

# 26<sup>th</sup> ANNUAL RESEARCH WORKSHOP

2<sup>ND</sup> -3<sup>RD</sup> NOVEMBER 2022

*"Adapting Trade to Climate Change for  
Competitive Green Growth in Tanzania"*

**CONCEPT NOTE**



**REPOA**

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## BACKGROUND

The current national five-year development plan 2021/22-2025/26 prioritizes the development of trade in the pursuit of Tanzania's mid-term development objectives of realizing competitiveness for industrialization and sustained human development. The Plan has set an operational target of increasing exports to 28 percent of GDP and the share of exports in world markets to 0.15 percent. The optimism in the enabling potential of trade is informed by a 40 percent increase in exports to USD 6755.6 million between 2016 and 2021 which has been key to reducing Tanzania's trade deficit by 78 percent during the same period. Further optimism is explained by the deepening of regional integration with the ratification of the African Continental Free Trade Agreements (AfCFTA), the recent expansion of the East African Community (EAC) to 7 countries which has boosted the bloc to 300 million people and a GDP of around 250 billion dollars, membership in Southern African Development Cooperation (SADC) as well as engagement in several trade arrangements with other non-African countries.

Yet, the realization of Tanzania's trade potential is currently circumscribed by concerns over climate change. Research suggests that climate change affects trade by disrupting distribution and supply chains and raising trade costs<sup>1</sup>. The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) noted the effect of human actions, including those related to trade such as the intensification of production, expansion of logistics and supplies networks (transportation), and other value addition activities, are already contributing to adverse global weather and climate patterns including soil, air and water pollution, heatwaves, heavy precipitation, droughts, and tropical cyclones<sup>2</sup>, etc. A 2017 European Commission assessment of the impact of the Transatlantic Trade and Investment Partnership (TTIP) on climate change found that growth in output and trade resulting from the agreement would lead to a rise in emissions, due to increases in the scale of economic activity, increased emissions from transportation, and by changing the composition of industries and trading partners.

Currently, multilateral efforts to deal with the effects of climate change are coordinated under the auspices of the legally binding 2015 United Nations' Climate Change accords, commonly referred to as the Paris Agreement which focuses mainly on mitigation,

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<sup>1</sup> Arndt, C., Farmer, W., Strzepek, K. and Thurlow, J. (2012) 'Climate Change, Agriculture and Food Security in Tanzania', *Review of Development Economics*, 16(3), pp. 378-393.

<sup>2</sup> IPCC (2021) 'Summary for Policymaker', in Masson-Delmotte, V., Zhai, P., Pirani, A., Connors, S.L., Péan, C., Berger, S., Caud, N., Chen, Y., Goldfarb, L., Gomis, M.I., Huang, M., Leitzell, K., Lonnoy, E., Matthews, J.B.R., Maycock, T.K., Waterfield, T., Yelekçi, O., Yu, R. and Zhou, B.H. (eds.) *Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* Cambridge, United Kingdom and New York, : Cambridge University Press, pp. 3-32.

adaptation, and finance. While the Paris Agreement does not explicitly address concerns on international trade, the Agreement has over time served as a framework for deliberating how trade can be used to support the parties' climate efforts, including Tanzania's emission targets outlined in her 2021 Nationally Determined Contributions (NDC) and its attendant National Climate Change Response Strategy (NCCRS). The implementation of the parties to the Paris commitments has already begun to produce policy measures that affect international trade. These include actions such as the pricing of the use of carbon through emissions trading programmes, imposition of emission tariffs on goods, and development of trade protocols that emphasize the ability to track and reduce carbon emissions, labeling of eco-friendly businesses<sup>3</sup>, etc.

The effects of trade on climate need not all be negative. Indeed, recent studies have shown that trade can build value chains that lead to more efficient use of resources and access to effective low-carbon technologies. Therefore, in the presence of sound environmental policies, lower barriers (e.g., by removing tariffs and non-tariff barriers on climate-friendly products and services), and well-functioning institutions, international trade can be a powerful climate change mitigation and adaptation tool. The salience of these considerations is underscored by disproportionately high shares of commodity exports (63.2 percent) in Tanzania's trade basket<sup>4</sup>. In 2021, Tanzania's commodities comprised minerals (45.9 percent), agriculture (15.4 percent), livestock (1.3 percent), and fisheries (0.6 percent), making production and trade performance particularly vulnerable to climate change. A 2012 World Bank study showed a climate-change deterioration of food trade and security in Tanzania through reductions in agricultural production, principally food production, due to increases in temperature and changes in rainfall patterns<sup>5</sup>. Further, a recent study shows that weather-related risks are currently costing agriculture—accounting for 17.2 percent of the export bill and employing over 60 percent of the population—and the livestock sector over \$200 million and 1.5 million animals a year<sup>6</sup>.

Climate change effects on trade in Tanzania do not only affect production value chains, but also downstream trade as regulated by the World Trade Organisation (WTO). The number of environment-related notifications recorded by the WTO has quadrupled in the last 20

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<sup>3</sup> The 2019 Norway, Iceland, Costa Rica, Fiji and New Zealand Agreement on Climate Change, Trade and Sustainability (ACCTS) aims to extend concessions on environmental goods and services to all WTO members, on a most-favoured nation (MFN) basis.

<sup>4</sup> URT (2022) Hali ya Uchumi ya Taifa katika Mwaka 2021, Dodoma: Wizara ya Fedha na Mipango.

<sup>5</sup> Arndt, C., Farmer, W., Strzepek, K. and Thurlow, J. (2012) 'Climate Change, Agriculture and Food Security in Tanzania', *Review of Development Economics*, 16(3), pp. 378-393.

<sup>6</sup> See FCDO (2021) Update of the Study on the The Economics of Climate Change in the United Republic of Tanzania, Dar es Salaam, Tanzania: Climate Mainstreaming Facility of the United Kingdom's Foreign and Commonwealth Development Office (FCDO).

years to 672 in 2019. Many of these notifications affect trade facilitation, Sanitary and Phytosanitary Standards (SPS), safeguards, and other non-tariff barriers to trade<sup>7</sup> that Tanzania has historically struggled to comply with. These and other climate mitigation policies adopted by some leading economies, including carbon border adjustment mechanisms, have increased the importance of export and output diversification<sup>8</sup> in countries such as Tanzania that rely on exports of minerals and other carbon-intensive commodities, such as natural gas and agriculture commodities whose processing are associated with pollution, like tobacco. Far from being a bottleneck, environmental trade standards and safeguards can lead to opportunities for countries that demonstrate carbon competitiveness productive value chains, and supply logistics. New opportunities have arisen as demand shifts to products that are less carbon-intensive, such as organically grown food and other light manufacturing. The recent rapid growth of Tanzania's horti, flori, aqua and api culture sub-sectors is a testament to the consumption preferences-driven shift in comparative advantages.

Notwithstanding these achievements, the unlocking of such opportunities ultimately requires specialized capabilities to identify additional areas of carbon competitiveness, and equipping firms and domestic standards agencies to measure and verify carbon reductions for a given good or service. Zanzibar's adoption of a blue economy policy and subsequent reorientation of production offers insights for innovative trade policy responses to challenges and opportunities posed by climate change. Without innovative adaptation, exports from Tanzania risk being taxed unfairly at international borders, while domestic firms risk being excluded from participating in global value chains.

Considering these observations, it is important for the country to review its production and trade architecture in order to understand how to realign trade, investments, and related value chains to effectively exploit their potential to contribute to Tanzania's medium-term development objectives in an era dominated by climate change concerns.

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<sup>7</sup> See Ramos, D., Ali, M. D., Kolie, M. and Santana, R. (2021) Mapping paper: Trade policies adopted to address climate change, Geneva: World Trade Organisation (WTO) Information brief Number 1).

<sup>8</sup> See Brenton, P. and Chemutai, V. (2021) The Trade and Climate Change Nexus: The Urgency and Opportunities for Developing Countries, Washington D.C: International Bank for Reconstruction and Development/The World Bank.

## THE 26<sup>TH</sup> REPOA ANNUAL RESEARCH WORKSHOP

In response to the increasing need for a diversified economy and competitive trade, at the time that various global institutions are intensifying efforts to reduce global warming and to mitigate and adapt to climate change, the REPOA's 26<sup>th</sup> Annual Research Workshop will be organized in collaboration with CRDB Bank Plc, a leading Financial Services Provider in Tanzania with current presence in Tanzania and Burundi, East Africa. This collaboration will provide an opportunity for CRDB to demonstrate how it is positioned to integrate the practice of financial services with sustainable development through its Tanzania Agriculture Climate Adaptation Technology Deployment Programme (TACATDP) accredited to the Green Climate Fund (GCF):

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• **Adapting Trade to Climate Change for Competitive Green Growth in Tanzania**

**The overall aim** of the workshop is to provoke and promote policy dialogue and contextualized research on the relationship between trade and climate change, climate-smart financing for agriculture, and their confluence in promoting a competitive and increasingly green economy. This will include:



a closer look at both trade and climate change as potential levers for unlocking Tanzania's comparative advantages;



global value chains and options for strategic linkages to enhance competitiveness in agriculture, industries, and other sectors; and



how financial institutions can promote climate sensitive production, distribution and trade policies.

While this is the first social and economic policy workshop on the intersection of climate change in production, trade, and climate-responsive finance, it is the second consecutive workshop that closely analyses trade as one of the main operational priorities of Tanzania's current five-year development plan 2021/22 – 2025/26, and at the same time informing the implementation of the National Climate Change Response Strategy (2021-2026) and the Nationally Determined Contribution (2021), including the practical example of the contribution of the private sector and financial institutions on this national agenda. It offers a timely review of its implementation and reminds all stakeholders to assess their contribution toward meeting the objectives of these national plans and strategies.

**The specific Objective** of the workshop is:

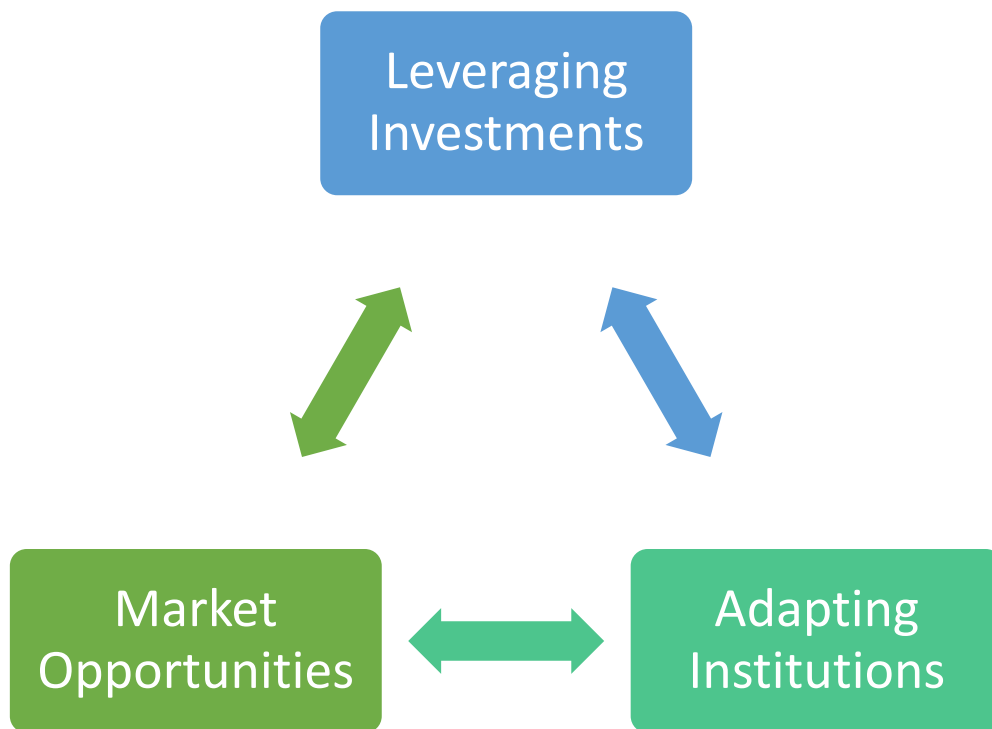
To provoke and promote policy dialogue and research on practical realities of the relationship between trade and climate change, climate-smart financing, and how these could be tailored to promote a competitive and green economy in the key productive sectors of the economy.

**Key questions** to be explored will be:

- i. How can Tanzania identify and promote trade opportunities aligned to climate change adaptation and mitigation while increasing competitiveness?
- ii. How can Tanzania attract and leverage finance and investment for the development of a competitive green economy?
- iii. How can trade policy and trade facilitation be reformed to support climate change adaptation and access to essential technologies and techniques?

### **Proposed Sub-Themes**

Along with the main theme of the workshop, the dialogue will be structured to include important elements that derive from trade-climate change and green, competitive economy nexus, which in themselves warrant special policy attention. The following three subthemes are proposed:



**Figure 1:** A framework for adapting trade to climate change for competitive green growth

Innovative trade policies are likely to inform the response package of Tanzania and other developing countries to climate change. One such recent innovation is the development of a green economy anchored on the sustainability of the environment, economy, and society. A green economy involves the development of a land and water (blue) based economic ecosystem by aligning value and supply chains along the identified pillars of sustainability. Innovative policy responses of this kind are important because despite accounting for a relatively low contribution to global warming, developing countries and island states like Tanzania and Zanzibar face considerable risks from adverse changes to the climate because of their geography, and limited coping capabilities in technology and incomes. With constrained global finances and the ongoing non fulfilment of the Copenhagen accord on climate financing (i.e., the channeling of US\$ 100 billion a year to the developing world)<sup>9</sup>, innovations in policies that espouse trade and market opportunities remain one of the most realistic and discretionary measures that Tanzania and other developing countries can pursue to turn adversity to hope and real prospects.

Tanzania's expansive trade ambitions/arrangements with Europe, the Americas, Asia, and the Middle East paralleled by the deepening of Africa's regional economic integration—the African Continental Free Trade Agreements (AfCFTA), the recent expansion of the East African Community (EAC), effective membership in the Southern African Development Cooperation (SADC)—should underly the country's pursuit for climate-friendly trade expansion—in particular the expansive horti, flori and api culture, the blue economy and forestry while resuscitating the main (traditional) components of the agro-exports—and its sustainability going forward. Consequently, it is important to deliberate on the progressive transformation towards green economies and the resultant adaptation of the investments, production, and trade arrangements that should collectively target the mitigation of the effects of climate change and, in particular, support various economic actors to adapt and to effectively exploit the global market opportunities.

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<sup>9</sup> Timperley, J. (2021) 'How to fix the broken promises of climate finance', *Nature*, 598, pp. 400-402.



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## **2 Leveraging Investment**

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## **Mobilizing domestic and international financing for the development of a green economy**

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The difficulties in accessing climate finance have allowed extreme weather events to heighten the vulnerability of millions of people, putting food and water security at risk, and threatening productive sectors and supply chains. While it would be necessary to strengthen Tanzania's access and management of international climate finance, a coordinated approach to mobilize climate change response action funding from the domestic financial institutions would be an innovative and highly desired response. The international funds and financing windows such as the Global Environment Facility Trust Fund (GEF), Least Developed Countries Fund (LCDF), and Green Climate Fund (GCF) have set complex and highly technical procedural requirements that in absence of specialized guidance make it difficult for applicants in the developing world to meet and may not be designed to suit local contexts. CRDB Bank Plc has, however, managed to receive accreditation from the GCF, paving the way for the private sector-supported climate adaptation financing. While it is imperative that the lead role of CRDB Bank on the GCF facility is known to various development stakeholders, the Bank's leadership role should be expanded and well-supported policy-wise to enable the domestic financial institutions to provide targeted and cost-effective financing to the climate-friendly productivity and trade expansion. This may serve to lay the foundation for an informed national framework for sustained mobilization of financial resources for climate change mitigation and adaptation, and the underlying productivity and trade expansion. This new and innovative practice should help guide the increasing flow of FDIs into the appropriate sectors effectively in support of climate-friendly productivity and trade expansion.

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## 3 Adapting Institutions      Facilitating a Green Economy

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Agriculture, the blue economy, and livestock dominate internal and external trade across Regional Economic Communities (RECs). Climate volatility may require these blocks, especially the EAC to re-examine their land, sea, and other natural resources and use frameworks with the view to designing new approaches to shared resources to facilitate the movement of livestock and fish stocks across national boundaries during periods of a climate shock. This may allow peaceful and resourceful use of land and water resources given climatic variations between our countries. The frameworks may also help to keep food, fish, and livestock markets vibrant and promote peace and stability along critical natural resources corridors in the region (for example the Maasai Mara-Loliondo corridor and the Rwanda-Kagera pasture corridors).

The second aspect is the adaptation of the key Government Ministries and trade support institutions (TSIs) in support of the climate-friendly productivity and trade expansion—*the expansive horti, flori and api culture, the blue economy and forestry, and the key components of the other agro-exports and the inherent value chains*. The key sector Ministries should package the requisite productivity and trade policies in support of climate-friendly sustained productivity growth and trade expansion.

The key TSIs, in particular the bureaus of standards—including the new ones in Zanzibar—should effectively support the producers and exporters in the key productivity and export corridors (including the Zanzibar-Pemba productivity and export corridor) to effectively meet the growing quality requirements of the international markets.

Thus, this sub-theme will explore how an adaptative institutional ecosystem of a green economy can be sharpened and adequately linked to other key productive sectors to enable the realisation of gains from the horizontal and vertical integration of trade and production, and productivity and trade expansion.