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South-South Ideas

Trade and Investment Capacity Building through South-South Cooperation: Lessons from Supporting Indian Trade and Investment for Africa

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Abbreviations and Acronyms

ITC	International Trade Centre
SITA	Supporting Indian Trade and Investment for Africa
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Executive Summary

South-South trade and investment are recognized as integral to achieving the Sustainable Development Goals. This is partly due to their growing contribution to the global economy. South-South trade almost doubled between 2007 and 2018 (UNCTAD, 2018). According to some estimations, by 2025, one third of global Foreign Direct Investment outflows will be generated by companies from the global South (UNCTAD, 2018).

While the outlook for South-South trade and investment is positive on the macro-level, many firms in the global South are unable to access new market opportunities, whether in Northern or Southern markets, due to a series of challenges. These challenges include limitations in market access, underdeveloped infrastructure, government red tape, inadequate productive capacities and the absence of appropriate technologies in the manufacturing and agri-processing sectors. In general, growth in the global South remains uneven and is primarily led by emerging economies such as Brazil, China and India and Russia. Supply side constraints impede many small- and medium-sized firms, especially those in smaller economies, from benefiting from global trade and investment.

It has long been suggested that the gains associated with participating in South-South trade and investment include opportunities for firms to progress along the value chain and allows diversification of end-market risks. Most significantly is the opportunity for transfer of appropriate, affordable and adaptable technologies to Southern countries from emerging markets that have faced similar developmental challenges in the last decade. There are also opportunities for learning about appropriate solutions and approaches from the global South through South-South Cooperation modalities and instruments.

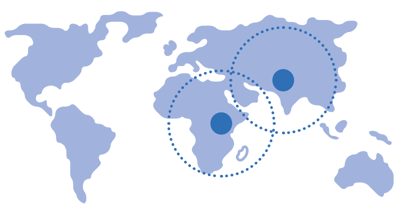
Through an analysis of interventions under the International Trade Centre's initiative Supporting Indian Trade and Investment for Africa (SITA), this report will show how knowledge and technology transfer through South-South cooperation can build productive capacities and contribute to the economic transformation of specific areas in light-manufacturing and agribusiness sectors. While there is an abundance of literature detailing analysis of policy-level capacity-building initiatives for trade and investment, the scope of this report is limited to lessons learned from capacity building initiatives undertaken at the institutional and enterprise levels.

In section one, this report examines the latest trends in South-South trade and investment and impediments to it. In section two, the report studies, through a short literature review, the rationale for aid for trade programmes, such as SITA, especially in relation to capacity building for trade and investment. Section three identifies advantages of South-South trade and investment. Section four examines four capacity-building initiatives undertaken by SITA: 1) training for spice cultivation in Ethiopia and Rwanda; 2) institutional strengthening in the sunflower oil sectors of Tanzania and Uganda; 3) investment promotion among small- and medium-sized enterprises; and 4) support for craftsmen in Ethiopia's handloom sector.

Each case study outlines lessons learned from these South-South cooperation capacity-building initiatives, with a particular focus on small- and medium-sized enterprises and small-holder farmers. The report highlights the critical role played by development projects in building linkages between institutions and businesses in the global South for the purposes of trade and investment. Ultimately, development projects in this area can only demonstrate the possibilities for learning and adaptation in a South-South context. National ownership and buy-in from key stakeholders are required for sustainability of initiatives and for progress toward long-term structural transformation.

1. South-South Trade and Investment: Key Trends and Impediments

Despite recent growth, South-South trade and investment continues to be impeded by both hard and soft constraints. Hard constraints include the underdevelopment of physical infrastructure required for trade (e.g. roads, ports, telecoms and rail networks), while among soft constraints are productive and operational capacities of firms, lack of information on investment and trade opportunities and incentives, perceptions of risk, high debt, underdeveloped financial sectors (leading to limited access to private and public funds) and the absence of targeted services to facilitate trade and investment growth (IDS and ITC seminar, 2020). The South-South trade and investment programmes of the International Trade Centre primarily focus on addressing soft constraints.



Investments between Indian and East African partners are not unidirectional: Kenyan, Ugandan and Tanzanian firms also invested in India to the tune of US$22.1 million, $7.1 million and $3.4 million from 2000 to 2016.

That South-South trade and investment has not reached its full potential is made apparent by UNCTAD's *World Investment Report 2019*. The report highlights that while South-South trade and investment is growing, the share of total South-South investment flows to total global investment decreases by 22 percent when the ultimate investment country is taken into account (UNCTAD, 2019). This means that while investment might be flowing from the South into the South, many Southern investors are headquartered in Northern markets. Countries like Mauritius and Singapore, for example, are well known as stable economies where Northern companies first establish themselves with the goal of later expanding regionally. Furthermore, the report concludes that while the rise of investment in developing economies from emerging markets like China and India is still an important trend in global investment flows, South-South investment may take longer than initially projected to re-shape the global production landscape.

Zeroing in on SITA's partner countries, recent literature examining trade and investment flows between India and East Africa finds that from 2008 to 2016 countries in Africa received 21 percent of India's outward Foreign Direct Investment flows. This could be a result of the India-Africa Forum Summits, first held in 2008, which reflect the region's increased importance to India. In 2008, in its efforts to promote trade relationships with the global South, India extended a Duty-Free Tariff Preference scheme to 31 Least Developing Countries, 21 of which were African. Still, only 11 firms account for approximately 80 percent of all total Indian investment flows to Africa (Saha, Bontadini and Cowan, forthcoming), corroborating the argument that there is a greater capacity for India-Africa trade and investment. According to the forthcoming Saha, Bontadini and Cowan study, "... while Indian businesses and government financing have a greater capacity for foreign direct investment, East Africa could equally play a crucial role, both as a beneficiary and a partner." Indeed, investments between Indian and East African partners are not unidirectional: Kenyan, Ugandan and Tanzanian firms also invested in India to the tune of US$22.1 million, $7.1 million and $3.4 million from 2000 to 2016 (EXIM Bank of India, 2017). Investments in East Africa have mainly been concentrated in the agri-processing, floriculture and services sectors (Saha, Bontadini and Cowan, forthcoming).

Information Asymmetry: Why Southern Solutions Are Still Invisible

Historically, Southern solutions, knowledge and technologies have not been particularly visible or widely shared in the global South. Even though Southern technologies, solutions and approaches are not necessarily more advantageous, Southern corporations have not always been offered appropriate alternatives from the global South, lending to the argument that South-South, peer-to-peer exchanges sometimes require external facilitation.

Chambers of commerce, commercial attachés and bilateral development agencies from Northern countries have dedicated sections and people that promote technologies from their countries. In Southern countries, sector associations, for example, are rarely as organized and certainly less financed. In addition, the companies and technologies that get promoted are rarely geared towards the bottom of the pyramid and to challenges faced by underserved communities, which is where low-cost innovative solutions would be most interesting. Development projects can make a difference in bringing appropriate solutions to users who would otherwise never be exposed.

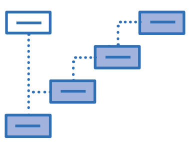
2. The Case for Capacity Building Through Aid for Trade Initiatives

Over the last decade, academic literature has built the case for capacity building through Aid for Trade initiatives. Most analysis on Aid for Trade centres on the World Trade Organization (WTO)-led Aid for Trade initiative, which was conceived during the organization's Hong Kong Ministerial Conference in 2005. The vision behind the Aid for Trade initiative was to tackle supply-side constraints faced by developing countries and Least Developed Countries. Skills development and technology transfer were seen by the initiative as essential to building productive capacity. An analysis of various Aid for Trade capacity-building initiatives identified the following determinants of a programme's success: country ownership, partnerships with other governments or development agencies, consolidated support (rather than piecemeal support) and a focus on specific issues or sectors. The study refers to an Enhanced Integrated Framework project implemented in Vanuatu which provided support for the reconstruction of seaside infrastructure. The government managed to leverage funding from the government of New Zealand showing the importance of country ownership, partnerships, consolidated support and a focus on specific issues (Adhikari, 2019). Arguably these characteristics have also determined the success of some of the International Trade Centre's capacity-building initiatives outlined in this report.

The vision behind the Aid for Trade initiative was to tackle supply-side constraints faced by developing countries and Least Developed Countries. Skills development and technology transfer were seen by the initiative as essential to building productive capacity.

A study found that since its launch, over $400 billion in Aid for Trade support was disbursed between 2006 to 2017, a quarter of which went to Least Developed Countries (Adhikari, 2019). Even more promising is the finding that Aid for Trade can promote investment and, in particular, the type of aid that promotes investment is usually directed toward improving infrastructure and building productive capacity. In fact, from 2003 to 2013, it was found that a ten percent increase in bilateral aid for trade translated into 25 additional greenfield projects per year in recipient countries (Lee and Ries, 2016). The study focused on North-South bilateral aid for trade with donors including France, Germany, Japan, the United Kingdom and the United States. However, the results could be pertinent to South-South trade and investment given the tremendous growth of emerging markets such as China and India, the growing importance of regional value chains and rising trade protectionist measures among Northern markets, which means that emerging economies are likely to become top global donors in the years ahead (IDS and ITC Seminar, 2020).

3. South-South Trade and Investment Benefits Small- and Medium-Sized Enterprises



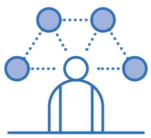
South-South value chains can serve as an important steppingstone for firms to build up their competitiveness to successfully enter and participate in international markets.

A 2019 joint report by the International Trade Centre and the policy research institute Research for Information System for Developing Countries, *The Power of International Value Chains in the Global South*, found that firms extracted 10 percent more value from participating in South-South value chains and engaged in activities of higher value added (Mohanty, Franssen and Saha, 2019). The analysis, based on data gathered from more than 500 East African firms, also found that firms that exported to the South hired more skilled workers, that up to 74 percent of workers in South-South companies had at least a secondary education and 48 percent had a specific diploma or university degree. Furthermore, it was found that activities for South-South value chains tended to be more complex, of greater value added and required more skilled workers. The overall implication is that South-South value chains can serve as an important steppingstone for firms to build up their competitiveness to successfully enter and participate in international markets. Firms can increase their bargaining power in global value chains by engaging in activities of higher value added, allowing them to reap further internationalization gains. The report highlighted a case story from Lesotho's apparel sector in which South African-owned firms produced more diverse and technical products which led to increased competitiveness as compared to other foreign-owned apparel companies in the country (Mohanty, Franssen and Saha, 2019).

South-South investment is a key tool for firms from emerging markets to prepare to expand into Northern economies. A first step in international expansion for these firms is to establish themselves in more familiar Southern environments and then later expand into more complex markets, otherwise known as a "stepping-stone" strategy (Stephenson and Perea, 2018). Despite the advantages of South-South trade and investment linkages, few firms are aware of the opportunities for learning and technology transfer that can be achieved through these value chains. Indeed, some academics argue that South-South trade in technology (such as parts and components and machinery for agri-processing) is increasing as Southern technologies are more appropriate for the development context and capacities in developing countries. Through the SITA initiative, for an example, a Tanzanian small- and medium-sized enterprise imported drying technology from India to process cardamom, achieving the green hue which is associated with the spice in international markets, allowing the business not only to access international markets but to charge higher prices (Voices of SITA, 2020). Businesses in developing countries import more affordable capital goods from Southern markets leading to a massive shift in the structure of trade. (IDS and ITC Seminar, 2020).

Other gains of South-South cooperation include institutional similarity, which is a driver of enhanced trade and investment. Lower institutional distance often translates to familiarity with ways of doing business in a host country that has a direct impact on how transaction costs are perceived leading to greater trade and investment (Saha, O'Flynn and Barnes, forthcoming). According to the Aleksynyka and Havrylchyk study (2011), geographic distance may have a negative impact on investment flows, while a common border, language or history (e.g. history of colonialism) can have positive results in foreign direct investment.

Literature on South-South trade and investment suggests that investments in human capital, international trade openness and interactions with foreign firms leads to higher levels of productivity growth via knowledge spillover (Hanlin and Kaplinsky, 2016; Saha, Guariso, Castro and Shepherd, 2019). In fact, South-South trade and investment promotion offers exchanges of technology and knowledge that is diverse from linear, traditional conceptions of technology transfer (De Marchi, Giuliani and Rabellotti, 2018; Saha, Thorpe, Flynn and Bucher, forthcoming 2020) through mechanisms such as: mutual learning from face-to-face interactions; training of the local workforce undertaken by lead companies; knowledge transfer in a narrow range of tasks; value chain pressure to adopt international standards; learning by hiring of skilled managers from other countries or through joint ventures; firm clustering, such as through sector associations; and imitation or learning through suppliers (within or out of the country).



Literature on South-South trade and investment suggests that investments in human capital, international trade openness and interactions with foreign firms leads to higher levels of productivity growth via knowledge spillover.

According to the study, knowledge exchange is not likely to be uniform as it is unique to the requirements of the business. Furthermore, the intensity of engagement of multinational firms in the value chain increases when these firms adapt their technology to local contexts (World Bank, 2020). South-South value chains can build capacities of businesses and institutions. However, it is not enough to encourage trade and investment solely for the purposes of capacity building, as in many cases, capacity must first be built for companies to access international opportunities.

A World Bank working paper focusing more broadly on global value chains also highlights the importance of innovation and capacity building. As global value chains account for 70 percent of global trade (IDS and ITC Seminar, 2020), some of the analysis from the study can be applied to South-South value chains. The working paper shows that country capacities and productivity remain critical to decisions by foreign investors and lead firms considering locations for investment and outsourcing (Cattaneo et al., 2013). With the shift in demand to emerging markets, lead firms need to engage in "reverse innovation" where they innovate in Southern countries, solve their specific needs and bring the results back home, thereby contributing to boosting the target country's exports (Govindarajan and Trimble, 2013).

The working paper lists policy objectives toward fostering innovation and building capacity, including through education and training to match domestic skills with international standards, development of hard and soft capacities in trade-oriented sectors and changes in production toward more efficient and sustainable use of natural resources (Cattaneo et al., 2013). For example, Rwanda's National Skills Development and Employment Promotion Strategy includes educational reform that embraces competence-based curriculum, including problem-solving skills, creativity and innovation. Another example is the Garment Manufacturers Association in Cambodia that took the lead in establishing the country's first vocational centre to upgrade the skills of local workers to match international standards to achieve higher wages. Countries like Bangladesh, India, Indonesia and Sri Lanka also have dedicated national skills development agencies that aim to upgrade skills to international standards in collaboration with local industry. Workforce development and innovation are identified as primary elements of competitiveness, ability to participate in global value chains and ability to upgrade within global value chains (Saha, Flynn and Barnes, Forthcoming; World Bank, 2020).The World Bank working paper argues that while local education systems may not provide the range of skills required by global value chains, actors such as firms (e.g. investors), sector associations, non-governmental organizations and development programmes can fill this gap by providing skills required by global value chains (Cattaneo et al., 2013).

Overall, the data and the literature indicate that South-South trade and investment is important for learning and upgrading. However, hard and soft constraints impede its growth, creating room for development agencies to undertake South-South trade and investment promotion activities, particularly in relation to capacity development initiatives as illustrated through the case studies discussed below.

4. Learning by Doing: Cases in Capacity Building From Supporting Indian Trade and Investment for Africa

About Supporting Indian Trade and Investment for Africa (SITA)

SITA builds partnerships between Indian and East African businesses and institutions to increase and diversify exports from East Africa and to attract investment to promote sustainable economic development in the region.

Supporting Indian Trade and Investment for Africa (SITA) is a project funded by the United Kingdom's Foreign, Commonwealth and Development Office and implemented by the International Trade Centre, a joint agency of the United Nations and the World Trade Organization. SITA builds partnerships between Indian and East African businesses and institutions to increase and diversify exports from East Africa and to attract investment to promote sustainable economic development in the region. SITA works in two sectors – light manufacturing (namely leather, textiles and apparel) and agribusiness (e.g. edible oils, spices, pulses). The project is taking place in Ethiopia, Kenya, Rwanda, Uganda and the United Republic of Tanzania. SITA's interventions focus on trade exposure and investment promotion. These are heavily complemented by skills and capacity development activities that allow companies to successfully access international markets and promote learning and technology transfer from India.

SITA is being conducted as a series of pilots, which lends themself well to testing and learning, ultimately contributing to a better understanding of capacity building for development in the South-South context. SITA has adopted a two-pronged approach to capacity building:

1. facilitating peer-to-peer learning and technology transfer from India; and

2. building skills through technical and financial management training (when necessary).

Several SITA capacity building initiatives are outlined in the following pages.

Case 1

Capacity Building at the Institutional Level: Sunflower Oil Sector Associations in Tanzania and Uganda[1]

Trade and investment support institutions, or sector associations, have an important role to play in strengthening the operating environment for businesses. These institutions provide vital services, such as the provision of data and up-to-date information on market conditions, advocacy and acting as a convener for knowledge exchange. However, the capacity of trade and investment support institutions is often inadequate in developing countries. This creates a high potential for developing countries to learn from emerging markets in which these institutions are more established.

As an example, both Tanzania and Uganda are significant producers of sunflower oil. However, in both countries the sector is beset by challenges. These include low yield, low levels of value addition due to a lack of appropriate technologies, few adequate sorting centres and a lack of information sharing among businesses operating in the sector. Other challenges include a lack of fertilizer leading to soil fertility degradation, limited access to financing and a lack of awareness and compliance with internationally recognized food safety standards. Strong sector associations in both countries could go a long way toward addressing the challenges faced by small- and medium-sized businesses in the sector.

Since 2016, SITA has been supporting capacity development of associations in the Tanzanian and Ugandan sunflower oil sector – the Tanzania Sunflower Processors Association (TASUPA) and the Ugandan Oilseeds Producers and Processors Association (UOSPA). The tool adopted by SITA was institutional strengthening through peer-to-peer exchange. SITA connected TASUPA and UOSPA with the Solvent Extractors' Association of India (SEA of India), a highly regarded Indian apex body for edible oil processing. ITC studied SEA of India's processes and concluded that it was a successful sector association, benchmarking it against the UK's Trade Association Forum (Doddrell and Goel,2018). Key attributes that have contributed to SEA of India's success include a financially stable business model, a broad-based membership from across the sector and country and a clear vision and purpose (Doddrell and Goel, 2018). Members valued the association's data gathering and dissemination activities, which they believe justified the membership fees. The type of data collected by SEA of India includes information on crop production, oil production, tariffs, international trends and prices. Equally valued are SEA of India's networking events and conferences as well as its work with farmers to increase yield, productivity and income. SEA of India is also highly respected by the government and media, allowing it to advocate effectively on behalf of its members.

After identifying SEA of India as a model institution, as well as establishing the characteristics of an effective sector association, SITA facilitated peer-to-peer learning between SEA of India, TASUPA and UOSPA. A range of activities were rolled out, including in-person workshops involving all three organizations and a study tour to India for the management teams of TASUPA and UOSPA. One example is a workshop organized in Mumbai in 2016 at the SEA of India offices, which centred on driving growth and membership revenues. In April 2018, SITA supported training on member engagement, results measurement and service monetization. SITA supplemented this training with tailored support to TASUPA and UOSPA, including support

1 Adapted from a case study developed under SITA; the source is a forthcoming ITC report.

to both organizations to strengthen their data and information sharing services. For example, TASUPA needed support to develop a website and UOSPA required support to launch an SMS platform.

According to an in-depth study undertaken by SITA (ITC, forthcoming), both TASUPA and UOSPA gave positive feedback about the engagement with SEA of India. It was reported that their on-going engagement was based on trust and resulted in learning on data collection and dissemination, governance and member engagement structures and lobbying practices. Through the peer-to-peer model and other capacity building interventions outlined above, both organizations identified financial autonomy as their long-term objective. While their knowledge of methods to increase revenue has increased, increasing revenues requires a longer time perspective as both organizations continue to build trust among their members. These methods include membership contributions but also others critical for organizations that are just starting to build capacity. For example, UOSPA registered a subsidiary to their organization allowing them to engage in commercial activities around seeds (import, multiplication and sale of seeds) as an alternative income source.

One indirect positive outcome of SITA's interventions in the sector is that Tanzania Sunflower Processors Association and Ugandan Oilseeds Producers and Processors Association reported learning from each other, not just from Solvent Extractors' Association of India.

Both organizations reported that their members established contacts with buyers as well as suppliers of machinery through SITA's international trade exposure activities. Several millers managed to upgrade their technologies through these contacts. UOSPA held its annual general meeting in 2019 and both organizations are slowly building capacity and credibility among their members and stakeholders. For example, TASUPA and UOSPA now enjoy improved recognition by key government stakeholders and both report better management practices. UOSPA has put in systems for improved data collection, including involving members in the exercise of collecting information from the government. TASUPA plans to undertake a needs assessment survey to develop services most relevant for their members.

One indirect positive outcome of SITA's interventions in the sector is that TASUPA and UOSPA reported learning from each other, not just from SEA of India. For example, TASUPA learned from UOSPA that clustering members around key locations simplifies member engagement. Furthermore, SEA of India also benefited from the collaboration from a branding standpoint as well as increased trade relationships for their members and better knowledge about opportunities in Tanzania and Uganda.

SITA's support for these institutional strengthening initiatives in Tanzania and Uganda revealed several lessons, as documented by an in-depth, follow-up case study (ITC, forthcoming). First, peer-to-peer learning works well in a South-South context. TASUPA and UOSPA learned from a country with a more mature edible oil sector, a country which itself had undergone the development process relatively recently. As a result, learning related to oil processing and refining technologies are appropriate and easily adaptable to the East African context. Both TASUPA and UOSPA were able to learn informally from Indian companies with living memory of business practices (e.g. using machinery that processed smaller volumes of oil) that were in use during an earlier developmental stage of the industry.

Second, peer-to-peer learning functions well when it is externally facilitated. This could be due to a lack of connections and awareness of the types of learning that are available.

Third, a key lesson (that is repeated throughout this report) is that some practices and skills are more easily transferable than others. TASUPA and UOSPA were able to learn practical new skills around lobbying, data collection and analysis. However, achieving SEA of India's identified characteristics of success, such as legitimacy and trust among all its stakeholders, is not easily achieved in a short time span.

Lastly, institutional strengthening through South-South peer-to-peer exchange can contribute to awareness-raising but may not automatically lead to change. Both East African organizations continue to face challenges, such as raising revenue, which limit their capacity to strengthen their services. Members may be aware of the need for the associations but will not pay membership fees until they deem the benefits to be worth the fees. Meanwhile, associations are unable to significantly improve their services without receiving higher fees. Further external support from government, financiers or funders may be required to achieve sustainable institutional change.

Case 2

Capacity Building at the Farmer and Enterprise Level: Spice Farmers in Ethiopia and Rwanda

SITA's interventions in the agribusiness sector demonstrate that capacity building for South-South trade and investment can take place beyond the traditional modalities of classroom learning and online training. Capacity building can involve such diverse tools as overcoming language barriers or exposure to international trade fairs. Through various initiatives, SITA supported the training of over 800 farmers in turmeric, ginger and chili cultivation in Ethiopia and Rwanda.

SITA's interventions in the East African spices sector provided some of the richest learning of how capacity building can be implemented to strengthen competitiveness in the agribusiness sector. SITA's interventions in the sector targeted three main outcomes. They were to:

- improve spice production in East Africa and address post-harvest handling failures through knowledge transfer from India;
- build business linkages with the Indian market; and
- support Indian companies to identify opportunities in the East African market.

India is one of the largest players in global spice production and trade, accounting for 18 percent of the global value of the spice trade (ITC, Trade Map, 2020). Yet the high volume of domestic demand, a growing global market and changing climatic conditions have motivated Indian spice companies to look for alternative sustainable sourcing destinations outside India.

Introducing chili production to Rwanda

In Rwanda, SITA's interventions in the spice sector primarily focused on chili cultivation. The gains for Rwanda are tangible – spices are high-value cash crops and chili cultivation can double farmer incomes if their main crops were previously maize or cassava, the latter of which do not require the same degree of consistent care and good agricultural practices. In 2016, SITA conducted a feasibility study on spice production in Rwanda and found that spice production could benefit the country economically. The study presented it to a select group of stakeholders, including Indian companies, Rwandan farmers, the Government of Rwanda and Rwanda's National Agricultural Export Development Board. Initially, one Indian company decided to engage in chili cultivation in Rwanda. The company was connected to eight farmers identified by Rwanda's National Agricultural Export Development Board and SITA. The Indian company and the farmers entered in a buy-back arrangement; this means that the Indian buyer agreed to purchase the entire harvest for the season. The farmers were provided with the seeds, a 'package of practice' and formal training by Indian agronomic experts.

The first harvest quickly revealed that traditional classroom training would not work for farmers, especially when introducing a new crop to a country. It was found that 85 percent of the cultivated chilies were not suitable for export to India, due to a variety of challenges including poor agricultural practices as farmers were not following the recommended package of practices. A new strategy was adopted for year two of the pilot. SITA supported five of the Rwandan farmers to travel to India to directly observe operations of some of the Indian buyer's contract farmers. Taking the farmers out of the classroom and supporting them to learn by "doing" had a discernible impact on the progress of cultivation. As is the nature of the agricultural sector, there were further setbacks due to changing weather patterns, but by the end of year five of implementation, five Indian companies had started chili cultivation in Rwanda. Acreage under cultivation had increased from four hectares in 2016 to 174 in 2020. According to a Business Reform Facility report, *Skills for Competitiveness: Lessons from the SITA (East Africa) Project*, "In the case of the spice market, SITA found that establishing communication between producers and buyers was a more effective form of practical 'peer-to-peer' learning than traditional 'classroom'-style approaches used elsewhere. Once producers were convinced of the potential of suppliers and made an initial investment, they were willing to invest in ongoing farmer training," (Hetherington, 2018). Peer-to-peer exchange also strengthened the buy-in and commitment of key actors farmers and investors alike.

Beyond training of farmers, the chili pilot also demonstrated the necessity to extend capacity building beyond just the farmer level to government bodies and other stakeholders.

Beyond training of farmers, the chili pilot also demonstrated the necessity to extend capacity building beyond just the farmer level to government bodies and other stakeholders. This learning is especially valid when a new crop is introduced to a country. Government representatives may have limited expertise with chili cultivation and would need to be aware of cultivation requirements (e.g. suitable land) so that they can play a role in identifying the right farmers for the project (ITC, forthcoming).

Improving turmeric production in Ethiopia

SITA's work in Ethiopia's turmeric sector revealed interesting learning. Work in this sector was primarily driven by demand of Indian spice producers on the hunt for new sourcing destinations of high-quality turmeric, which is defined by high curcumin content. Tests revealed that Ethiopian turmeric had a high curcumin content but that the crop lost much of its value due to poor post-harvest handling (Saha, Thorpe, O'Flynn and Bucher, 2020). The colour of the turmeric produced was also not the vibrant yellow prized by Indian and international buyers.

Understanding that improvements in boiling, drying and storing could help businesses in the sector avoid losses, SITA and the Tepi Spices Research Centre in Ethiopia facilitated training of trainers' sessions from 2017 to 2018. A total of 72 field trainers were trained in best agricultural practices for turmeric and ginger. The field trainers went on to train 3,000 spice farmers across the country. Improved boiling barrels and adapted storing and drying practices were introduced. Visual aids were used constructively in the training, including the dissemination of posters and pictorial leaflets at farmer field schools. The training of trainers followed an exposure visit to India in 2016 for training on good agricultural practices in turmeric farming in association with local sector associations and learning from best practices applied by Indian spice produces. Post-training surveys indicated that farmers that applied their learning and implemented better practices following the training of trainers were able to sell their turmeric at 60 percent above standard market prices.

Local and national ownership – and working with institutional partners – increased the chances of successful implementation, continuation of training and the sustainability of interventions.

An Indian spice company also started sourcing Ethiopian turmeric to process into dietary supplement tablets sold in Europe and the United States. According to a recent ITC report, *Designing for Impact: South-South trade and investment*, one of the key lessons from the pilot was that regions with strong cooperatives were able to implement better post-harvest practices and disseminate training effectively (Saha, Thorpe, O'Flynn and Bucher, 2020).

Similar to the chili case in Rwanda, it was found that training of farmers should be implemented sequentially. Training lead farmers first ensures their commitment leading to a quicker dissemination of best practices. Both the chili and turmeric cases found that local and national ownership – and working with institutional partners – increased the chances of successful implementation, continuation of training and the sustainability of interventions.

Not all South-South initiatives are replicable: The case of ginger cultivation in Ethiopia

As a high-risk sector, agricultural initiatives can offer the deepest learning on the feasibility of capacity building through South-South learning. One lesson from SITA's interventions is that not all knowledge from the global South can be applied successfully to local contexts. In 2011, an outbreak of bacterial wilt dramatically reduced ginger yields in Ethiopia; an estimated 80 percent of the ginger crop was destroyed. Exports dropped to just $4 million (Venuprasad, Ebrahimi and Ungerer, 2016). Nearly 80,000 farmers dependent on ginger cultivation were affected by the wilt and by a subsequent export ban on Ethiopian ginger.

In 2016, SITA supported the development of a value chain road map for the spices sector. During the consultations for the road map, Ethiopian stakeholders discussed the need for ginger rehabilitation and requested SITA's support (Saha, Thorpe, O'Flynn and Bucher, 2020). SITA drew from Indian expertise, where ginger farmers had solutions to manage the risk from bacterial wilt. First, SITA undertook a survey of bacterial wilt in Ethiopia and then organized a training for Ethiopian farmers and agronomists in South India. SITA supported the piloting of a tailored package of practices that had worked in India in partnership with a commercial farmer in one region of Ethiopia. The package of practices implemented in the demonstration plot involved new planting, ploughing and fungicide techniques.

Despite the close monitoring, the pilot crop due for harvest failed. Various reasons arose for the failure of a package of practices that had produced successful results in India, including differences in the quality of soil and other agricultural conditions and availability of inputs. Still, the pilot raised awareness of the plight of ginger farmers among policymakers leading to increased government support (e.g. the development of a 30-month ginger rehabilitation plan funded through national resources).

Some South-South interventions require adjustments: Experience in the pulses sector

Some interventions required simple solutions to translate to improved capacity for South-South trade. For example, in the pulses sector, miscommunication was an impediment to transacted deals in business-to-business meetings organized by SITA. Businesses from East Africa and India would refer to local names of the pulse varieties, often without realizing that they were talking about the same variety. A simple solution was devised in the form of a pulses dictionary, complete with visuals of each variety and the name in each language – Amharic, English, Hindi and Swahili. This dictionary was integral to bridging the communication gap and enabling trade.

Case 3

Capacity Building for South-South Investment: Investing in the Textile, Apparel and Leather Sectors in East Africa

Beyond trade, tailored capacity building interventions can facilitate South-South investment. While there is potential for higher investment flows between countries of the global South, investment is often impeded by a lack of information and misperceptions about the risks involved. Capacity building in South-South investment benefits from de-risking the process through such methods as providing information, like market intelligence reports, organizing business delegations to targeted investment destinations allowing potential investors to evaluate opportunities for themselves and providing contacts with relevant authorities. Capacity building initiatives may particularly be necessary for small- and medium-sized investment companies and first-time international investors.

Essential to capacity building for investment is the involvement of institutions, such as investment promotion organizations, from the beginning. For investment promotion in the light manufacturing sector (textiles, apparel and leather), SITA developed knowledge products, such as investment profiles, that highlighted general opportunities. For interested investors, a more specific list of frequently asked questions was drawn up based on the questions that the programme encountered from businesses (Saha, Thorpe, O'Flynn and Bucher, 2020).

One recent example of capacity building for investment comes from an Indian investment in Uganda's leather sector. In 2017, an Indian small- to medium-sized enterprise from Ambur, Tamil Nadu, in South India established Uganda's first shoe manufacturing unit. The Indian entrepreneur travelled to East Africa in November 2016 with a business delegation led by the All India Skin and Hide Tanners and Merchants Association. SITA worked with this sector association to facilitate the investment visit, during which they visited tanneries in Kenya, Tanzania and Uganda and met with stakeholders from the public and private sector. During that trip, the Indian entrepreneur decided to invest in Uganda. His decision was partly based on his familiarity with the quality and cost of Ugandan leather due to previous trading and sourcing relationships. Indeed, for many investors an established trading relationship can build a sense of comfort with the target market, later leading to a greenfield or brownfield investment. Like many governments in East Africa, the government of Uganda is actively trying to attract investors and offered a series of incentives to foreign investors. Presentations by Ugandan officials to the investment delegation raised the comfort level of the investor. The investor's long-term vision was to set up a leather finishing plant adjacent to the shoe factory to create a 100-percent Ugandan product for domestic and international markets, in line with the country's 'Buy Uganda, Build Uganda' policy (ITC, 2019).

As a first-time international investor and owner of a small- to medium-sized company, the Indian entrepreneur required more support than a bigger company that has more resources at hand. The first challenges revolved around establishing the location of the factory and understanding government rules and regulations related to foreign investments. The land in his preferred location was not immediately available so he had to temporarily rent a shed while applying for land allocation. The registration of his new company took longer than expected. Difficulties with import duty exemptions and investment incentives were revealed with the first shipment of machinery and accessories from India in November 2017 (ITC, 2019). Hiring and training of a new workforce in a foreign environment was also a challenge. The company has since trained over a hundred machine workers and hired 40 employees, 99 percent of whom are women. Labour retention, however, has been difficult. When the first sample production of footwear started in August 2018, marketability also proved a significant challenge due to pricing challenges in a country flooded with grey market imports and second-hand products. These issues delayed the commercial production of shoes (ITC, 2019).

Capacity building in this case meant supporting the investor to help him understand and navigate a new business environment. SITA played a support role in facilitating the investment by providing bespoke support to the investor including making introductions and facilitating communication with a number of government agencies, working with both government agencies and the investor to resolve challenges, assisting in determining a suitable location for the manufacturing facility and developing a business plan (ITC, 2019). This resulted also in some capacity building for local investment promotion agencies. As noted in ITC's guide, *Designing for Impact: South-South Trade and Investment*, in the Uganda case "continuous sector-specific investment targeting also allowed for the national investment agency to increase their understanding of the particular opportunities and needs of the industry and correspondingly, how to effectively promote Uganda's leather sector as an attractive investment destination" (Saha, Thorpe, O'Flynn and Bucher, 2020).

Case 4

Capacity Building in a Traditional Handicraft Sector: Handloom Weavers in Ethiopia

Capacity building can also mean strengthening the eco-system of a specific sector. From 2018 to 2020, SITA has been working in partnership with the Ethiopian Institute of Textile and Fashion Technology in Bahir Dar to strengthen the country's handloom sector through supporting knowledge and technology transfer from India. For example, an Indian foundation operating in the sector provided know-how through training programmes for Ethiopian weavers on good techniques in weaving and garmenting. The project also facilitated the import of modern looms from India – an example of introducing new technologies, as in Ethiopia the use of traditional handlooms known as 'flying-8 looms' still predominates.

Over 350,000 handloom weavers produce traditional Ethiopian clothing for both domestic and international markets. While consistent demand for traditional clothing ensures that the weavers continue to work, the sector is besieged by challenges including low productivity, limited mechanization, inadequate institutional support and high input costs. The potential for South-South learning in the sector is high given that these challenges are similar to those faced by many Indian weaving communities 30 years ago. So far, the handloom project has seen the formation of two social enterprises and a producer-owned company. Over 90 handloom artisans have been trained through the project in both technical skills (e.g. different weaving techniques, enhancing efficiency, using handloom shuttles, new design techniques) and soft skills (e.g. entrepreneurship, communication and interpersonal and problem-solving skills).

Let the user decide what is "appropriate" technology

An early lesson learned from the handloom project was that all technologies needed to be tested for their transferability and adaptability — and it became clear that the users needed to make this judgement call. The development world is littered with examples from both North-South and South-South projects in which technologies were introduced only to be left idle six months later whether because of a lack of spare parts or because the administration was too cumbersome for the given environment. It is an incorrect assumption that because a technology is used successfully in one Southern context it is automatically transferable to another southern country context. A problem arises when managers of development projects do not necessarily have the technical know-how to make an adequate assessment of what is an appropriate technology. Development projects and external facilitators should avoid filtering or pushing solutions and technologies; it is better to simply make options available. Final users are in a much better position to decide what works for them.

Across India there are numerous examples of non-conventional innovations, called *jugaad*,[2] as well as high-tech innovations from looms to shuttles to spinning wheels. However, numerous factors determine which ones are transferable and "appropriate" in an Ethiopian context. SITA facilitated the travel of four Ethiopian Master Weavers to Bangalore, India, where they were exposed to various types of loom technologies ranging from state of the art electronic Jaquard to simple modifications to regular looms (e.g. weft insertion devices, to improved shuttles). Based on these weavers' assessments, an initial selection of technologies was brought to Ethiopia for testing, adaptation and replication. It is much more likely that communities will accept new technologies and approaches to doing business if a select group of trusted individuals from within their own community has been involved in testing and adapting technologies for local usage and are able to speak first hand of the positive outcomes.

Role of development projects in testing new business solutions

The role of development projects should not just be limited to making new technologies and solutions known to stakeholders in other developing countries. Development projects can bring substantial added value to promoting South-South technology transfer by reducing the cost of trialling and adapting technologies for local stakeholders.

Businesses, especially micro-, small- and medium-sized enterprises, rarely have the resources to trial new technologies and new ways of doing business. Thus, many examples of South-South knowledge transfer remain limited to areas in which big business is able to invest or to cases of government-sponsored projects that are tied to the promotion of particular technologies. These can still lead to good results, but also frequently come with risks and ethical challenges while excluding large

2 Jugaad, a Hindi term, refers to a non-conventional, frugal innovation.

segments of the economy from potentially benefiting from South-South solutions. Development projects that support trial and error efforts can help micro-, small- and medium-sized enterprises reduce their risk.

SITA's handloom project is an example in which all solutions being trialled are new to the Ethiopian context and inspired to some degree by India. Examples include:

Development projects that support trial and error efforts can help micro-, small- and medium-sized enterprises reduce their risk.

- testing appropriate technology and machinery, like the amber charkha spinning technology, new types of looms, etc.;
- developing markets by testing modern styles of clothing for the domestic market made from locally handwoven fabric (in a market in which almost everyone wears Turkish/Chinese shirts and traditional Netelas, Camise and Gabis); and
- introducing new business models to the country, like a 'yarn bank' that addresses input shortages faced by weavers and 'social enterprise' company structures in which producers own the company (but it is not a cooperative).

The expectation is that only some of the trialled pilots will be transferrable, others will need to be adapted and others discarded. However, if even a handful of solutions prove successful and are replicated by businesses in Ethiopia then the project would have successfully contributed to South-South knowledge transfer and capacity building at the base of the pyramid. So far, the prospects look good, with a fair amount of interest garnered, in particular for the yarn bank and technologies like the amber chakha.

Important in all this is documenting truthfully and accurately both the value and the drawbacks of Southern technologies and solutions applied in other countries. The pressures of projects to focus on showing only big impact results and to prove value for money can sometimes skew documentation away from the equally meaningful lessons learned about cases and components that have not worked.

5. Conclusion

SITA's interventions demonstrate that capacity building can be facilitated through South-South trade and investment and, at the same time, capacity building is important for facilitating successful South-South trade and investment.

The cases discussed in this report show that development projects can only demonstrate the possibilities for learning and adaptation in a South-South context. Local and/or national ownership of trade and investment projects is necessary for sustainability of capacity building initiatives. In many cases, sector stakeholders or users should lead in deciding whether technologies and solutions are appropriate to the local context.

Peer-to-peer exchanges in the South-South context can work equally well for institutions and for smallholder farmers and small- to medium-sized businesses that learn better by doing. Capacity building initiatives can build the ability of national authorities and investment agencies to address perceptions that might impede trade and investment and to provide the information needed to attract and diversify sources of investment to include inflows from Southern markets.

Finally, while capacity building through South-South knowledge and technology transfer may be more appropriate to local contexts, interventions on the ground show that solutions and technologies are not replicable in all contexts (e.g. some agricultural cultivation or the transfer of soft skills, such as the legitimacy of institutions).

An analysis of SITA's interventions leads to the following recommendations for capacity building for South-South trade and investment.

1. When possible, development programmes focused on South-South trade and investment should adopt a pilot approach. A pilot approach incorporates a degree of flexibility into the programme allowing for testing of Southern solutions for both adaptability to local contexts and for future scalability. Piloting allows stakeholders to not only learn from success, but also to learn from failure, as shown in the case study on ginger (Saha, Thorpe, O'Flynn and Bucher, 2020).

2. Capacity building programmes, especially in the agricultural sector, should consider visual learning rather than learning from instructions or solely classroom training. Visual learning from exposure to best practices (e.g. visits to model institutions), storytelling (use of illustrations) and learning by doing can lead to better outcomes, particularly in situations with language barriers (e.g. the pulses dictionary).

3. Local and national ownership must be incorporated from the beginning of any intervention through a participatory approach that takes into account stakeholder needs and provides a feedback loop on the successes and challenges of each programme. National ownership will lead to the sustainability of capacity building initiatives, especially those that focus on learning from Southern know-how and solutions.

4. Training that supports access to financing and financial management skills should be a crucial element of most capacity building initiatives, not only for business expansion and growth but also to support small businesses to manage unpredictability.

Author's note:

At the time of writing this document, the Covid-19 crisis is unfolding with severe implications for global trade and investment; the World Trade Organization has predicted that global trade could plummet between 13 to 32 percent (WTO, 2020). While the cases put forward in this report transpired in the pre-crisis period, the arguments are still relevant for the post-crisis period, when support for re-building capacity and for re-skilling through South-South learning and exchange may be more relevant than ever.

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