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ASSESSING COST-EFFECTIVENESS OF NON-TARIFF MEASURES – A TOOLKIT

A Case Study in Kenya

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1. INTRODUCTION

Over the years, non-tariff measures (NTMs) have become a key area of focus in trade policy, given the impact they can have on international trade, either through an impact on price, quantities traded, or both. NTMs can be technical measures or non-technical measures such as quotas and price control measures. In particular, the relevance of technical measures, including sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) has garnered a lot significance. Embedded in national regulations to protect consumer safety, public health and national security, these measures are generally imposed to address market failures. However, they can be costly to design, implement and comply with. As such, they affect business costs and make it difficult for traders to access international markets. When imposed on imported intermediate goods, such NTMs can indirectly affect national export competitiveness. Further, they tend to affect small and medium-sized enterprises (SMEs) disproportionately. Yet, eliminating such NTMs can have serious ramifications for the environment, public health or even national security. This makes it critical to review and streamline such NTMs to attain a balance between costs and benefits, through adoption of good regulatory practices in NTMs design, implementation and compliance.

The *Non-tariff Measures Cost Effectiveness Toolkit* is designed to provide a framework to undertake such a review. Specifically, the toolkit focuses on reviewing NTMs applicable to *imported* intermediate inputs relevant to a strategic national value chain. It aims to encourage good regulatory practices and support the design and implementation of quality regulations that achieve public policy objectives at as-low-as-possible compliance costs. It is designed to provide governments and policymakers a framework in the form of a step-by-step deployment guide, including the tools needed for such an evaluation. These include a sample survey, in-depth interview guidelines, guidelines for focus group discussions, a detailed cost assessment spreadsheet, potential approaches for analyzing stakeholder input, and ways of generating suitable policy options. Built on three pillars – *Design, Implementation* and *Compliance,* findings from the toolkit should enable users to generate policy options towards implementing well-designed NTMs that meet economic and non-economic policy objectives.[1]

This study shows the deployment of the toolkit in the Kenyan cotton, textiles and apparel (CTA) value chain. Following the step-by-step approach of the toolkit, this case study covers:

- Toolkit Step 1: Product selection and NTM mapping
- Toolkit Step 2: Stakeholder Identification
- Toolkit Step 3 & 4: Stakeholder Engagement and Input Analysis: Key Findings
- Toolkit Step 5: Policy Options

For each of the six policy options, the study also proposes “a way forward” for implementation, covering a list of potential national and international development partners who can help push forward the agenda through

[1] The toolkit itself can be accessed at: https://unctad.org/webflyer/assessing-cost-effectiveness-non-tariff-measures-toolkit

political and technical support, thus easing private sector burden, strengthening regional value chain (RVC) and enhancing Kenya's export competitiveness In the CTA sector – all through the adoption of good regulatory practices.

Figure 1

5-Step Approach to NTMs Toolkit Deployment

Step 1
Product Selection and NTM Mapping
A value chain of interest is selected, all imported intermediate inputs within the value chain are identified at HS6-digit level, and applicable NTMs are mapped and validated

Step 2
Stakeholder Identification
For the NTMs applicable to the indentified imported inputs, all the NTM focal points in government agencies responsible for NTM design and implementation focal points in regulated private sector firms are identified

Step 3
Stakeholder Engagement
A 4-tiered approach is used to enagage with stakeholders to get insights into challenges faced by the regulated firms and the loopholes in design and implementation.

Step 4
Stakeholder Input Analysis
Insights, observations and data from stakeholder engagement are brought together and analysed to identify the challenges to NTM compliance as well as the flaws in NTM design and implementation process.

Step 5
Policy Options
Policy options that correspond to the results of the previous step are explored and additional stakeholders, national or international, are involved for buy-in and a final validation.Policy options that correspond to the results of the previous step are explored and additional stakeholders, national or international, are involved for buy-in and a final validation.

2. TOOLKIT STEP 1: PRODUCT SELECTION AND NTM MAPPING

In consultation with the Kenyan Ministry of East African Community (EAC) and Regional Development, the CTA value chain was selected for the deployment of the toolkit.

There is wide consensus in the government as well as the international development community that the CTA industry will be a critical contributor to Kenyan economic growth in the coming years, according to Kenya Vision 2030 – a "development blueprint" designed to *"transform Kenya into a newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030)*, this sector holds significant promise for the Kenyan economy. *"Kenya's textile and apparel sector has the potential to play a key role in anchoring the country's deeper movement into middle income status and in serving as a source of gainful employment for its fast growing, young population" (World Bank, 2015).*

Figure 2
Kenya cotton, textiles and apparel value chain

Export Trends

- In 2017, the CTA industry accounted for nearly **7.8% of the Kenya's overall exports.**
- The single-largest export market for Kenya's apparel and clothing exports is the United States, where it exports 95% of the product; followed by Germany and France.
- Kenya's share in total global exports of the product is less than 0.5%. However, the industry has shown **rapid growth in the past decade.**
- In 2015; **exports, employment, and investment** in Kenya's textile and apparel industry grew by 24%, 14.7%, and 10.3% respectively.
- Between 2000 and 2014, Kenya's apparel exports to the United States increased from $8.5 million in 2000 to $332 million in 2014.

Industry Relevance

- Although a small contributor to the nation's economy – representing just 0.6% of GDP and accounting for only 6% of the manufacturing sector – the industry still earns **7% of country's total export earnings.**
- The CTA industry is the second biggest manufacturing activity in Kenya, providing **livelihood to approximately 200,000 households.**
- Apparel manufacturing in Kenya is the most attractive investment option for global investors, as Kenya has duty-free access to the United States under the African Growth and Opportunity Act (AGOA) and to the European Union, under Economic Partnership Agreement (EPA).

Market Potential

- In the past decade, the global apparel industry has seen a positive growth across regions and is projected to maintain the trend.
- **Kenya has the potential to become a bigger player in garment manufacturing. (McKinsey)**

Policy Support

- In its 2019/2020 budget, the **Kenyan government allocated 1.4 billion to re-open and upgrade one of the main clothing factories,** Rivatex, which is expected to create at least 3,000 new jobs for workers and farmers and is known to have a capacity of producing over 10,000 million meters of fabric in a year prior to its closure in the late 1980's.
- The Kenya Vision 2030 identified the industry sector as the **driver of Kenyan industrialization.**
- The government is also lowering the cost of electricity by 50 per cent, so that milling factories can pay less for the resource.

Source: KenInvest - Kenya CTA Investment Profile; World Bank (2015); Kenya Vision 2030; Authors' own calculations based on data from UNCTAD Stat.

Following the selection of the value chain, the three intermediate inputs within the CTA value chain were identified and shortlisted based on the following criteria as set forth in the toolkit -

- The overall import value is significant
- The regional import value is significant
- The input is subject to multiple NTMs by multiple agencies

Table 1 summarizes these intermediate inputs.

Table 1
Imported Intermediate Inputs for CTA Value Chain

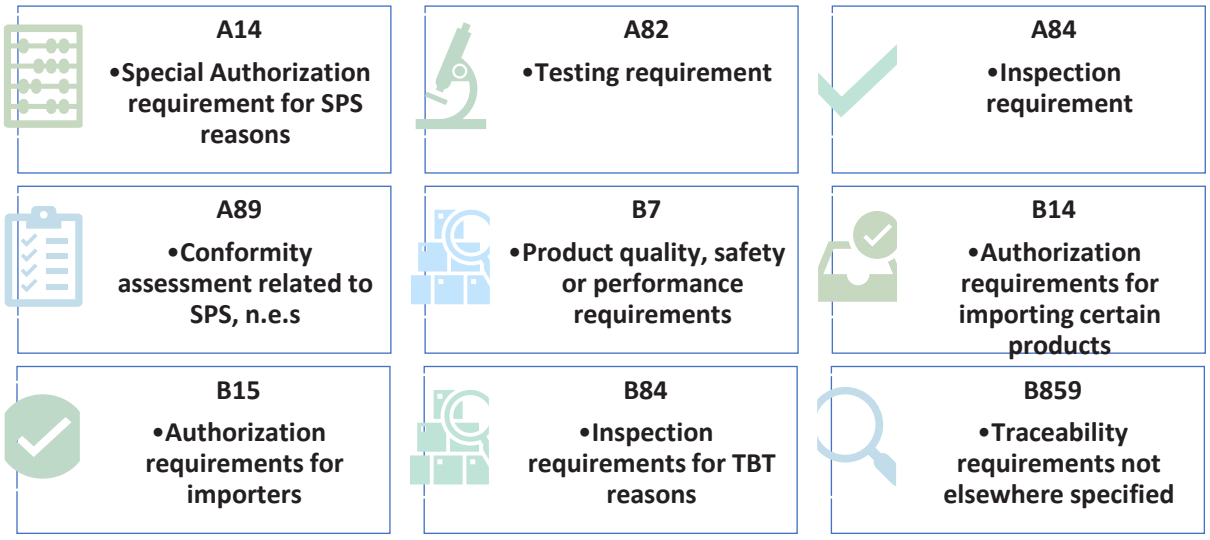
HS6 Product (2017 Version)	HS6 Product	HS2 Sector	Import Value (US$ Million)	Share of imports from EAC partner countries	Number of Import NTMs	NTM Codes*
310520	Mineral or chemical fertilizers containing the three fertilizing elements nitrogen, phosphorus, and potassium	Fertilizers	85.72	2.3%	11	A9, A14, A21, A22, A59, A83, A84
520300	Cotton, carded or combed	Cotton	3.54	99%	2	A84, A64
520100	Cotton, non-carded or combed	Cotton	0.25	100%	11%	A14, A82, A84, A89, B7, B14, B15, B84, B85

Source: Authors' calculations based on data from UNCTAD Stat. *All NTM codes are based on the MAST group classification for non-tariff measures available at: https://unctad.org/en/PublicationsLibrary/ditctab2019d5_en.pdf

From among the intermediate inputs identified, (i) Cotton, carded or combed (HS 520300) and (ii) Cotton, non-carded or combed (HS 520100) were selected. Mineral of chemical fertilizers containing the three fertilizing elements nitrogen, phosphorus, and potassium (HS 310520), was eliminated due to its limited use in the CTA value chain in Kenya. NTMs applicable to imports of these inputs were then mapped using UNCTAD TRAINS Database[2] for NTMs and validated with the help of Kenya Law. The types of NTMs applied by Kenya to the import of cotton are summarized in Figure 3.

[2] Available at: https://trains.unctad.org/

Figure 3
NTMs Applicable to Cotton Lint Imports



Source: UNCTAD TRAINS Database.[3]

Box 1. Kenya's Cotton Industry

Cotton was once a highly valued cash crop in Kenya. In the 1970's Kenya was a major producer of seed cotton in East Africa, producing cotton for both local consumption and export (Better Cotton Initiative). The production was at its peak in the mid-80s, sustaining many livelihoods, and contributing significantly to Kenya's foreign exchange earnings. Following the liberalization of the sector in 1991, a massive influx of cheap second-hand clothes from abroad, and the subsequent withdrawal of Governmental support towards the sector, growth and output began to collapse (FAO, 2012). Despite availability of sufficient land suitable for cotton cultivation, only a small fraction is under cultivation. The current level of production of cotton lint is less than 10% of the production potential (KenInvest). Kenya's ginnery industry was operating at a mere 14 per cent of its capacity due to the reduced supply of cotton (The East African, 2016).

Following this period of decline due to limited policy support, weak farmer organizations, high costs of production, inadequate quality inputs and over-reliance on rain-fed production; revival of the cotton sector has now gained significant attention (FAO, 2012). With the adoption of Kenya Vision 2030, in 2008; and a