none">• Target interventions addressing seed, scale and aggregation constraints• Increase certification capacity at production and aggregation segments of chain• Evaluate appropriate legal frameworks and engage in conversations with stakeholders	<ul style="list-style-type: none">• Tailor promotional content to address key deficiencies• Maintain initiative to implement classification certifications for service providers• Create regional development and infrastructure fund

Conclusion

Potential for further regional integration

- Progress toward regional integration however, implementation progress hindered by weaknesses in each RVC
 - Low domestic & regional demand in tourism
 - Productive capability constraints & informality in maize & dairy
- Need for EAC countries to work together as a “regional block” to exploit the potential of each sector (border policy, NTBs)
- EAC countries can also pursue joint regional investment promotion strategies to ensure FDI provides an effective vehicle to develop capabilities
- Addressing capabilities gaps is crucial to for integration of local producers in supply chains of the emerging lead regional firms

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