

Ways forward for EU-Africa trade and investment relations



Authors:

Cecilia BELLORA, Cristina MITARITONNA (CEPII) and Andreas MAURER (Parlatrade)

European Parliament Coordinator:

Policy Department for External Relations
Directorate General for External Policies of the Union
PE 702.567 – November 2022

EN

WORKSHOP

Ways forward for EU-Africa trade and investment relations

ABSTRACT

Africa-EU trade relations have a longstanding tradition. The EU remains the biggest trading and investment partner for most African countries, especially for those implementing Economic Partnership Agreement (EPAs) with the EU. These papers provide a data-based discussion of the impact of current EPAs on economic regional development (and recent trends on intraregional economic integration in Africa) as well as an overview of EU's sustainable investment facilitation agreements negotiated with African countries. They also discuss the strategic economic and trade interests that the EU has in Africa, while looking into the challenges for the EU in these regions.

Table of contents

In-depth assessment on EPAs and intra-regional African trade

Sustainable Investment Facilitation Agreements with African countries

IN-DEPTH ANALYSIS

In-depth assessment on EPAs and intra-regional African trade

ABSTRACT

As of September 2022, 48 out of the 79 African Caribbean and Pacific Group of States (ACP) countries signed an Economic Partnership Agreement (EPA) with the EU; 32 of them have started implementing the EPA, 14 of which are in Africa. Despite partial evidence that African EPA partners have increased their trade with the rest of Africa and with the EU, sound econometric methods do not yet enable confirmation that EPAs caused such developments, as many confounding factors could well have led to the same outcome. The same remark pertains to the impact of EPAs on the participation of African countries in global value chains (GVCs). Furthermore, the few recent available trade statistics tend to show that EU participation in African value chains has decreased, with progressive replacement by Asian countries, even in countries already implementing an EPA. Adopting a prospective point of view, the key element for African growth appears to be the development of a real intra-African regional bloc in terms of trade and, more importantly, in terms of businesses environment. In this respect, the ongoing process to build an African Continental Free Trade Area seems promising. Once this process has been achieved, EPAs connecting the EU and continental Africa would probably be more beneficial to Africa, while ensuring for the EU a stable and efficient trade and investment relationship with a potentially growing large market.

AUTHORS

- Dr. Cecilia BELLORA, Centre d'Études Prospectives et d'Informations Internationales (CEPII)
- Dr. Cristina MITARITONNA, Centre d'Études Prospectives et d'Informations Internationales (CEPII)

PROJECT COORDINATOR (CONTRACTOR)

- Bruegel

This paper was originally requested by the European Parliament's Committee on International Trade (INTA).

The content of this document is the sole responsibility of the author(s), and any opinions expressed herein do not necessarily represent the official position of the European Parliament.

CONTACTS IN THE EUROPEAN PARLIAMENT

Coordination: Wolfgang IGLER, Policy Department for External Policies

Editorial assistant: Balázs REISS

Feedback is welcome. Please write to wolfgang.igler@europarl.europa.eu

To obtain copies, please send a request to poldep-expo@europarl.europa.eu

VERSION

English-language manuscript completed in October 2022.

COPYRIGHT

Brussels © European Union, 2022

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© Image on cover page used under licence from Adobe Stock.

This paper will be published on the European Parliament's online database, '[Think tank](#)'.

Table of contents

	List of acronyms	2
1	Executive summary	3
2	Economic Partnership Agreements	4
	2.1 Key elements of EPAs	5
	2.2 Alternative trade policies to EPAs	6
	2.3 Status of negotiations	7
	2.4 Rules of origin	9
3	Trade relations	11
	3.1 Structural economic indicators	11
	3.2 EU27 and African countries trade relations	13
	3.3 Intra-African regional trade	14
	3.4 Predicted impacts of EPAs	18
	3.5 Gender effects of EPAs	20
4	Africa in value chains	20
	4.1 Africa shows limited backward integration	21
	4.2 The role of EU as a provider of value added	23
5	African Continental Free Trade Area	24
6	Conclusions	25
	References	29
	APPENDIX	32
	Appendix A. Protection pattern	32
	Appendix B. Trade pattern in goods	33
	Appendix C. Structural indicators	34

List of acronyms

ACP	African Caribbean and Pacific Group of States The African, Caribbean and Pacific Group of States (ACP) is an organisation composed of 79 African, Caribbean and Pacific states, created by the Georgetown Agreement in 1975. In December 2019, the ACP's Council of Ministers endorsed a revision of the Georgetown Agreement that transformed the ACP Group of States into the Organisation of African, Caribbean and Pacific States (OACPS).
ADB	African Development Bank
AfCFTA	African Continental Free Trade Area
AUC	African Union Commission
COMESA	Common Market for Eastern and Southern Africa
EBA	Everything But Arms initiative
ECA	East African Community
ECCAS	Economic Community of Central African States
EPA	Economic partnership agreement
ESA	Eastern and Southern Africa
ECOWAS	Economic Community of West African States
GSP	Generalised System of Preferences
GSP+	Generalised System of Preferences Plus
GVC	Global value chains
HS6	The six-digit code that identifies a good in the World Customs Organization's Harmonized System
LDC	Least developed country
MFN	Most Favoured Nation rule
OECD	Organisation for Economic Cooperation and Development
OACPS	Organisation of African, Caribbean and Pacific States
RoO	Rules of origin
RoW	Rest of world
SADC	Southern African Development Community
UNCTAD	United Nations Conference on Trade and Development
West Africa	ACP group encompassing ECOWAS and Mauritania
WEF	World Economic Forum
WTO	World Trade Organization

1 Executive summary

Economic Partnership Agreements (EPAs) create Free Trade Areas (FTA) between the European Union (EU) and the 79 African, Caribbean and Pacific states¹. We focus here on African countries. EPAs are the latest development of the EU policy of cooperation with African states initiated in 1975. Up to 2000, these relations were governed by regularly updated Lomé Conventions, granting non-reciprocal trade preferences to African countries. Incompatibility with the rules of the World Trade Organization led to the Cotonou Agreement, signed in June 2000, which established the principle of new reciprocal trade agreements, called EPAs. Thanks to a waiver, negotiations of EPAs began in September 2002 and were due to be completed by 2007, a deadline that was missed: 48 out of the 79 ACP countries signed an EPA with the EU; only 32, 14 of which are in Africa, have started implementing the EPA.

EPAs maintain a degree of asymmetry, availing of the 'substantially all trade' clause of the GATT concerning FTAs. They enable African countries to protect certain established industries. EPA partners can also take measures to protect food security. African countries can therefore select sensitive products, representing up to 20 % of total trade, which are excluded from liberalisation. The phasing-in also takes advantage of the usual Special and Differential Treatment principle: while EU markets were fully opened in 2008, the ACPs have up to 15 years (25 in exceptional cases) to open up to EU imports, with protection for sensitive imports. EPAs encompass provisions beyond tariffs in areas such as health, safety standards, sanitary and phytosanitary standards (SPS), technical barriers to trade (TBT), rules of origin (RoO) and barriers affecting trade in services. EPAs also aim to foster policies and institutions that facilitate trade.

A first issue is that EPAs were conceived with the aim of favouring regional groupings among ACP countries, while self-defined African groups combine developing countries and least developed countries (LDCs), which have different incentives to sign EPAs or use other preferential schemes to access the EU market. Since negotiations between the EU and African countries were also open to individual countries within a group, this created an additional layer of complexity. Lastly, several regional blocks existed before the creation of these groups, sometimes with a different perimeter, which further fragmented trade relations. Eventually, as EPA negotiations are not mandatory, African countries can instead revert to the situation offered by the EU to other developing economies, which comprise the EBA (Everything But Arms) initiative, the Generalised System of Preferences (GSP) and GSP+. Economic integration is a choice for African countries; the EPAs and accompanying development assistance can contribute to it, but cannot substitute for African choices. The pan-African agreement creating a regional FTA, signed in Kigali in 2018 and effective a year later, illustrates how EPAs have accompanied a wider dynamics towards economic integration.

A second issue concerns the rules of origin (RoO) an exporter must comply with in order to qualify for preferential treatment. EPAs provide for RoO that are rather flexible but heterogeneous across products and member countries, but stipulate that countries in the same region provide at least the same advantages to each other as they do to the EU.

Assessing a causal impact of EPAs on regional trade is difficult, given the recent implementation dates, the long schedules of their implementation and the limited availability of recent data on African countries.

¹ The 79 ACP countries, formally grouped in the Organisation of African, Caribbean and Pacific States (OACPS) to coordinate their cooperation with the European Community are the following: Angola, Antigua and Barbuda, Belize, Cape Verde, Comoros, Bahamas, Barbados, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo (Brazzaville), Congo (Kinshasa), Cook Islands, Côte d'Ivoire, Cuba, Djibouti, Dominica, Dominican Republic, Eritrea, Eswatini, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Republic of Guinea, Guinea-Bissau, Equatorial Guinea, Guyana, Haiti, Jamaica, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Marshall Islands, Mauritania, Mauritius, Micronesia, Mozambique, Namibia, Nauru, Niger, Nigeria, Niue, Palau, Papua New Guinea, Rwanda, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Solomon Islands, Samoa, São Tomé and Príncipe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Sudan, Suriname, Tanzania, Timor-Leste, Togo, Tonga, Trinidad and Tobago, Tuvalu, Uganda, Vanuatu, Zambia, Zimbabwe. A total of 48 countries are in Sub-Saharan Africa, 16 in the Caribbean and 15 in the Pacific. All, except for Cuba, are signatories of the Cotonou Agreement.

Despite partial evidence that African EPA partners have increased their trade with the rest of Africa and with the EU, sound econometric methods do not yet make it possible to confirm that such developments have been caused by EPAs, as many confounding factors could well have led to the same outcome. The same pertains to the impact of EPAs on the participation of African countries in global value chains (GVCs).

While African countries are open, they trade too little with themselves, too little relative to their economic size and to other regions of the world. Raw agricultural products and natural resources are mostly exported outside the African continent, while processed goods are more traded on a regional basis. The weak complementarity of the specialisations of African countries, linked in particular to the weight of primary natural resources in their exports, constitutes a first obstacle to regional trade. Governance issues and non-tariff barriers also contribute to increasing the costs of intra-regional trade. Lastly, it is difficult to draw clear-cut conclusions due to the importance of informal trade in the region.

Turning to *ex ante* simulations of the impact of the EPAs, the main obstacle to using quantitative models is the poor quality of the data, when available. In addition, most models tend to disregard some adjustment costs, such as those that emerge from the reallocation of factors of production across sectors, or the reorganisation of the fiscal base and the shift to other forms of taxation to replace tariffs. Keeping these limitations in mind, studies tend to show that EU exporters are the main beneficiaries of EPAs, because their sales to ACP markets increase more than exports of ACP countries into the EU, as EPAs provide a relative advantage to EU exporters on ACP markets, by pushing down the prices of imports from EU, thus reducing imports from non-EU countries.

Another sensitive issue deserving detailed data and modelling is the potential loss of tariff revenues. Most African countries are highly dependent on trade relations with the EU, but this tariff revenues losses would be partially compensated for by additional fiscal revenue induced by the positive growth effect of the agreements, and by the financial programmes (the adjustment packages) flanking the agreements. In addition, the appropriate choice of sensitive products to be excluded from liberalisation can reduce EPAs-induced losses for African countries.

Adopting a prospective point of view, the key element for African growth appears to be the development of a real intra-African regional bloc, in terms of both trade and, more importantly, the business environment. In this respect, the ongoing process to build an African Continental Free Trade Area seems promising but ambitious, and EPAs can be conceived as stepping stones towards regional integration. The successful implementation of the African Continental Free Trade Area would ensure that the gains from EPAs would better materialise. A continent-to-continent trade agreement between 27 EU and 54 African countries would be a highly ambitious project that could enhance EU cooperation, trade and investment in Africa, but it could only succeed if it was based on deep integration on both sides.

2 Economic Partnership Agreements

Economic Partnership Agreements (EPAs) are trade and development agreements that create free trade areas (FTAs) between the European Union and the 79 African, Caribbean and Pacific States. This paper focuses on African countries only.

The rationale behind the EPAs is to establish FTAs between the European Union and African groups, complying with WTO rules of reciprocity and non-discrimination. EPAs are a response to continuing criticism that the non-reciprocal and discriminating preferential trade agreements offered by the EU to African countries under the Lomé Conventions since 1975 were incompatible with WTO rules. EPAs are designed to preserve African market access to EU, while helping African economies to diversify and stimulate regional and continental integration.

Negotiations of EPAs began in September 2002 and were due to be completed by 2007. However, negotiations are still ongoing for many of the 79 economies, as we will see in section 2.3.

2.1 Key elements of EPAs

In the wording of the European Commission, EPAs 'aim at fostering the[...] integration of the ACP partners into the world economy and ultimately to contribute, through trade and investment, to sustainable development and poverty reduction'². Thus, while they are free trade agreements that respect international rules, EPAs try to take advantage of existing flexibilities and cover issues beyond purely commercial ones.

Reciprocity

One of the aims of moving away from the regime set by the Lomé Conventions was to introduce reciprocity in the trade relationships with African countries. EPAs open up the EU market to African exports and require in return a significant opening of African markets to EU products.

Asymmetric provisions

EPAs call for reciprocity but maintain a degree of asymmetry, to take into account the different level of development between trading partners. Furthermore, to be fully compatible with the rules of the WTO – i.e. to be recognised as free trade agreements and therefore constitute an exception to the Most Favoured Nation (MFN) rule – EPAs need to cover 'substantially all the trade' (GATT, Art. XXIV) between the trading partners³. This formulation makes it possible to exclude sensitive products from liberalisation, as well as to exclude them mainly for one of the trading partners. African countries can define sensitive products – representing around 20 % of total trade⁴ – to be excluded from the liberalisation process. They also benefit from longer liberalisation periods. While EU markets were immediately and fully opened (January 2008), the ACPs had 15 years to open to EU imports (with protection for sensitive imports) and up to 25 years in exceptional cases. Finally, EPAs include provisions for flexible rules of origin, special safeguards and measures for agriculture, food security and infant industry protection.

Deep integration

EPA negotiations aim at going beyond standard liberalisation and encompass provisions on many elements other than tariffs, such as health, safety standards, sanitary and phytosanitary standards (SPS), technical barriers to trade (TBTs), rules of origin (RoO) and barriers affecting trade in services. EPAs also cover aspects such as support for deeper integration, i.e. fostering policies and institutions that facilitate trade by reducing impediments to trade other than tariffs, such as regulatory or behind-the-border barriers⁵. Therefore, they include provisions on intellectual property, investment, competition and public procurement. They also include elements on development assistance, in particular aid for trade and technical assistance.

It is also interesting to note that EPAs can evolve and deepen once signed and applied. Indeed, the trade relationship under the EPA begins with the signature, ratification and application of an interim EPA. Then, the EU and its partner countries can deepen the agreement through 'rendez vous' clauses which allow further negotiations on trade-related issues such as services, competition, intellectual property, etc.

² EPAs factsheet of September 2018, available at <https://circabc.europa.eu/ui/group/09242a36-a438-40fd-a7af-fe32e36cbd0e/library/82a3db4d-b5f1-4cef-b146-372b1ea9d43e/details>

³ The EU Commission considers that an FTA is WTO-compatible if 90 % of bilateral trade is fully liberalised.

⁴ The extent to which trade must be liberalised under the new EPAs is still a widely debated issue (WTO rules are not fully explicit on this point) but one that has not yet been raised by WTO trading partners.

⁵ Deep integration involves policies and institutions that facilitate trade by reducing or eliminating regulatory or behind-the-border impediments to trade.

Regional integration

The EU encourages its African partners to enter into the EPAs in regional groupings, aiming at contributing to their regional economic integration. Furthermore, regional preference clauses in EPAs set out that countries in the same region provide at least the same preferences to each other as they do to the EU.

EPA regions are established by the ACP countries themselves; so far seven regional groupings have negotiated EPAs with the European Union.

The regional groupings of African countries are:

- Central Africa group (CEMAC plus Sao Tome and Principe and DR Congo – ECCAS-related)
- EAC (East African Community)
- EAC (East African Community), ESA (Eastern and Southern Africa – COMESA-related)
- SADC (Southern African Development Community)
- West Africa (ECOWAS + Mauritania)

There are major caveats with the creation of these groups. First, they are a combination of middle-income developing countries and LDCs which have different incentives to sign EPAs or use other schemes (see section 2.2). Furthermore, *de facto* negotiations between the European Union and the African countries were also open to individual countries within a group, should the country wish to take part. This increases the incentive for certain countries to break away from a group to which they tend to belong to for historic, economic or geographic reasons. For instance, Cameroon is the only country in the Central Africa group that concluded the negotiation on an interim EPA with the EU in 2007. The European Parliament approved the agreement in June 2013 and it was ratified and implemented by Cameroon in July 2014.

Many regional blocs existed before the creation of these groups in Africa (see section 3.3.), and many countries belonged to blocs different from those created to negotiate EPAs. The creation of these ACP groups in some cases complicates the situation, further fragmenting trade relations. For instance, the SADC EPA Group comprises only seven SADC countries (Botswana, Lesotho, Mozambique, Namibia, South Africa, Eswatini (formerly Swaziland) and Angola. The other six members of the SADC region – the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe – are negotiating Economic Partnership Agreements with the EU as part of other regional groups, namely Central Africa or Eastern and Southern Africa.

In this paper we will provide information on the negotiation groups, on the sum of EPA regional groups on the African continent, and on Africa, including the North Africa region.

2.2 Alternative trade policies to EPAs

EPA negotiations are not mandatory; in their absence, African countries benefit from what the EU offers to any developing economy, according to WTO rules. Indeed, under the WTO principle of *special and differential treatment* for developing countries, the EU (as well as several countries) provides a non-reciprocal system of trade preferences to developing countries. These preferences vary in nature and intensity according to the status of the developing trade partners (whether LDC or not), their vulnerability and their willingness to implement some particular international conventions. They comprise three different arrangements: Everything But Arms (EBA), the Generalised System of Preferences (GSP) and GSP+.

A total of 40 of the ACP countries are defined as least developed countries (LDCs) by the United Nations; thus the alternative to EPAs is to continue their trade relations with the EU under the EBA initiative, which grants duty-free access into the EU market to all products from LDCs without any quantitative restrictions, except for arms and munitions. This regime can be appealing, since it grants free access to the EU market without involving reciprocity.

However, EPAs provide other advantages, in particular regarding ‘variables’ other than custom duties, in particular clauses to support regional integration, development funds to facilitate the transition, and simplified rules of origin, which are more flexible under the EPAs than under the EBA regime (and also under the GSP) (see section 2.4). More flexible RoO play an important role in the choice of entering an EPA; the EBA initiative and the GSP share the same RoO, which are more stringent than those in EPAs. For example, a textile product can enter the EU duty-free if at least one stage in its production – such as weaving or knitting – took place in an EPA country, while EBA requires double-stage transformation for the same sector. This might explain why some LDCs such as Mozambique and Lesotho (members of the SADC group) signed an interim EPA with the EU. Angola (the other LDC in the SADC EPA configuration) instead has chosen to continue trading under EBA as its main exports to the EU are oil and diamonds which enjoy duty and quota-free entry under the EBA rules of origin since they are considered ‘wholly obtained’ originating products.

Non-LDC African economies can access the EU market using the GSP scheme, which grants partial or full removal of custom duties on two-thirds of the tariff lines. A more attractive alternative would be the GSP+ scheme, which provides improved market access (full removal of custom duties on the same tariff lines as those targeted by the standard GSP) for ‘vulnerable’ developing economies that show commitment to a sustainable approach to development by ratifying and implementing a series of international conventions. Overall, the differences between GSP and GSP+ are not significant except for Eastern Africa, where several countries, especially Mauritius, are large exporters in the textiles and apparel sector, where GSP+ eliminates protection and GSP provides only limited advantages. However, both the GSP and GSP+ provide for less favourable treatment than the original Cotonou preferences or the free access granted through signing the EPAs (see page 187 in Fontagné et al., 2011).

While these unilateral preferential schemes can permit ACP countries to protect their domestic production and minimise fiscal losses, they also prevent ACP countries from opening up their markets to cheaper inputs, foregoing the efficiency gains that could be achieved in the context of EPAs.

Moreover, GSP schemes are often (unilaterally) revised, excluding countries and goods according to certain criteria, while EPAs mean more stable trade measures, which might bring benefits in terms of domestic or foreign investment in ACP markets (the so-called lock-in effect; see Collier, 2015).

2.3 Status of negotiations

Negotiations for EPAs began in September 2002 and were due to be completed by 2007. In reality, the situation is more complex, with some agreements already concluded and applied while negotiations are still ongoing with other ACP countries. More precisely, 48 out of the 79 ACP countries signed an EPA with the EU, and only 32 of them have started implementing the EPA, 14 of which are in Africa (see Table 1). Below, we provide detailed information about the status of negotiations for each of the African groups.

Table 1: Implementation of EPAs

ACP group	Number of countries implementing EPA or interim EPA	Countries and first year of implementation
Central Africa	1 out of 8	Cameroon (2014)
EAC	None out of 6	
ESA	5 out of 12	Comoros (2019), Madagascar, Mauritius, Seychelles and Zimbabwe (2012)

SADC	6 out of 7	Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa (2018)
West Africa	2 out of 16	Côte d'Ivoire (2019), Ghana(2021)
Caribbean	14 out of 15	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St Lucia, St Vincent, St Kitts and Nevis, Suriname, Trinidad and Tobago (2010)
Pacific	4 out of 15	Fiji (2014), Papua New Guinea (2011), Samoa (2018) and Solomon Islands (2020)

Source: Information available on the European Commission website (<https://trade.ec.europa.eu/access-to-markets/en/content/economic-partnership-agreements-epas>).

Central Africa Group

As already mentioned, in Central Africa only Cameroon concluded an interim EPA with the EU, in 2007. The European Parliament approved it in June 2013 and it was ratified by Cameroon in July 2014. This agreement allows all goods from Cameroon to enter the EU duty and quota-free, and gradually removes duties and quotas over 15 years on 80 % of EU exports to Cameroon. It covers trade in goods, aid for trade, institutional issues and dispute settlement.

Other countries of the region have not yet signed the EPA. Some countries in the group, such as the Democratic Republic of Congo, have flagged their interest in acceding. Chad, the Central African Republic, the Democratic Republic of Congo and São Tomé and Príncipe benefit from duty-free, quota-free EU access under the EU's EBA scheme. Congo (Brazzaville) trades with the EU under the EU's GSP. As upper-middle-income countries according to the World Bank classification, Gabon and Equatorial Guinea are no longer eligible for the GSP or any other preferential EU import regime (since 2014 for Gabon and 2021 for Equatorial Guinea); they export to the EU under the MFN regime.

EAC

The negotiations for the regional EPA were successfully concluded on 16 October 2014. On 1 September 2016, Kenya and Rwanda signed the EPA between the East African Community and the EU. All EU Member States have also signed the agreement. None of the EAC members has yet implemented the EPA.

ESA

Six ESA countries – Comoros, Madagascar, Mauritius, the Seychelles, Zambia and Zimbabwe – concluded an interim EPA with the EU at the end of 2007. In August 2009, four of those countries signed it (Madagascar, Mauritius, Seychelles and Zimbabwe). They have provisionally applied it since 14 May 2012. Comoros signed the agreement in July 2017. It ratified and started applying it in February 2019.

In January 2013, the European Parliament gave its consent to the agreement. The deal remains open to other countries that want to join later.

SADC

The EU signed an EPA on 10 June 2016 with the SADC group. The agreement became the first regional EPA in Africa to be fully operational after Mozambique started applying it in February 2018. Angola (the other LDC in the SADC EPA configuration) has chosen to continue trading under EBA.

West Africa

Negotiations of the regional EPA covering 16 countries in West Africa were concluded on 30 June 2014. All EU Member States and 13 West African countries signed the EPA in December 2014, except Nigeria, Mauritania and the Gambia. The Gambia signed on 9 August 2018 and Mauritania on 21 September 2018⁶, leaving Nigeria the only country of West Africa that has not signed the EPA. The agreement is the first Economic Partnership that brings together not only the 16 countries of the region but also their two regional organisations: the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (UEMOA).

2.4 Rules of origin

Under EPAs, as usual in any trade agreement, exported products need to satisfy negotiated RoO in order to qualify for preferential treatment. In other words, RoO are the criteria, set by each trade partner, to determine the national source of each exported product. Then, preferences are granted depending on the geographic origin of imports. They often require that the exporting country has performed a substantial transformation of the product for it to be eligible for preferences. Other criteria can be added, such as a change of tariff classification or an *ad valorem* percentage of value added generated by the exporting country.

A significant increase in the number and the complexity of RoO has accompanied the spread of Preferential Trade Agreements (PTAs) around the world. RoO also apply to non-reciprocal preferences like GSP (Generalised System of Preferences), AGOA (African Growth and Opportunity Act), EBA (Everything But Arms) and all the reciprocal FTAs.

RoO are perceived by some as non-tariff barriers (NTBs) for exporters. Complying with RoO requirements entails costs for producers, exporters and customs officials. Firms and policy-makers have advocated simplification and, in the case of large-membership FTAs like the African Continental Free Trade Area (AfCFTA), harmonisation as well (de Melo et al., 2022).

Concerning EPAs, flexible RoO enable African countries to export products produced with inputs from other countries, especially in key sectors such as agriculture, fisheries, textiles and clothing. For example, a textile product can enter the EU duty-free if at least one stage in its production – such as weaving or knitting – took place in an EPA country, while EBA requires double-stage transformation for the same sector.

Product-specific RoO are included in Annex II of the Protocol of each EPA. Provisions on RoO cover products in the following sectors: fruit, fisheries, essential oils, handicraft, gum, cocoa, clothing, electrical equipment, leather, meat and wood. Nevertheless, for some EPAs, some more relaxed rules are included in Annex II A. Further to these provisions, various EPAs grant derogations for some specific products. For instance, the ESA EPA granted a derogation on canned tuna; the signatories of the SADC EPA benefit from derogations for several products, including tuna and lobster (see the case of Namibia with a specific rule for Albacore tuna and of Mozambique with specific rules for shrimps, prawns and lobster).

The general provisions in EPAs also provide for very favourable cumulation mechanisms, with the aim of increasing economic integration between the EPA countries and beyond, and optimising their complementarities. Cumulation of origin is a relaxation designed to facilitate the acquisition of preferential origin: it allows materials (or components) used in the manufacture of a good and originating in a partner country to be considered as originating in the partner country where this use takes place.

⁶ Mauritania and ECOWAS signed an Association Agreement on 9 August 2017 to define the country's participation in ECOWAS's trade policy, including the EPA.

While provisions may vary between EPAs, in general each EPA provides for four types of cumulation rules. We explain them from the point of view of African countries:

1. Bilateral cumulation with the EU

The basic cumulation rule allows for goods originating in country A and further processed or added to products originating in country B to be considered as originating in country B. All preferential agreements concluded by the EU include this rule, where A and B are the EU and its trade partner involved in the agreement. Here, they allow for a good originating in the EU to be added for further processing (or added to a product originating) in an African country having signed an EPA to be considered as originating in this African country. It therefore benefits from preferential access to the EU.

2. Diagonal cumulation within an EPA group and (ACP) African countries

This rule applies to an area comprising at least three countries. Diagonal cumulation means that materials originating in one of the countries (supplying country) can be processed in a second country (processing country) and acquire the preferential origin of that second country for export to a third country (country of destination), provided that the processing carried out in the second country goes beyond what is called 'an insufficient operation'⁷, as defined in the EPA protocol. For instance, for an African country benefiting from diagonal cumulation, when it processes beyond an insufficient operation a good originating from any other ACP, this good is allowed to enjoy preferential access to the EU market.

3. Full cumulation between an EPA group and (ACP) African countries

Through total cumulation (cumulation of transformations), the origin rule is satisfied if all the cumulated transformations, carried out successively in two or more countries of a zone, and not only the last one before exporting, constitute a sufficient transformation. The operation carried out in the last country of processing must go beyond an insufficient operation as defined in the original protocol.

4. Cumulation with neighbouring developing countries

In this case, materials originating in a neighbouring developing country (belonging to a coherent geographical entity) other than an African country may be considered as materials originating in the EPA countries when incorporated into a product obtained there⁸.

In most implemented EPAs, cumulation with other (ACP) African countries outside the group of the country exporting to the EU will only apply if two conditions are fulfilled: the countries participating in the acquisition of the originating status have concluded administrative cooperation agreements, and the inputs and final products have acquired originating status through the application of identical rules of origin.

⁷ The examples of insufficient/minimal operations typically found include 'preserving operations to ensure that the products remain in good condition during transport and storage', simple addition of water or dilution or dehydration or denaturation of products, 'simple mixing'...

⁸ The list of what is considered a neighbouring country is annexed to each protocol. For such cumulation to apply, it must be requested by the EPA countries; in any case, the rules of origin applicable to inputs from neighbouring countries are defined in each EPA.

To understand how wide in scope these rules are, we highlight that, for the Pan-Euro-Mediterranean zone⁹, only the first three cumulation rules apply: bilateral and diagonal rules that are adopted in the whole zone¹⁰ and the full cumulation which applies only partially¹¹.

3 Trade relations

In what follows, we begin by presenting some structural indicators for African countries, in order to understand why the role of these countries in world trade is primarily a function of their economic size and commodity specialisation (section 3.1). Then we look at the at the European Union's trade relations with ACP African groups (section 3.2) and at intra-regional trade in Africa (section 3.3). We finally discuss the issues at stake and the predicted impacts of EPAs according to relevant literature (section 3.4) and possible impacts of EPAs on gender equality (section 3.5).

In this section we present some statistics, in line with several EPA monitoring reports, produced after five years of implementation. However, descriptive statistics cannot identify any causal relationship between the entry into force of EPAs and their impact on trade. The causal *ex post* assessment of EPAs is daring given the recent implementation dates, the long lead times of their implementation (15 to 25 years) and the limited availability of recent data on African countries. It is no coincidence that all of the existing literature on the impacts of EPAs agreements consist of *ex ante* analyses, which we examine in section 3.4. If recent data on African countries existed, it might be possible to make an assessment on some countries such as Madagascar, Mauritius, Seychelles and Zimbabwe, which implemented EPAs in 2012, or Cameroon, implementing its EPA since 2014.

3.1 Structural economic indicators

African countries engaged in EPAs largely belong to the two poorest categories of development, according to the World Bank classification. That is, 23 low-income and 19 lower-middle-income countries, just 5 countries in the upper-middle-income category (Equatorial Guinea and Gabon in Central Africa, and Botswana, Namibia and South Africa in SADC) and only two high-income countries (Seychelles and Mauritius in ESA) (see Table 2 and Table A5).

Due to the region's significant economic growth (see Table 3), we observe an economic transition of many countries between 2010 and 2020, especially from the low to the lower-middle category. Mauritius and Seychelles upgrade from upper-middle to high-income. Only two countries downgrade: Sudan from lower-middle to low and Equatorial Guinea from high to upper-middle (see Table A5).

Between 2010 and 2020, the average growth of most African regions potentially engaged in EPAs was higher than the world average (see Table 3). The exception is the SADC group, with a decline in GDP due particularly to South Africa and Angola. Despite economic growth, (ACP) African groups continue to amount to only 2 % of world GDP (3 % if we include North Africa).

⁹ The pan-Euro-Mediterranean cumulation zone of origin concerns the EU 27, Turkey, members of the European Economic area (Iceland, Liechtenstein and Norway) and all the signatory countries of the Barcelona Declaration, namely Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia and the Palestinian Authority of the West Bank and Gaza Strip.

¹⁰ In the pan-Euro-Mediterranean zone, diagonal cumulation is only possible between partner countries that apply identical rules of origin among themselves. It operates according to the principle of 'variable geometry' since not all the countries in the zone have yet included a pan-Euro-Mediterranean origin protocol in their bilateral agreements.

¹¹ Between partners in the European Economic Area (EU, Iceland, Liechtenstein and Norway), between the EU, Morocco and Tunisia and between EU and Algeria.

Table 2: ACP countries by development category (2010-2020)

		L	LM	UM	H
2010	GNI per capita in USD	<=1005	1006–3975	3976–12 275	>12 275
	Central Africa	4	2	1	1
	EAC	6			
	ESA	7	3	2	
	SADC	1	3	3	
	West Africa	14	2		
	Africa ACP	32	10	6	1
2020	GNI per capita in USD	<=1045	1046–4095	4096–12 695	>12 695
	Central Africa	3	3	2	
	EAC	4	2		
	ESA	6	4		2
	SADC	1	3	3	
	West Africa	9	7		
	Africa ACP	23	19	5	2

Source: Authors' calculations from WDI World Bank Database.

L = low income, LM = lower-middle income, UM = upper-middle income and H = high income

Table 3: ACP countries, GDP level and growth rates (2010-2020)

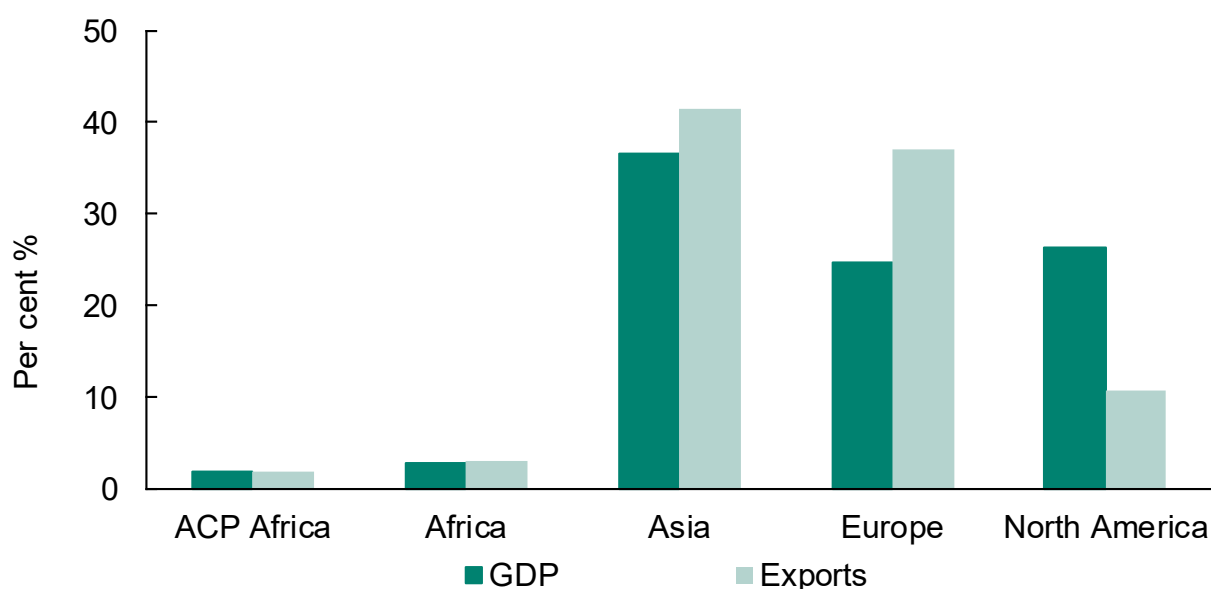
	GDP (USD billions)		% growth (2010-2020)
	2010	2020	
Central Africa	105.9	138.9	31.2
EAC	126.8	213.7	68.5
ESA	168.0	219.8	30.8
SADC	541.0	434.8	–19.6
West Africa	507.4	694.6	36.9
Africa ACP	1 449.1	1 701.8	17.4
World	66 596.1	84 906.8	27.5

Source: Authors' calculations, from WDI World Bank Database.

It is precisely because Africa represents 2.8 % of global GDP that it represents only 3 % of world exports in 2019 (Figure 1).

African countries are open to international trade, indeed. Their trade to GDP ratio (54 % in 2019, according to the World Bank's WDI data) is in line with the world average (56 %) and much higher, for example, than that of China (36 %) (see Fontagné et al., 2022).

The structure of value added by sector for the entire region is close to that of the whole lower-middle-income-countries category in 2020 (see Table 4). African countries are highly specialised in agriculture and in raw materials, while manufacturing is under-developed, in particular in the Central Africa group. The service sector is also underdeveloped, with the exception of the SADC group.

Figure 1: Africa weighs little in world exports because its economic size is limited – Shares in world GDP and world merchandise exports (2019)

Source: Authors' calculations, from WDI World Bank Database for GDP and BACI database (Gaulier and Zignago, 2010, updated in February 2022) for exports.

Table 4: Structure of value added by sectors (% on value added), 2020

	Agriculture	Industry	Manufacturing	Services
Africa ACP	18.4	26.3	10.9	48.9
Central Africa	18.1	34.3	15.2	43.9
EAC	24.3	22.3	9.3	46.3
ESA	24.0	23.6	6.7	42.2
SADC	4.3	26.4	10.9	61.2
West Africa	23.7	26.8	11.8	45.2
World	4.4	26.3	16.0	65.7
L	26.8	25.9	10.7	39.1
LM	16.1	27.8	14.9	48.1
UM	7.0	34.1	22.1	55.9
H	1.3	22.4	13.4	71.8

Source: Authors' calculations, from WDI World Bank Database.

L = low income, LM = lower-middle income, UM = upper-middle income and H = high income

3.2 EU27 and African countries trade relations

Considering trade patterns between the EU and the African countries, it is clear that the stakes in the EPA negotiations are much higher for the ACP than for the EU.

Despite the important preferences accorded to these African countries by the EU as part of a long-standing partnership¹², only 4.3 %¹³ of EU imports, excluding intra-EU, came from African countries in 2007, with SADC and West Africa accounting for 44 % and 30 % of this amount, respectively. During the period

¹² Nevertheless, some African countries faced some high tariff rates, sometimes higher than that applied by the EU to imports from the Rest of the World (see Table A2) due to the concentration of some agricultural products that are heavily protected in the EU (e.g. tobacco, rice and milk).

¹³ Or 1.7 % if we include intra-EU trade. These figures are calculated from the BACI database.

2007-2019, African countries increased their exports to the EU by 8.6 %, and during 2007-2013 by 38 % (see Table A3). Nevertheless, in 2019 African countries accounted for only 4.6 % of total extra-EU imports (see Table A3 in Appendix 2).

In contrast, the EU in 2019 remains Africa's main trading partner, accounting for 23.3 % of Africa's total exports and imports (see Table A4)¹⁴. During the period 2007-2019 African countries slightly reduced the tariff barriers imposed on imports from the EU, from an initial high level (see Table A1).

Despite the resulting increase in imports from the EU, the shift of the centre of gravity of the world economy towards Asia has led to a relative decline of the EU as a trading partner. Nearly 26.9 % of African exports went to the EU in 2007, and 31.2 % of African imports came from the EU. In 2007 China accounted for only 8.7 % of ACP exports and 10 % of ACP imports; in 2019 its shares are close to those of the EU (21.8 % for ACP African imports and 19 % of ACP exports) (see Table A4).

The role of Africa¹⁵ mainly as an exporter of commodities to the EU remained constant for decades, mirroring its poor industrial development. The EU imports from Africa are mainly made up of commodities with low value-added content (55.2 %) – natural resources (45 %) and unprocessed agricultural products (10.2 %) – similarly to the composition of total African exports (see Table 5 and Figure 3). Africa on the other hand imported mostly manufacturing goods from the EU (72.8 %).

Such trade patterns illustrate the highly asymmetrical level of development between the two partners.

Table 5: EU-African trade pattern, by sector 2019 (shares in percentage points)

	EU imports from Africa	Africa imports from EU
Agricultural goods	10.2	7.6
Vegetable products	10.1	5.8
Livestock and animal products	0.0	1.9
Processed food	4.9	4.1
Agr. food	4.9	4.1
Natural resources	45.5	15.4
Primary	45.5	15.4
Manufacturing	39.4	72.8
Electronics and machinery	17.9	40.6
Metallurgy	10.7	8.6
Textile and apparel	6.0	3.6
Other industries	4.8	20.0
Total	100	100

Source: Authors' calculations, from BACI database (Gaulier and Zignago, 2010, updated in February 2022).

3.3 Intra-African regional trade

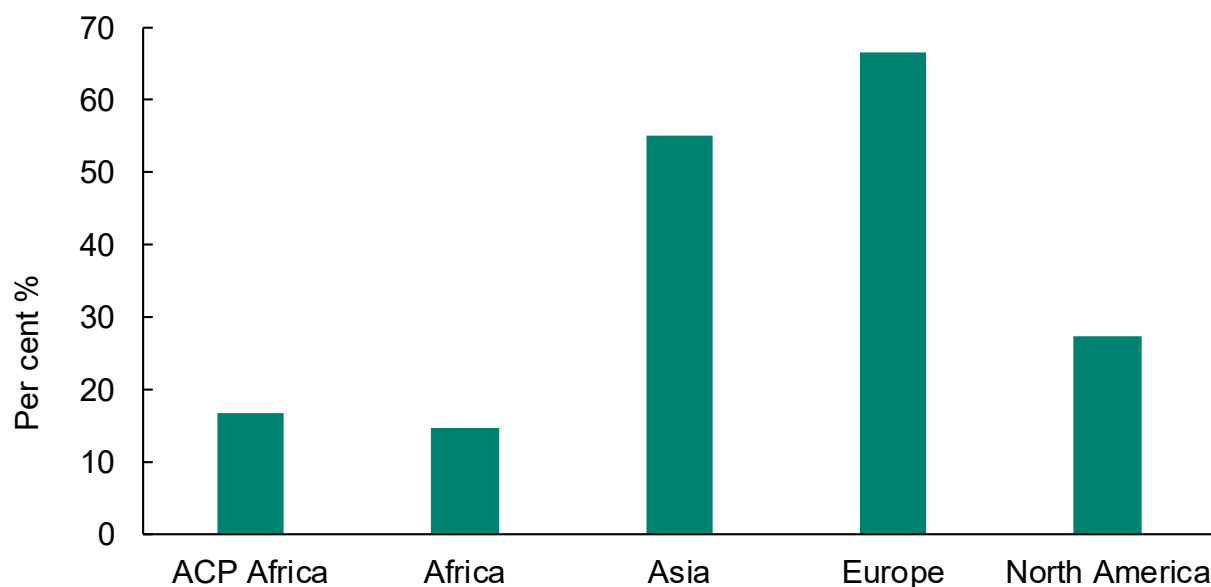
State of play and specificities

While African countries are open, they trade too little with themselves, too little relative to their economic size and to other regions of the world (Figure 2).

¹⁴ Wide heterogeneity exists, not only among the different regional groups but also within them. Countries such as Cameroon (Central Africa group) for which the EU is the major trading partner, contrast with countries in the Caribbean and Pacific areas, for which the EU is a more marginal trading partner, mainly because of geographical distance.

¹⁵ Africa here includes also North African countries. However the picture does not change much when considering only ACP African countries.

Figure 2: African countries trade little with each other – Share of intra-regional trade in total merchandise trade, by major region (2019)

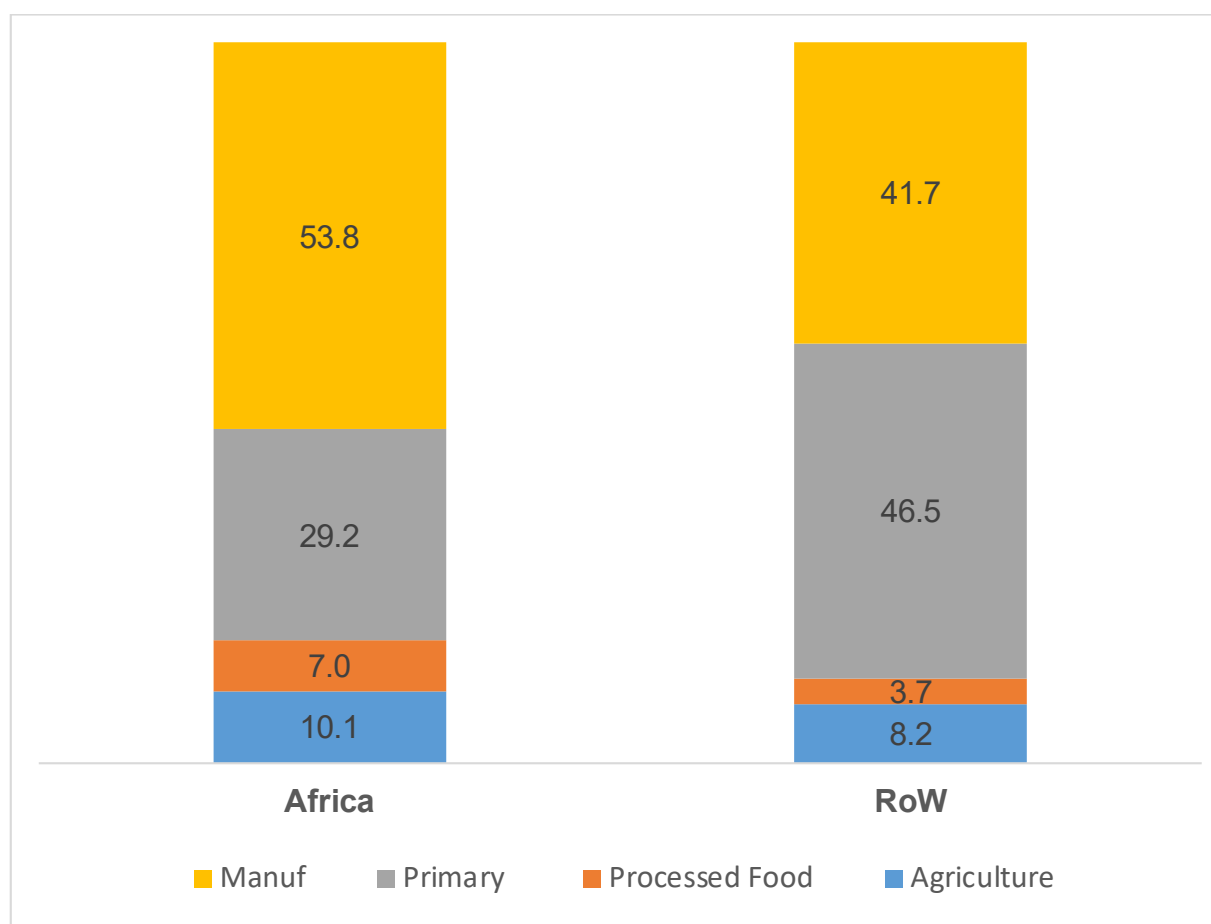


Source: Authors' calculations, from BACI database (Gaulier and Zignago, 2010, updated in February 2022).

Despite the important increase in terms of exports observed during the period 2007-2019 (+38 %, see Table A4), the share of intra-ACP African trade has stagnated in value terms at 18 % since 2007, and the situation is similar if we consider the whole African continent (15 %).

At the sectoral level, it is worth noting that intra-African trade tends to have a relatively higher value added than African exports to the rest of the world (see Figure 3). Indeed, the weight of processed goods and manufacturing is more important in intra-African trade than for exports towards the rest of the world, where natural resources occupy a very large part of total exports. Processed and semi-processed goods accounted for 79 % of intra-African exports in 2019, compared to 44 % in other destinations.

Figure 3: Intra-African trade has higher value-added content than Africa's exports to the rest of the world – Content of African exports by destination market, 2019



Source: Authors' calculations, from BACI database (Gaulier and Zignago, 2010, updated in February 2022).

As for unprocessed agricultural products and natural resources, they are mostly exported outside the African continent: 81 % and 90 % respectively. Instead, it is for processed food that the African regional market is the most important: 25 % of African exports of these goods are sold there (see Table 6).

Table 6: African exports by sector and by destination, 2019

	USD millions			Shares	
	Africa	RoW	Total by sectors	Africa	RoW
Agricultural goods	8.6	39.8	48.4	17.8	82.2
Vegetable products	7.7	38.5	46.2	16.6	83.4
Livestock and animal products	0.9	1.3	2.2	41.8	58.2
Processed food	5.9	17.8	23.7	25.0	75.0
Agr. food	5.9	17.8	23.7	25.0	75.0
Natural resources	24.9	226.2	251.1	9.9	90.1
Primary	24.9	226.2	251.1	9.9	90.1
Manufacturing	45.9	202.9	248.7	18.4	81.6
Electronics and machinery	16.2	48.7	64.9	25.0	75.0
Metallurgy	12.8	109.2	122.0	10.5	89.5
Textile and apparel	2.8	19.1	21.9	12.7	87.3
Other industries	14.1	25.8	39.9	35.3	64.7

Source: Authors' calculations, from BACI database (Gaulier and Zignago, 2010, updated in February 2022).

African economies are highly specialised; a few Harmonised System (HS) products account for a large part of their total trade. One single product category (out of the 5 113 categories of products in the HS rev1 nomenclature) accounts for more than 50 % of total exports in one out of two countries, and more than 70 % in one out of three countries. However, intra-African trade tends to be more diversified (see Carrère, 2013). Intra-regional exports by African firms are 4.5 times more diverse than their exports outside Africa (AUC/OECD, 2019).

The fact that intra-African trade tends to be more diversified and of higher value-added content should encourage African countries to pursue their economic integration and transformation, and then become more competitive in the international market. EPAs can be a stepping stone in that process. However, to achieve all this, African economies need to reduce the numerous obstacles that curb intra-African trade (see below).

Before addressing impediments to regional integration, it is important to stress that the trade figures presented do not take into account informal trade. African countries actually trade more with each other than is indicated by customs statistics. Although fragmentary, the available studies on the subject show that the phenomenon is quantitatively important, especially for trade between border countries and for trade in local agricultural commodities, where informal trade can reach or even exceed the value of trade recorded by customs (Bensassi, et al., 2019; Bouët et al., 2018).

The importance of informal trade, aiming to bypass obstacles to trade, reveals the extent to which the fragmentation of African markets is an impediment to establishing a friendly environment for business and to integrated value chains at the regional level.

Numerous obstacles curb intra-African trade

The limited economic size and weak complementarity of the specialisations of African countries, linked in particular to the weight of primary natural resources in their exports (45 %), constitutes a first obstacle.

Governance issues, such as limited administrative capacity and overlapping regional trade agreements, are a source of delays and thus of additional costs for intra-African trade.

Tariffs are still important. The average custom duty applied by Africa to the rest of the world is 8.8 %, the same as in Central Asia (8.4 %), compared with 6.1 % in China and 5.7 % in the United States. Intra-African trade also remains subject to high tariffs – even higher than those applied to imports from third countries, such as in agriculture and industry (Table 7).

Numerous other frictions exist, such as tariff barriers, non-tariff measures, regulatory discrepancies, inadequate infrastructure, weak trade-related services (logistics, trade finance and payments), and add another layer of costs. Plane (2022) estimates that logistics costs in Africa are four times higher than the world average. More generally, estimates¹⁶ show that the tariff equivalent of existing trade frictions, or border effects, is substantial – around 200 % for intra-African trade and about half that for the SADC and ECOWAS regions – even after subtracting frictions related to infrastructure or tariffs (see Djoumessi et al., 2017). Note that border effects might be overestimated, due to the importance of informal trade on the Continent that by definition is not included in the trade statistics.

¹⁶ The gravity model of trade makes it possible to assess the importance of different obstacles to trade. This model predicts the intensity of trade between countries according to their economic size, trade frictions (not only distance), and the equivalent of the gravitational constant (representing in our case the extent of globalisation). If trade frictions within a country are less than between countries (absence of customs duties, regulatory differences, common currency, etc), we would expect that each country trades more with itself than with other countries. Then, the ratio of the propensity of a country to trade with itself rather than with other countries, all other things being equal, is the best indicator of barriers to trade, observable or not. Once we know the 'price elasticity' of international trade – i.e. the response of the volume of imports to a variation in the price of imported products – we can calculate a customs duty equivalent for the revealed trade frictions, called the border effect.

Table 7: Average tariff by sector in Africa (2016), in percentage points

	Intra-Africa	Extra-Africa
Agricultural products	9.1	8.1
Processed food	17.7	24.4
Natural resources	4.6	5.9
Manufacturing	9.0	8.2
Average	8.2	8.9

Source: Fontagné et al. (2022), calculated from MAcMap-HS6 database (Guimbard et al., 2012).

3.4 Predicted impacts of EPAs

The literature on the impacts of EPAs is based on *ex ante* analyses built on either computable general equilibrium models (Bouët, 2018; Mevel, 2015; Keck et al., 2007) or, more often, on partial equilibrium models (Andriamananjara et al., 2009; Busse, 2007; Fontagné et al., 2011; Milner, 2006; Morrissey, 2007).

In what follows we concentrate on forecast trade and fiscal effects of EPAs. Before beginning the discussion of the effect of EPAs on these two aspects, it is important to emphasise a few points. First, studies covering the entire ACP group are rare (Fontagné et al., 2011, Mevel, 2015; Morrissey, 2007¹⁷); most focus on a specific region or country (for instance, Nigeria in Andriamananjara et al., 2009). Second, *ex ante* studies tend to disregard some adjustment costs, such as those that emerge from the reallocation of factors of production across sectors, or reorganisation of the fiscal base and the shift to other forms of taxation to replace tariffs. They also generally assume that tariff cuts translate into proportional reductions in prices to the benefit of the final consumer. In reality, it is likely that some of the cut will be captured by the producers/importers, and/or by the exporter due to an incomplete pass-through of tariff changes to consumer prices (see Gasiorsek and Winters, 2004). Another effect that is ignored is the 'lock-in' effect (Collier, 2015): establishing an EPA with the EU induces ACP countries to take irreversible, and therefore more credible, trade measures, which might bring benefits in terms of domestic or foreign investment in African markets. Finally, all studies analyse the impacts of the trade-related provisions of EPAs, mostly tariff and more rarely non-tariff barriers on goods and services. However, EPAs encompass many other elements (see section 2.1) such as more flexible rules of origin or provisions on investments that might bring positive impacts.

Trade impacts

In terms of tariff reduction, studies tend to show that EU exporters are the main beneficiaries of EPAs because their sales to African markets increase more than exports of African countries to the EU (Scollay, 2002; COMESA Secretariat, 2003; Ndlela and Tekere, 2003; Busse et al., 2004; Karingi et al., 2005). This is not surprising if we consider that EPAs do not offer much more free market access to African countries that already benefit from preferential access to the EU under EBA or GSP. For instance, Fontagné et al. (2011) find that EPAs could bring a 14 % (18 %) increase in the volume of exports to (imports from) the EU in 2022 (the schedule of implementation they assume covers the period 2015-2022)¹⁸.

Regarding the exports of ACP countries, authors point out how choosing the right counterfactual is essential to measure correctly the impacts of EPAs. Misguided assumptions often introduce a bias in the debate over the consequences of EPAs; this is particularly so for the assumption that the alternative to EPA is the status quo (Cotonou preferences). Actually, in the absence of EPAs, many African countries would use the unilateral preferences provided by the EU to LDCs (EBA) or developing countries (GSP), which are

¹⁷ This paper, however, concentrates only on agricultural products, ignoring the rest of the economy.

¹⁸ The SADC group is the one for which exports to the EU will increase the most (+30 %), in line with the results found by Keck et al. (2007).

less advantageous than the Cotonou preferences (see section 2.2). When comparing EPAs with the Cotonou preferences as benchmark, the model leads to gains that are more limited (+6.3 % in 2022 in Fontagné et al., 2011).

Different implementation periods – immediately for the EU and a longer period for the African countries – also imply a transitory gain for African countries' trade balances over the corresponding period.

Sensitive products, excluded from the liberalisation for African countries, play a crucial role. Without sensitive products imports from the EU would be much higher, i.e. a 24 % increase in African imports from the EU in 2022.

If we look now at the sectoral level, while African countries would benefit from EPAs, the gains are mainly on agricultural and textile products (Mevel, 2015; Fontagné et al., 2011), and in particular on a very limited number of products. Only 3 % of the 5 113 goods classified at the HS6 level represent more than 90 % of new exports; furthermore, only a few HS6 lines from Mauritius drive the large export gains in textile and apparel (Fontagné et al., 2011). Contrariwise to exports, the sectoral composition of African imports points to an increase in industrial goods, mirroring the traditional pattern of EU-Africa trade (see section 3.2).

Fiscal impacts

African negotiations groups are a combination of relatively poor developing countries and LDCs, most of which are highly dependent on trade relations with the EU. In countries where tariff revenues constitute a significant amount of government budgetary resources, this dependence may lead to sizable losses in tax revenue (Bouët, 2018; Fontagné et al., 2011; Milner, 2006; Morrissey, 2007).

The effects of EPAs on African countries' public finances have been widely debated, but their different impacts remain difficult to disentangle. The elimination of customs duties on many European imports produces two main effects: a direct effect by cancelling the duties on existing import flows from the EU and a trade diversion effect. The overall effect of cutting tariffs will depend on the combined effect of reduced tariffs and increased imports resulting from falling import prices, until liberalisation is complete. The second effect of EPA is trade diversion, expected from any FTA. Untaxed imports from the EU, or from countries belonging to the same African region, will replace currently taxed imports from the rest of the world. Accordingly, trade diversion produces additional negative impacts on tariff revenue.

The combination of these effects results in a forecast average loss in tariff revenue on EU imports for all ACP of 71 % in 2022 (Fontagné et al., 2011). The lowest relative losses are expected to occur in the SADC region (58 %), while the region most heavily affected is ECOWAS, where the trade diversion effect will be particularly detrimental (losses of EUR 700 million annually in the long run or 82 % of tariff revenue in 2022). However, imports from other world regions will continue to provide tariff revenues. Thus, when tariff revenue losses are computed on total African imports, losses are limited (25 % on average in Fontagné et al., 2011) and could even be less if product lists of sensitive products are optimised (19 %)¹⁹.

Finally, tariff revenue is not the only source of income for government. It is clear that the effects of EPAs on African countries' public finances will differ depending on the initial importance of tariff revenue in total government income. Countries such as Congo, where tariff revenue losses are forecast to be high (–33 %), depend relatively little on this source of revenue (7.1 %). Mozambique and several West African countries, such as Ghana and especially Côte d'Ivoire, which are heavily dependent for their budget on this revenue source, may experience difficult transition phases due to heavy predicted losses in customs receipts (50 % of revenue losses in Mozambique).

¹⁹ Fontagné et al. (2011) provide two different list of sensitive products excluded by liberalisation. In the central scenario, the excluded list mainly protects agricultural products. Then, the authors construct an alternative list of sensitive products using a discrete choice model to ensure that the choice of products minimises tariff losses, at the initial trade level.

LDCs should benefit the most from an adjustment package allowing them to move progressively from a taxation system based on imports to a more stable, domestic-focused system. The transition to other forms of taxation will be particularly difficult in post-conflict countries where central government power is weak and the whole administration is in a phase of 'rebirth' (e.g. Central African Republic).

Overall, in the long-term, solutions will depend on the capacity of each ACP country to reorganise its fiscal base.

3.5 Gender effects of EPAs

While the Cotonou Agreement, which is the legal basis for the EPA negotiations, makes an explicit commitment to gender equality, gender issues were not the central focus in EPA negotiations. Despite this lack of common attention, EPAs, like all other FTAs, are likely to have a gender-specific impact. Given women's crucial role in the African economy, the obstacles faced by women are brakes on Africa's development.

The male and female labour forces are not distributed equally in all economic sectors. In Africa, the agricultural sector employs most of the population (70 % according to UNECA, 2020). Women, who constitute half of the African population (WB indicators)²⁰, play a major role in the agricultural economy²¹; they make up two-thirds of the agricultural labour force and produce most of the food (WB indicators). Therefore, if EPAs affect the agricultural sector, because of cheaper goods imported from the EU, this is going to affect women more than men, both in terms of jobs and revenue losses. Furthermore, women have a different role in households and less access to resources than men do. Trade liberalisation on the African side should bring a series of benefits, like the access to more advanced mechanisation in the agricultural sector. However, as small farmers and particularly women encounter greater difficulties in accessing credit (the access-to-credit gender gap is 73 % according to UNECA, 2020)²², they generally lack the necessary means to buy modern agricultural machines and other inputs (ADB, 2015; WEF, 2022). These potential benefits of the EPAs risk therefore remaining only theoretical for them.

Because of revenue losses, detailed in section 3.4, some African governments are likely to have to cut back expenses in the field of social services and education, at least for the period necessary for the country to reorganise its fiscal base. This again has a gender dimension, as it is women who have to look after the education of children.

All these issues need to be monitored effectively. To do so it is necessary to identify a series of key policy-oriented indicators²³ (ADB, 2015) and to have access to a series of data. Better data are necessary both on the gender structure of the economy and particularly on trade and labour subdivided between men and women, and on the different access by men and women to resources and on government expenditure.

4 Africa in value chains

In what follows, we mostly refer to the African continent, including North Africa in the analysis. We explore the evolution of the participation of African countries in global value chains, comparing, when relevant, their situation before the implementation of EPAs with the most recent available data. Of course, these descriptive statistics as such cannot provide causal relationships between the negotiation/implementation of EPAs and a change in the position of African countries in global value chains (GVCs). However, they tend

²⁰ Own calculation based on WB indicators; see <https://data.worldbank.org/indicator>

²¹ The manufacturing and the service sectors are male-dominated.

²² With the exception of micro credit where women are overrepresented.

²³ The Africa Gender Index provides data on gender equality for almost all African countries, with only few exceptions (3 countries in its 2019 edition). It focuses on economic empowerment, human development, laws and institutions. Interestingly, this index is action-oriented. UNECA and the African Development Bank plan to publish it every three years, which would allow monitoring changes over time, to identify the most appropriate policies needed to improve the empowerment of women.

to show that the position of the African continent in GVCs did not change significantly between 2000 and 2018. On the contrary, the role of the EU as a provider of inputs to African economies that have already implemented EPAs for some years tends to decrease, while the role of Asian countries, in particular China and India, increases. This is consistent with the increasing role of these countries in global trade and value chains. The question that then arises concerns the counterfactual: in the absence of EPAs, what would have been the present level of integration in GVCs of African countries? Economic modelling tools could provide an answer (even if they would require recent data, not available yet) but, in any case, from the descriptive statistics that follow, we could conclude that, at best, EPAs may be correlated to a stable position of African countries in GVCs.

The latest Africa's Development Dynamics report, jointly prepared in 2022 by the African Union Commission (AUC) and the OECD Development Centre, explores the subject of African regional value chains (see AUC/OECD, 2022). Their focus is on sustainable recovery after the COVID-19 crisis, different from ours, but we can take advantage of the detailed indicators on the participation in global value chains they develop.

In particular, the report takes advantage of the unique UNCTAD-Eora Global Value Chain database (for details, see the methodological paper by Casella et al., 2019). This database offers global coverage – 189 countries²⁴ and rest of the world – over a long period (from 1990 to 2018) of some key GVC indicators, among which:

- DVA: Domestic value added embodied in each country's exports
- FVA: Foreign value added embodied in a country's exports, corresponding to the Backward GVC participation component of the GVC participation index
- DVX: Domestic value added of a given country which is embodied in the exports of other countries, corresponding to the Forward GVC component of the participation index
- VA_exp: Total value added embodied in a country's exports – equal to DVA+FVA
- GVC: the GVC participation index for a country – equal to FVA+DVX

4.1 Africa shows limited backward integration

Africa's levels of participation in value chains have remained similar for more than two decades, from 2000 to 2018. In the following, we detail the indicators for 2018; values for 2000 are available on demand.

At first glance, if we look at the GVC participation index in 2018 – this indicator tells us how much value added there is in a country's exports relative to its GDP – it seems that Africa is integrated in value chains at a level similar to that of other developing regions, such as Latin America and Developing Asia, around 8 % (see Table 8).

The peculiarities of Africa appear when we break this index down into two parts. Forward participation – the use of inputs exported by Africa in production processes by other countries – accounts for almost 6 % of African GDP, in line with other developing regions. African countries largely participate in the global value chain by exporting natural resources and agricultural commodities, further transformed by other countries (as seen in section 3). In contrast, Africa shows limited backward participation in GVC: foreign value added embodied in African exports accounts for around 2 % of GDP, which is lower than Latin America (4 %) and Developing Asia (3 %). As a result, forward participation is three times more important than backward participation, this ratio being much higher than in other economies in the world.

²⁴ Equatorial Guinea and Comoros are the only two African countries not represented in EORA.

Table 8: African GVC participation in 2018, in percentage points of GDP

	GVC participation	Forward GVC	Backward GVC
Africa	8.0	6.0	2.0
Developing Asia	8.7	5.6	3.1
Latin America and Caribbean	8.0	4.0	4.0
High income	16.9	7.7	9.2

Source: Authors' calculations, from UNCTAD-Eora database (Casella et al., 2019).

This limited level of backward linkage is detrimental to the economic development of African economies. Globally and on average, estimates show that a 1 % increase in GVC participation boosts per-capita income by more than 1 %, with a higher contribution from an increase in backward participation than in forward participation (WB, 2020a). For instance, in Africa, in the two countries classified as of high income, Mauritius and Seychelles, the share of foreign value added in the total value added of domestic exports (32 % and 42 %, respectively) is significantly higher than in the LDCs of the continent or than the African average (14 %, see Table 9).

Table 9: Backward participation in GVCs in Africa and some selected economies (2018)

	Foreign VA	Domestic VA
	as a share of total value added in exports (%)	
Developing Asia	17	83
Latin America	21	79
Africa	14	86
Madagascar	10	90
Mauritius	32	68
Seychelles	42	58
Zimbabwe	10	90
Cameroon	7	93

Source: Authors' calculations, from UNCTAD-Eora database (Casella et al., 2019).

Compared to forward participation, backward participation is more favourable for domestic enterprises to acquire knowledge about production capabilities and foreign markets, which will allow them to increase their competitiveness and upgrade in value chains, thus creating more productive jobs. For example, in the agrifood value chains, downstream segments help create non-farm jobs in both urban and rural areas. These jobs generate up to eight times more output per worker than farming (see Tschirley, 2015).

African producers remain marginal actors in international production, accounting for 1.7 % of GVCs in 2018²⁵. Furthermore, regional value chains account for only 2.7 % of Africa's participation in GVCs, compared to 26.4 % in Latin America and the Caribbean and 42.9 % in developing Asia (see AUC/OECD, p.23). Indeed African economies mostly integrate into production networks outside the continent. In 2018 African countries imported only 15 % of their inputs within the continent, compared to 22 % in Asia. Among all African regions, only southern Africa showed a sizeable flow of imports and exports of intermediate goods with other countries in the region.

²⁵ Morocco and South Africa have successfully upgraded their automotive production to supply European and other highly competitive markets (see AUC/OECD 2022).

4.2 The role of EU as a provider of value added

EPAs were expected to both improve the backward participation in GVCs of African countries and increase the regional value chains, through importing cheaper inputs from the EU.

While a large share of African inputs (as well as the exports of their inputs) comes from traditional partners such as the EU and USA, the data show recent integration into East Asia production networks, particularly China and to a lesser extent India. This shift is evident also for countries in Africa that have been signing EPAs over the past decade, for which we would have expected increasing inputs from the EU (see Table 10). This development is consistent with the increasing role of China and India in global trade and value chains. In other words, EPAs do not seem to run counter significantly to the global trends in terms of reshaping value chains.

Table 10: Backward participation in five ACP countries signing EPAs, with the 6 top trade partners (2000 and 2018)

	2000			2018	
	Share in VA in exports	Share in foreign VA		Share in VA in exports	Share in foreign VA
Madagascar (2012)					
Madagascar	92.0		Madagascar	89.7	
France	1.7	21.4	China	2.7	25.8
USA	0.6	7.7	France	1.0	9.6
Germany	0.5	6.2	Germany	0.5	5.3
Japan	0.4	5.4	USA	0.4	4.3
Italy	0.4	4.8	India	0.4	3.9
South Africa	0.3	3.8	Japan	0.4	3.6
Mauritius (2012)					
Mauritius	62.0		Mauritius	68.3	
South Africa	3.9	10.4	China	7.9	25.0
France	3.4	8.8	India	5.9	18.5
Italy	3.1	8.1	Germany	1.2	3.9
India	2.5	6.6	USA	1.2	3.9
Germany	2.1	5.6	South Africa	1.0	3.3
Seychelles (2012)					
Seychelles	70.6		Seychelles	58.1	
South Africa	2.6	8.7	China	4.5	10.9
USA	2.0	7.0	Singapore	4.1	9.8
UK	1.7	5.8	USA	2.8	6.8
Japan	1.6	5.3	India	2.5	5.9
Italy	1.0	3.5	Indonesia	1.9	4.5
France	1.0	3.5	UK	1.7	4.1
Zimbabwe (2012)					
Zimbabwe	92.1		Zimbabwe	90.4	
South Africa	4.1	52.0	South Africa	4.3	44.8
USA	0.4	5.3	China	1.4	14.3
Germany	0.4	4.5	Germany	0.5	5.5
UK	0.3	4.4	Japan	0.3	3.5
Japan	0.3	3.3	Taiwan	0.3	2.6
Italy	0.2	2.2	USA	0.2	2.2

Cameroon (2014)

Cameroon	93.2		Cameroon	93.3	
France	2.1	30.4	France	0.9	13.5
Germany	0.5	7.5	China	0.8	11.3
USA	0.5	7.2	Nigeria	0.6	8.7
Italy	0.4	6.2	Germany	0.5	7.8
Japan	0.3	5.1	USA	0.4	5.8
Belgium	0.3	4.6	India	0.4	5.4

Source: Authors' calculations, from the UNCTAD-Eora database (Caselle et al., 2019). In parenthesis, we recall the year in which each country started to trade under EPA rules.

5 African Continental Free Trade Area

The low level of regional integration (described in section 3.3) contrasts with repeated attempts to liberalise trade within Africa. Overlapping agreements, often of limited ambition, partially implemented in many cases, have so far failed to bring about a profound reorientation of African exports towards the continent.

It was against this background that African countries met in Kigali, Rwanda in March 2018 to launch an ambitious project to achieve continental integration. This materialised in the African Continental Free Trade Area (AfCFTA) and became one of the 13 flagship projects of Agenda 2063. A total of 54 African countries (only Eritrea did not join) signed the agreement, which entered into force in May 2019, in record time, after the ratification by 24 of its signatories.

The project of the African Continental Free Trade Area is to create a single market and deepen the economic integration of the continent, while eliminating the problem of multiple participation in regional agreements and moving towards the creation of a future continental customs union, where African countries would need to align progressively their external trade policies. Its scope is very broad, covering provisions that go beyond the commitments that a country can make in the WTO. The final agreement will be the result of several phases of negotiations:

- Phase I, implemented on 1 January 2021, concerns the traditional aspects of regional agreements, such as trade in goods and services, non-tariff barriers and RoO for products.
- Phase II will deal with investment, intellectual property rights and competition policy.
- Phase III will cover e-commerce.

To date, 43 countries have ratified the agreement creating, the first phase of which formally began a year ago but is not yet fully completed²⁶.

Simulations of the effects of this first phase of AfCFTA implementation show that African countries can expect important gains from intra-African trade reforms, higher than those measured by the implementation of EPAs (Fontagné et al., 2022, World Bank, 2020c; Mevel et al., 2015). The most recent simulations (Fontagné et al., 2022), performed based on the most up-to-date database, show that intra-African trade is expected to substantially increase by 2045, following ambitious implementation of Phase I (Table 11).

²⁶ Only 41 African countries or customs unions have submitted their lists of tariff-liberalised products, with 10 % of products liberalised with a delay, and 3 % exempted. Agreements on RoO and non-tariff barriers have not been fully finalised. As regards services, five priority sectors have been identified.

African markets currently account for 14 % of total African exports and this share is expected to almost double, to 27 %, by 2045, thanks to the implementation of AfCFTA. Two mechanisms are equally at work: the expected economic growth in the continent will increase the share of intra-African trade in the exports of these countries by 41 % (column two in Table 11); and AfCFTA will further increase it by 37 % largely due to the removal of non-tariff barriers to trade. Nevertheless, a large part of African exports (two thirds) will be oriented towards third markets. At the top of the destination markets, we find China, mainly because of its economic size and growth. In contrast, Africa will largely turn away from the European market, mainly because of the expected relative slowdown in the growth of the EU market.

Table 11: Destination of African exports of goods and services

	2020	2045	
		without AfCFTA	with AfCFTA
Africa	13.9	19.6	26.8
China	14.2	16.9	15.5
EU+UK	31.1	19.1	17.3
USA	6.8	4.8	4.3
RoW	34.0	39.6	36.1

Source: Fontagné et al. (2022).

However, AfCFTA is a long-term project, embracing the different dimensions of the business environment, and EPAs can be conceived as a stepping stone towards such deep regional economic integration. It is likely that AfCFTA will make a difference to the *de facto* fragmentation of the African continent. The integration of African markets, combined with the dynamics in population and urbanisation, could increase the continent's attractiveness for investors, generate new opportunities for investments on the continent, and foster the creation of production networks.

Finally, it is important to highlight that the empirical evidence shows that AfCFTA can substantially advance the different aspects of gender equality in Africa (Sakr, 2021). In particular, in removing internal barriers, AfCFTA would promote the translation of informal to formal trade, which in turn will strongly benefit women. Indeed, women comprise up to 70 % of informal cross-border traders across Africa and are frequently the primary breadwinners of their families, despite the precarious nature of informal trade and threats to their personal safety (Yusuff, 2014; Njikam, 2011; UNCTAD, 2022a, 2022b, 2021a, 2021b).

However, to translate these theoretical outcomes into reality, Africa should demonstrate stronger legal commitment²⁷ and set up an effective monitoring and reporting system to help decision-makers draw up the policies needed to promote effective changes (Sakr, 2021).

6 Conclusions

Concerning Africa, the rationale behind the EPAs is to establish FTAs between the European Union and regional groups, complying with WTO rules of reciprocity and non-discrimination. While respecting international rules, EPAs try to take advantage of existing flexibilities and cover issues beyond those that are purely commercial so as to help African economies to diversify, stimulate regional and continental

²⁷ AfCFTA highlights gender equality as a key objective for Africa, and entails two gender-related provisions, in the preambles and general objectives. However, AfCFTA's text neither targets specific gender-related aspects nor underscores precise policy actions to be promoted by Member States to empower women. In this respect the AfCFTA text is less exhaustive than other African regional trade agreements endorsed by Regional Economic Communities (RECs) (see Sakr, 2021).

integration, and ultimately to contribute, through trade and investment, to sustainable development and poverty reduction.

Negotiations for EPAs began in September 2002 and were due to be completed by 2007. However, the process of negotiation encountered difficulties. Only 14 ACP African countries (out of 48) implemented EPAs, and starting only from 2012. African countries concerned about EPAs preferred to use the other WTO-compatible preferential schemes offered by the EU to all developing countries, whenever eligible – that is, unilateral preferences such as EBA for LDCs and GSP (or GSP+) for non-LDCs. While being less favourable than EPAs in terms of market access (at least for GSP and GSP+) and having more stringent rules of origins, these unilateral schemes by nature do not require African countries to liberalise their own market access. Indeed, it was reciprocity that African countries feared. As African countries strongly protect their goods, they were aware of the consequences of opening their markets to the EU for their local industry (and jobs) and the fiscal consequences of tariff revenue losses, as highlighted by all the relevant literature.

If local industry is threatened because of import surges from the EU, EPAs make it possible for African countries to protect some of the ‘infant industries’ that a country seeks to develop. African countries have been allowed to exclude sensitive products from liberalisation, they also benefit from a long period of liberalisation (from 15 to 25 years). EPA partners can also take measures to protect food security. Moreover if, on the one hand, EPAs expose local industry to competition shocks, and that may kill small and less efficient businesses, on the other hand EPAs provide cheaper input, for instance machinery, which in turn increases the competitiveness of the local economy. These potential benefits of EPAs risk remaining merely theoretical for women in Africa, as they encounter great difficulties in accessing credit. These are not just women’s issues; they are brakes on Africa’s development, given their central role in the African economy. Gender equality issues require stronger legal commitments and targeted policies, which in turn need to be supported by better monitoring. As well, improvement of the existing data on the subject is crucial.

As for tariff revenue losses, they might be large in certain countries (in the ECOWAS group) and smaller in others (in the SADC group), depending on the initial structure of imports and trade diversion effects. Sensitive products offer the possibility to strongly reduce this threat. However, as tariff revenue is not the only source of income for government, the overall impact of tariff revenue losses will differ across countries depending on the initial importance of tariff revenues in total government income. Countries such as Congo, where tariff revenue losses are forecast to be high (–33 %), depend relatively little on this source of revenue (7.1 %). On the contrary, Mozambique and several West African countries, such as Ghana and especially Côte d’Ivoire, which are heavily dependent for their budget on this revenue source, may experience difficult transition phases due to large predicted losses in customs receipts (50 % of revenue losses in Mozambique). In the long term, solutions will depend on the capacity of each ACP country to reorganise its fiscal base. As the transition to other forms of taxation will be particularly difficult for LDCs and in post-conflict countries where central government power is weak and the whole administration is in a phase of ‘rebirth’ (e.g. Central African Republic), adjustment packages should be provided. In this respect we recall that European funds are mobilised as soon as EPAs are signed.

The causal *ex post* assessment of EPAs is daring, given the recent implementation dates, the long lead times of their implementation (15 to 25 years) and the limited availability of recent data on African countries. Descriptive statistics provide information on some trends, which is important, but do not show any causal relationship between negotiation of EPAs and their impact on trade. Trade data show that, from 2007 to 2019, trade between ACP African countries and the EU has been increasing in absolute value terms, and similarly in both directions (+10 %). At the same time, intra-regional African trade also increased (+37 % in terms of exports in value). However, we should refrain from interpreting this as a causation going from EPAs to trade, as several confounding factors may have played a role.

Despite the increase in African exports to the EU, in 2019 African countries accounted for only 5 % of total extra-EU imports. On the other hand, although in relative terms the EU as a partner of African countries (for

both exports and imports) has declined with the emergence of China, the EU remains Africa's main trading partner. In parallel, intra-African trade is too limited compared to the economic size of African countries and also compared to the statistics for other regions in the world.

To consider the future contribution of EPAs to the growth of Africa and to the relationship between the EU and Africa, it is useful to consider Africa's current role in international trade. The analysis reveals two different patterns, one with the EU and the rest of the world, and the other within the continent.

The first pattern, with the EU and the rest of the world, is centred on commodities, mainly agricultural and natural resources. This role of Africa mainly as an exporter of commodities remained constant for decades, mirroring its limited industrial development. Because of this, Africa participation in global value chains has not benefited production transformation and the creation of more valuable jobs on the continent. In this respect, EPAs provide for flexible rules of origin and cumulation rules that could support African partner countries in the production of value added and their integration in value chains within the continent and beyond.

The second pattern concern intra-African trade relations. On the one hand, African countries trade too little with themselves, mainly due to their economic size and to the high frictions prevailing on the Continent. On the other hand, some positive points emerge. Intra-African trade tends to be more diversified. Regional markets are more profitable for the discovery and the development of new productive capacity. Physical, cultural and institutional proximity and easier contact with existing networks reduce the costs for African firms to experiment in regional markets (Carrère, 2013). Intra-regional exports by African firms are 4.5 times more diverse than exports outside Africa (AU/OECD, 2019). Moreover, intra-African trade tends to involve goods with a relatively higher content in terms of value added than Africa's exports to the rest of the world. The weight of processed goods and manufacturing is larger in intra-African trade than in exports to the rest of the world, where natural resources occupy a very large part of total exports. Processed and semi-processed goods accounted for 79 % of intra-African exports in 2019, compared to 44 % in other destinations.

It is this second pattern that provides a viable pathway for Africa's economic integration and transformation aspirations, which will also entail more meaningful engagement with the EU and the rest of the world. Domestic processing at regional level to serve local demand can help producers in specialising in downstream segments of sequential value chains (e.g. food processing, marketing, transport and retail) by exploiting their proximity to final consumers (Antras et al., 2020). In this sense, the dynamics of Africa's demography and urbanisation present substantial opportunities.

The new capabilities that firms acquire from serving regional markets help them to grow and better survive when they expand to more competitive and demanding markets, such as high-income countries (Carrère et al., 2017).

EPAs are intended to support regional integration in various ways. They were offered and negotiated with ACP regions based on country groupings defined by them; they contain a regional preference clause requiring ACP countries to extend EPA treatment not just to the EU but to each other; they include flexible provisions on RoO and far-reaching possibilities to 'cumulate' origin between EPA countries and beyond. EPAs are therefore as much about trade between the countries in an EPA as they are about trade with the EU. However, with the exception of the SADC group, countries preferred to negotiate individually, with a potential negative impact on the existing level of fragmentation of trade policies on the continent.

Important gains are expected from the African Continental Free Trade Area, which creates a single market, deepening the economic integration of the continent, while eliminating the problem of multiple participation in regional agreements. Relevant studies predict that the actual share of intra-African trade would double by 2045. Two mechanisms are equally at work: the expected intra-African trade and the removal of barriers, in particular non-tariff measures. Nevertheless, large parts of African exports (two

thirds) will be oriented towards third markets – especially China, mainly because of its economic size and growth.

Moreover, AfCFTA is a long-term project, embracing the different dimensions of the business environment. It is likely to reduce the fragmentation of the African continent, increasing its attractiveness for investors. Finally, it is important to highlight that empirical evidence shows that AfCFTA can substantially advance the different aspects of gender equality in Africa (Sakr, 2021). In particular, in removing internal barriers AfCFTA would promote the translation of informal to formal trade, which will strongly benefit women.

Overall, the sequences of trade reforms matter for Africa. Successful implementation of the African Continental Free Trade Area would ensure that the gains from EPAs would better materialise. A continent-to-continent trade agreement between 27 EU and 54 African countries would be a highly ambitious project that could enhance EU cooperation, trade and investment in Africa. However, it can only succeed if it is based on deep integration on both sides.

References

- ADB (2015), Africa Gender Development Index 2015, African Development Bank.
- AUC/OECD (2022), Africa's Development Dynamics 2022: Regional Value Chains for a Sustainable Recovery, AUC, Addis Ababa/OECD Publishing, Paris.
- AUC/OECD (2021), Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs, African Union Commission, Addis Ababa/OECD Publishing, Paris.
- AUC/OECD (2019), Africa's Development Dynamics 2019: Achieving Productive Transformation, African Union Commission, Addis Ababa/OECD Publishing, Paris.
- Andriamananjara, S., Brenton, P., Von Uexkull, J. E. and Walkenhorst, P. (2009). Assessing the economic impacts of an economic partnership agreement on Nigeria. World Bank Policy Research Working Paper (4920).
- Antràs, P. and A. de Gortari (2020), On the geography of global value chains, *Econometrica*, Vol. 88/4, pp. 1553-1598.
- Bensassi, S., Jarreau, J. and Mitaritonna, C. (2019). Regional Integration and Informal Trade in Africa: Evidence from Benin's Borders. *Journal of African Economies*, 28(1): 89-118.
- Bouët, A., Decreux, Y., Fontagné, L., Jean, S. and Laborde, D. (2008). Assessing applied protection across the world. *Review of International Economics*, 16(5), 850-863.
- Bouët, A., Laborde, D. and Traoré, F. (2018) The European Union–West Africa Economic Partnership Agreement: Small impact and new questions, *The Journal of International Trade and Economic Development*, 27:1, 25-53.
- Bouët, A., Pace, K. and Glauber, J. W. (2018). Informal Cross-Border Trade in Africa: How Much? Why? And What Impact? *Document de travail IFPRI*, n° 01783.
- Busse M., and Großmann, H. (2007). The trade and fiscal impact of EU/ACP economic partnership agreements on West African countries, *The Journal of Development Studies*, 43:5, 787-811.
- Carrère, C. and Strauss-Kahn, V. (2017), Export survival and the dynamics of experience, *Review of World Economics*, No. 3.
- Carrère, C. (2013). UEMOA, CEMAC : quelle performance en matière de commerce ?, *Revue d'économie du développement*, De Boeck Université, vol. 21(1), 33-60.
- Casella, B., Bolwijn, R., Moran, D. and Kanemoto, K. (2019). Improving the analysis of global value chains: the UNCTAD-Eora Database, *Transnational Corporations* 26(3).
- de Melo, J. and Kniahin, D. (2022). A Primer on Rules of Origin as Non-Tariff Barriers, Centre for Economic Policy Research Discussion paper 17076.
- de Sousa J., Mayer, T. and Zignago, S. (2012). Market Access in Global and Regional Trade. *Regional Science and Urban Economics*, Elsevier, vol. 42(6).
- Djoumessi, E. K. and Bala, A. P. (2017). The analysis of borders effects in intra-African trade. *ERSA Working Paper*, 701.
- Fontagné, L., Mitaritonna, C. and Zheng, Y. (2022), Décollage du commerce intra-africain : l'impératif de croissance économique, *la lettre du CEPII* n° 425. March 2022.
- Fontagné, L., Laborde, D. and Mitaritonna, C. (2011). An impact study of the economic partnership agreements in the six ACP regions. *Journal of African Economies*, 20(2), 179-216.

- Gaulier, G. and Zignago, S. (2010). BACI: International Trade Database at the Product-Level (The 1994-2007 Version). CEPII Working Paper, n° 2010-23.
- Guimbard, H., Jean, S., Mimouni, M. and Pichot, X. (2012) MacMap-HS6 2007, an exhaustive and consistent measure of applied protection in 2007. *International Economics*, Q2, 2012, p. 99-122.
- Head, K. and Mayer, T. (2000). Non-Europe: the magnitude and causes of market fragmentation in the EU. *Review of World Economics*, 136(2), 284-314.
- Keck, A. and Piermartini, R. (2007). The Impact of Economic Partnership Agreements in Countries of the Southern African Development Community, *Journal of African Economies*, Volume 17, Number 1, 85-130.
- Luke, D., Mevel, S. and Desta, M. G. (2020) EU-Africa Trade Arrangements at a Crossroads Securing Africa's External Frontier, *SEF Global Governance Spotlight*, 3 2020.
- Mevel, S., Valensisi, G. and Karingi, S. (2015) The EPAs and Africa's Regional Integration, ICTSD.
- Milner, C., Morrissey, O. and McKay, A. (2006), Some Simple Analytics of the Trade and Welfare Effects of Economic Partnership Agreements, *Journal of African Economies*, Volume 14, Number 3, 327–358.
- Morrissey, O. and Evious, Z. (2007). The impact of economic partnership agreements on ACP agriculture imports and welfare, CREDIT Research Paper, No. 07/09, University of Nottingham, Centre for Research in Economic Development and International Trade (CREDIT), Nottingham.
- Njikam, G. and Tchouassi, G. (2011). Women in informal cross-border trade: Evidence from the Central Africa Region, *African Journal of Business Management*, Vol. 5(12), 4835-4846, 18 June, 2011.
- Olney, W.W. (2020). Intra-African Trade. Document de travail, n° 2020-15, Université de Hawaii.
- Plane, P. (2021). What factors drive transport and logistics costs in Africa?, *Journal of African Economies*, Vol. 30/4, 370-388, Oxford University Press.
- Sakr, M. (2021). Towards gender-responsiveness African Economies: What role can AfCFTA play in this regard?, African Union Development Agency.
- Stevens C. and Kennan J. (2005). EU–ACP Economic Partnership Agreements: The Effects of Reciprocity, Institute of Development Studies, Sussex.
- Stevens, C. (2006). The EU, Africa and Economic Partnership Agreements: unintended consequences of policy leverage, *J. of Modern African Studies*, 44, 3 (2006), 441-458.
- Tschirley, D. et al. (2015). Africa's unfolding diet transformation: Implications for agrifood system employment, *Journal of Agribusiness in Developing and Emerging Economies*, Vol. 5/2, 102-136.
- UNCTAD (2022a). Women in informal cross-border trade in Malawi: A small-scale trader's guide to trade rules and procedures.
- UNCTAD (2022b). Women in informal cross-border trade in Zambia: A small-scale trader's guide to trade rules and procedures.
- UNCTAD (2021a). Women in informal cross-border trade in the United Republic of Tanzania: A small-scale trader's guide to trade rules and procedures.
- UNCTAD (2021b). Women in informal cross-border trade in Kenya: A small-scale trader's guide to trade rules and procedures.
- UNECA (2020). Africa Gender Index Report 2019, United Nations Economic Commission for Africa.
- World Economic Forum (2022). Global Gender Gap report. World Bank.
- World Bank (2020a). World Development Report: 2020 Trading for Development in the Age of Global Value Chains, World Bank, Washington DC.

Policy Department, Directorate-General for External Policies

World Bank (2020b). Digital Financial Services, World Bank Group, Washington DC, April.

World Bank (2020c). The African Continental Free Trade Area.

Yusuff, O. (2014). Gender Dimensions of Informal Cross Border Trade in West-African Sub-Region (ECOWAS) Borders, *International Letters of Social and Humanistic Sciences*, Vol. 29, 19-33.

APPENDIX

Appendix A. Protection pattern

Table A1: ACP average applied tariffs, regional level (%) for 2007 and 2019

Importing Region	2007						
	Central Africa	EAC	ESA	SADC	West Africa	EU28	RoW
Central Africa	6.5	16.6	13.9	12.6	15.1	13.0	14.1
EAC	2.3	1.5	6.1	9.0	18.9	10.6	11.6
ESA	4.4	9.6	7.3	9.4	14.9	12.4	12.9
SADC	7.2	9.4	1.7	3.3	3.8	5.5	8.1
West Africa	5.3	16.2	13.4	11.1	10.7	9.8	11.9
	2019						
	Central Africa	EAC	ESA	SADC	West Africa	EU28	RoW
Central Africa	4.3	13.6	11.4	10.6	12.2	12.0	13.2
EAC	0.7	0.0	2.0	8.1	16.2	11.1	13.8
ESA	4.6	7.3	6.3	7.6	14.0	8.8	10.2
SADC	0.6	7.4	1.9	1.9	1.3	3.8	7.9
West Africa	5.2	13.2	11.3	10.4	0.3	9.8	10.4

Source: Authors' calculations, based on updated version of MAcMapHS6 (Guimbard et al., 2012) for 2007 and 2019. Reference group weighting scheme (Bouët et al., 2008) is kept constant at the year 2007. Importing region in rows (for instance, 16.6 % corresponds to the average tariff applied by EAC to goods imported from Central Africa).

Table A2: EU applied tariff by region and sector (percentage points), 2007

	ACP	Central Africa	EAC	ESA	SADC	West Africa	RoW
Total	0.8	0.1	0.5	3.7	0.8	0.1	2.6
Agriculture							
Vegetable products	9.8	3.7	0.9	17.0	13.1	0.9	9.2
Livestock and animal products	35.8	26.3	28.9	1.0	48.9	25.8	56.4
Processed food							
Agr. Food	2.0	1.3	0.4	0.2	7.0	0.4	9.0
Natural Resources							
Primary	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Manufacturing							
Elec and machinery	0.3	0.0	0.0	0.0	0.5	0.0	2.4
Metallurgy	0.2	0.0	0.0	0.0	0.2	0.0	1.1
Textile and apparel	0.1	0.1	0.1	0.1	0.1	0.0	7.3
Other industries	0.0	0.0	0.8	0.0	0.0	0.0	2.8

Source: Authors' calculations, based on updated version of MAcMapHS6 (Guimbard et al., 2012) for the year 2007. Reference group weighting scheme (Bouët et al., 2008) is kept constant at the year 2007.

Appendix B. Trade pattern in goods

Table A3: EU imports from ACP African groups

	USD millions			Share on extra-EU imports			Share on EU imports		
	2007	2013	2019	2007	2013	2019	2007	2013	2019
ACP African countries total	81.4	113	88.4	4.3	5.9	4.6	1.5	2.1	1.6
Central Africa	8.8	13.3	6.4	0.5	0.7	0.3	0.2	0.2	0.1
EAC	2.4	2.8	2.5	0.1	0.1	0.1	0.0	0.1	0.0
ESA	4.8	5.4	4.8	0.3	0.3	0.3	0.1	0.1	0.1
SADC	39.2	42.2	38.0	2.0	2.2	2.0	0.7	0.8	0.7
West Africa	26.2	49.7	36.7	1.4	2.6	1.9	0.5	0.9	0.7

Source: Authors' calculations, based on BACI database (Gaulier and Zignago, 2010, updated in February 2022).

Table A4: ACP African total trade by major partners

	USD millions			Shares		
	2007	2013	2019	2007	2013	2019
ACP African imports from						
Africa ACP	48.12	87.91	66.04	18.42	19.58	17.42
EU	81.43	114.04	88.53	31.17	25.39	23.36
USA	16.06	23.71	15.43	6.15	5.28	4.07
China	26.03	68.55	82.80	9.96	15.26	21.85
RoW	89.61	154.88	126.23	34.30	34.49	33.30
ACP African exports to						
Africa ACP	48.12	87.91	66.04	15.92	18.54	17.39
EU	81.42	113.41	88.42	26.94	23.91	23.29
USA	66.28	36.03	19.07	21.93	7.60	5.02
China	26.35	68.24	72.21	8.72	14.39	19.02
RoW	80.05	168.68	133.95	26.49	35.57	35.28

Source: Authors' calculations, based on BACI database (Gaulier and Zignago, 2010, updated in February 2022).

Appendix C. Structural indicators

Table A5: Development indicators for ACP African countries

	GDP			Income level	
	2010 (USD billion)	2020 (USD billion)	Growth rate (2010-2020)		
Central Africa					
Cameroon	27.5	40.8	48.4	LM	LM
Central African Republic	2.1	2.3	9.5	L	L
Chad	10.7	10.7		L	L
Congo, Dem. Rep.	21.6	48.7	125.5	L	L
Congo, Rep.	13.1	10.5	-19.8	LM	LM
Equatorial Guinea	16.3	10.1	-38.0	H	UM
Gabon	14.4	15.3	6.3	UM	UM
São Tomé and Príncipe	0.2	0.5	150.0	L	LM
EAC					
Burundi	2	2.8	40.0	L	L
Kenya	45.4	100.7	121.8	L	LM
Rwanda	6.1	10.2	67.2	L	L
South Sudan	14.6			L	L
Tanzania	32	62.4	95.0	L	LM
Uganda	26.7	37.6	40.8	L	L
ESA					
Comoros	0.9	1.2	33.3	L	LM
Djibouti	1.1	3.2	190.9	LM	LM
Eritrea	1.6			L	L
Ethiopia	29.9	107.7	260.2	L	L
Madagascar	10	13.2	32.0	L	L
Malawi	7	12.2	74.3	L	L
Mauritius	10	10.9	9.0	UM	H
Seychelles	1	1.2	20.0	UM	H
Somalia	N.A.	7		L	L
Sudan	74.2	27	-63.6	LM	L
Zambia	20.3	18.1	-10.8	LM	LM
Zimbabwe	12	18.1	50.8	L	LM
SADC					
Angola	81.7	53.6	-34.4	LM	LM
Botswana	12.8	14.9	16.4	UM	UM
Eswatini	4.4	4	-9.1	LM	LM
Lesotho	2.2	2.3	4.5	LM	LM
Mozambique	11.1	14	26.1	L	L
Namibia	11.4	10.6	-7.0	UM	UM
South Africa	417.4	335.4	-19.6	UM	UM

West Africa					
Benin	9.5	15.7	65.3	L	LM
Burkina Faso	10.1	17.9	77.2	L	L
Cabo Verde	1.7	1.7		LM	LM
Côte d'Ivoire	34.9	61.3	75.6	LM	LM
Gambia, The	1.5	1.8	20.0	L	L
Ghana	32.2	70	117.4	L	LM
Guinea	6.9	14.2	105.8	L	L
Guinea-Bissau	0.8	1.4	75.0	L	L
Liberia	2	3	50.0	L	L
Mali	10.7	17.5	63.6	L	L
Mauritania	5.6	7.9	41.1	L	LM
Niger	7.9	13.7	73.4	L	L
Nigeria	361.5	432.3	19.6	L	LM
Senegal	16.1	24.5	52.2	L	LM
Sierra Leone	2.6	4.1	57.7	L	L
Togo	3.4	7.6	123.5	L	L

Source: Authors' calculations, from WDI World Bank Database.

L = low income, LM = lower-middle income, UM = upper-middle income, H = high income

BRIEFING

Sustainable Investment Facilitation Agreements with African countries

ABSTRACT

Building on the Africa-Europe Alliance and the recent Global Gateway Africa – Europe Investment Package, the EU is currently negotiating a Sustainable Investment Facilitation Agreement (SIFA) with the Republic of Angola. At the level of the WTO, 112 members currently negotiate towards an agreement on Investment for Development (IFD). Compared with the IFD, the EU-Angola SIFA is likely to provide substantial added value with regard to the linkage between investment facilitation and binding commitments on trade and sustainable development. This briefing explores the political and economic framework of the SIFA, looks into the potential for similar agreements with other partners in Africa, and provides for a comprehensive analysis of the draft agreement's very substance. The SIFA's provisions on gender and investment deserve special attention. In the conclusions, we assess the partly weak degree of commitment of the rules agreed in the EU-Angola SIFA and draw attention to the need for parliamentary supervision of the executive bodies established with the SIFA.

AUTHOR

- Prof. Dr. Andreas Maurer D.E.E.A. (Bruges), Jean Monnet Chair for Political Science and European Integration studies, University of Innsbruck, School for Social and Political Sciences

PROJECT COORDINATOR (CONTRACTOR)

- Parlatrade

This paper was requested by the European Parliament's Committee on International Trade.

The content of this document is the sole responsibility of the authors, and any opinions expressed herein do not necessarily represent the official position of the European Parliament.

CONTACTS IN THE EUROPEAN PARLIAMENT

Coordination: Wolfgang IGLER, Policy Department for External Relations

Editorial assistant: Balázs REISS

Feedback is welcome. Please write to wolfgang.igler@europarl.europa.eu

To obtain copies, please send a request to poldep-expo@europarl.europa.eu

VERSION

English-language manuscript completed in October 2022.

COPYRIGHT

Brussels © European Union, 2022

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© Image on cover page used under licence from Adobe Stock.

This paper will be published on the European Parliament's online database, ['Think Tank'](#).

Table of contents

1	Political and economic context	5
2	Trends in FDI in Angola and other African countries	6
3	Origin and nature of SIFAs	12
	3.1 The EU's approach to investment facilitation	13
	3.2 Investment facilitation at the level of the WTO	14
4	Key provisions of the EU's SIFA with Angola	15
5	Investment and gender in the SIFA	17
6	Conslucions	18

List of acronyms

ACP	African, Caribbean, and Pacific Group of States
AfCFTA	African Continental Free Trade Area
AU	African Union
BIT	Bilateral Investment Treaty
CAI	Comprehensive Agreement on Investment (EU-PRC)
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CETA	Comprehensive Economic and Trade Agreement (EU-Canada)
DPAP	European Parliament Delegation for relations with the Pan-African Parliament
DRC	Democratic Republic of Congo
EAC	East African Community: An Economic Community and Customs Union comprising DRC, Burundi, Kenya, Rwanda, South Sudan, Uganda, and Tanzania
ECOWAS	Economic Community of West African States comprising Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, the Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo
EPA	European Partnership Agreement
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GEM	Global Entrepreneurship Monitor
IFD	Investment Facilitation for Development (negotiations at WTO level)
ISDS	Investor-state dispute settlement
MEA	Multilateral Environmental Agreement
MNE	Multi-National Enterprise
MSME	Micro, Small & Medium Enterprises
OECD	Organisation for Economic Co-operation and Development
PAP	Pan-African Parliament
SADC	Southern African Development Community: An Economic Community comprising Angola, Botswana, Comoros, Democratic Republic of Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, United Republic Tanzania, Zambia and Zimbabwe
SACU	Southern African Customs Union: A Customs Union between Botswana, Lesotho, Namibia, South Africa, and Eswatini
SDG	Sustainable Development Goals
SIA	Sustainability Impact Assessment
SIFA	Sustainable Investment Facilitation Agreement
SME	Small & Medium Enterprises
TRIMs	Agreement on Trade Related Investment Measures
TSD	Trade and Sustainable Development
UCAN-CEIC	Centro de Estudos e Investigação Científica-Universidade Católica de Angola
UNCTAD	United Nations Conference on Trade and Development
UNEA	United Nations Environment Assembly
UNFCCC	United Nations Framework Convention on Climate Change

1 Political and economic context

For more than a decade, African countries have been among the fastest growing economies in the world. Trade between the EU and Sub-Saharan Africa doubled over the past decade. The EU remains the biggest trading and investment partner for most African countries, especially for those implementing Economic Partnership Agreements (EPAs) with the EU. In Africa, EPAs support the implementation of the **Africa-Europe Alliance for Sustainable Investment and Jobs**, launched in September 2018.¹ They are key tools of the EU's Comprehensive Strategy with Africa. The economic pillar of this strategy identifies trade – alongside regional and continental economic integration – as major elements to promote the sustainable development of African countries. The February 2021 Trade Policy Review Communication 'An Open, Sustainable and Assertive Trade Policy' confirms that Africa is of particular importance to the EU's trade policy.² The Africa-Europe Alliance **builds on Africa-EU Partnership** that the African Union (AU) and the EU formally established in 2000 at the first Africa-EU Summit in Cairo. It is **guided by a Joint Africa-EU strategy**, adopted in 2007.³ Summits of EU and AU heads of states and governments take place traditionally every three years, alternating between Africa and Europe. These summits provide the political guidance for further work. The 5th AU-EU Summit was held on 29-30 November 2017 in Abidjan, Côte d'Ivoire, under the central theme 'Investing in youth for a sustainable future'.

Box 1. Interparliamentary cooperation between the EU and Africa

As to the parliamentary dimension of the AU-EU cooperation, the European Parliament and the Pan-African Parliament (PAP) meet regularly to assess the existing partnership and to carry out general consultative tasks vis-à-vis the executive level. The last interparliamentary meetings took place on 20 November 2020 and 10 February 2022.

Within the European Parliament, the Delegation for relations with the Pan-African Parliament (DPAP) is responsible for strengthening the interparliamentary dimension of the Africa-EU Partnership as outlined in the Joint Communication 'Towards a Comprehensive Strategy with Africa' and in the ACP-EU Cotonou Partnership Agreement.

Regarding trade relations between the AU and the EU more specifically, the European Parliament's recent resolution of 23 June 2022 on the future of EU-Africa trade relations (2021/2178(INI)) calls for the establishment of a regular high-level policy dialogue to be complemented by an exchange at the level of regional groupings, as well as individual states. More specifically, it calls on the Commission and European enterprises and investors to apply modern, sustainable and, wherever possible, climate-neutral production technologies in African industrialisation projects. The resolution further urges both the AU and the EU Commissions to create and facilitate framework conditions to change the nature of the integration of African countries into the world economy, from sources of primary commodities to exporters of intermediate and final products, while maintaining policy space for the safeguarding of infant industries. In addition, Parliament calls to support a multi-stakeholder system to allow the AU member states to produce their own (anti-Covid-19) vaccines to facilitate the development of scientific potential and reduce global dependence; to promote the development of regional value chains and better regional infrastructure in Africa, to ease FDI in transport infrastructure, connectivity and digitalisation, and to promote gender equality and women's empowerment in EU-Africa trade relations. Finally, Parliament's resolution urges the EU and the AU to promote private investment on the African continent. In this context, Parliament also calls on the EU to stimulate private sector investment by translating the UN's SDGs into binding human rights, social and environmental due diligence obligations.

¹ See: European Commission: Communication on a new Africa – Europe Alliance for Sustainable Investment and Jobs: Taking our partnership for investment and jobs to the next level, COM(2018) 643 final, 12 September 2018.

² See: European Commission: Trade Policy Review – An open, sustainable and assertive trade policy, Brussels 2021, https://trade.ec.europa.eu/doclib/docs/2021/april/tradoc_159541.0270_EN_05.pdf

³ See: Council of Ministers: The Africa-EU Strategic Partnership. A Joint Africa-EU Strategy, Doc. No. 16344/07, Lisbon, 9 December 2007, https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/97496.pdf.

Against this background, so-called **Sustainable Investment Facilitation Agreements (SIFAs)** can become an important instrument for improving and promoting economic activity in Africa. Currently, the Commission is negotiating a SIFA with Angola and preparing negotiations for SIFAs with Nigeria and other countries in Eastern and Southern Africa. **SIFAs are designed to promote sustainable investment** in Africa and the Southern Neighbourhood as part of the broader EU strategy **to increase engagement with African partners to unlock their economic potential, support economic diversification and promote inclusive growth**. Such agreements aim to increase the transparency and predictability of investment operations, simplify and accelerate administrative and approval procedures, strengthen bilateral cooperation on investment facilitation issues and contribute to sustainable development. However, SIFAs do not compete with already concluded bilateral investment treaties (BITs) between EU Member States and African States. **As the SIFAs do not address portfolio investments and do not contain investor-state dispute settlement (ISDS) provisions, they are likely to function as EU-only agreements**. Accordingly, they are subject to ratification by the European Parliament and the parliament(s) of the respective partner country. Colloquial evidence provided for by officials from the Commission suggests that ideally, investment facilitation provisions should be concluded and ratified as new chapters to already existing EPAs. In this respect, the **SIFA with Angola**, which is the focus here, **is a special case** because Angola is not a member of an existing EPA. The Angolan government is also currently negotiating accession to the EU-SADC Economic Partnership Agreement (SADC EPA, comprising the EU, Botswana, Lesotho, Mozambique, Namibia, South Africa and Eswatini).

At the 5th Angola-EU Ministerial Meeting in September 2020, both sides confirmed their intention to start exploratory discussions on a bilateral investment agreement, focusing on investment facilitation. Building on the European Commission's recommendation for a Council Decision authorising the opening of negotiations with Angola on an agreement on investment facilitation of 23 March 2021, the Council authorised the opening of negotiations on such an agreement and adopted its negotiating directives on 26 May 2021. **The EU-Angola SIFA will be the first-ever bilateral agreement on investment facilitation that the EU is negotiating**. The agreement will focus on achieving the facilitation of FDI by enhancing the transparency and predictability of investment measures, by simplifying procedures, encouraging e-government, and enhancing public-private dialogue, promoting sustainable development and responsible investment, supporting Angola's effort to attract and retain investment by improving the investment climate for both foreign and local investors. The latest draft of the EU-Angola SIFA includes a comprehensive chapter (No. 5) on sustainable development, addressing the right of the contracting parties to regulate and the level of protection, commitments on multilateral labour standards, multilateral environmental policies and agreements, investment and climate change, corporate social responsibility and responsible business conduct, and investment and gender equality.

Negotiations on the EU-Angola SIFA are taking place in the context of the Africa-EU Partnership and the Joint EU-Africa Strategy, efforts to substantially consolidate treaty-based relations between the EU and African states, and negotiations within the WTO to implement the joint Initiative on Investment Facilitation for Development (IFD).

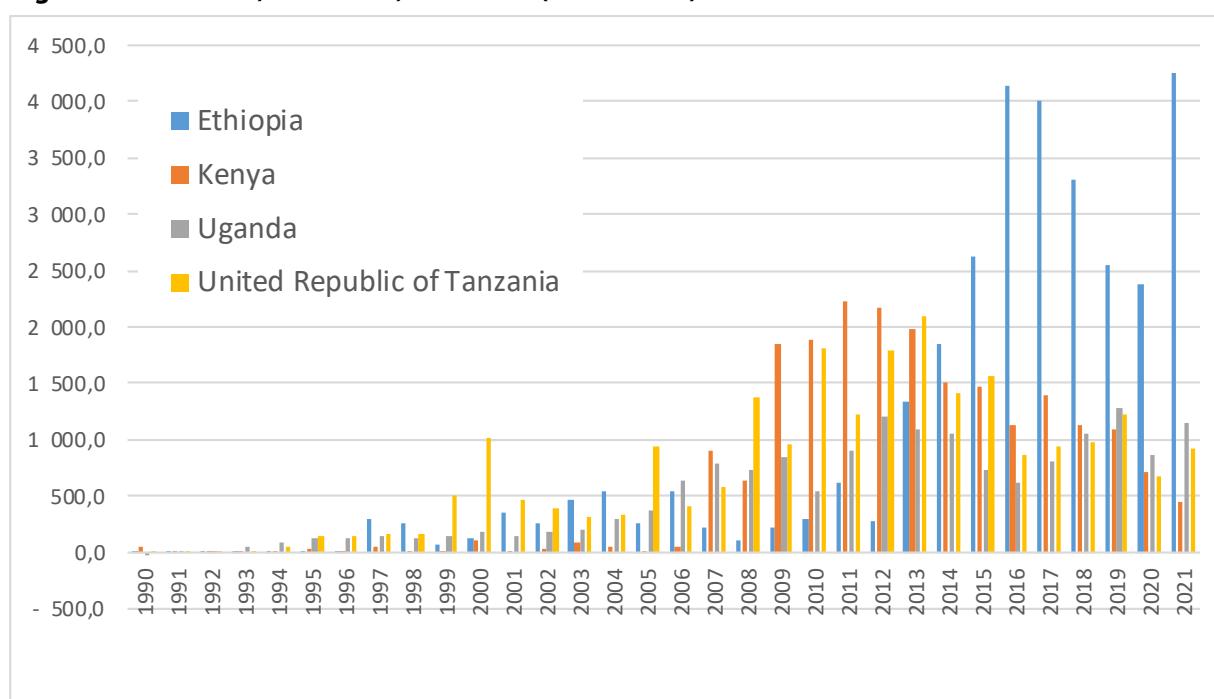
2 Trends in FDI in Angola and other African countries

In 2021, according to the UNCTAD World Investment Report 2022,⁴ FDI in West Africa increased by 48.3 % compared to 2021, while in East Africa it increased by 34.8 %. Russia's invasion of Ukraine and rising tensions in the Far East have left foreign and domestic investors struggling to navigate an increasingly

⁴ See: World Investment Report 2022, <https://unctad.org/webflyer/world-investment-report-2022>.

conflict-ridden world. With globalization under stress and major stimulus programs underway in Europe and North America to make supply chains more resilient for key industries, the financial impact will be felt across Africa. As a result, there is **growing pressure on African governments to address issues of compliance with investment-enhancing regulations**. This, combined with higher levels of investor facilitation, is increasingly becoming a key differentiator in competing for the type and amount of foreign direct investment that host countries require. According to fDi Intelligence, in 2021 IT-enabled services recorded a notable increase in FDI project numbers, increasing by 29 % from the previous year.⁵ While FDI numbers through 2021 were encouraging, “greenfield investment”⁶ was sluggish reflecting weak investor confidence in some sectors. The FDI and trade rebound, further stress-tested supply chains, resulting in rising shipping prices and increased lead times, putting the trade recovery at risk.

Figure 1. FDI inflows, East Africa, 1990-2021 (million USD)

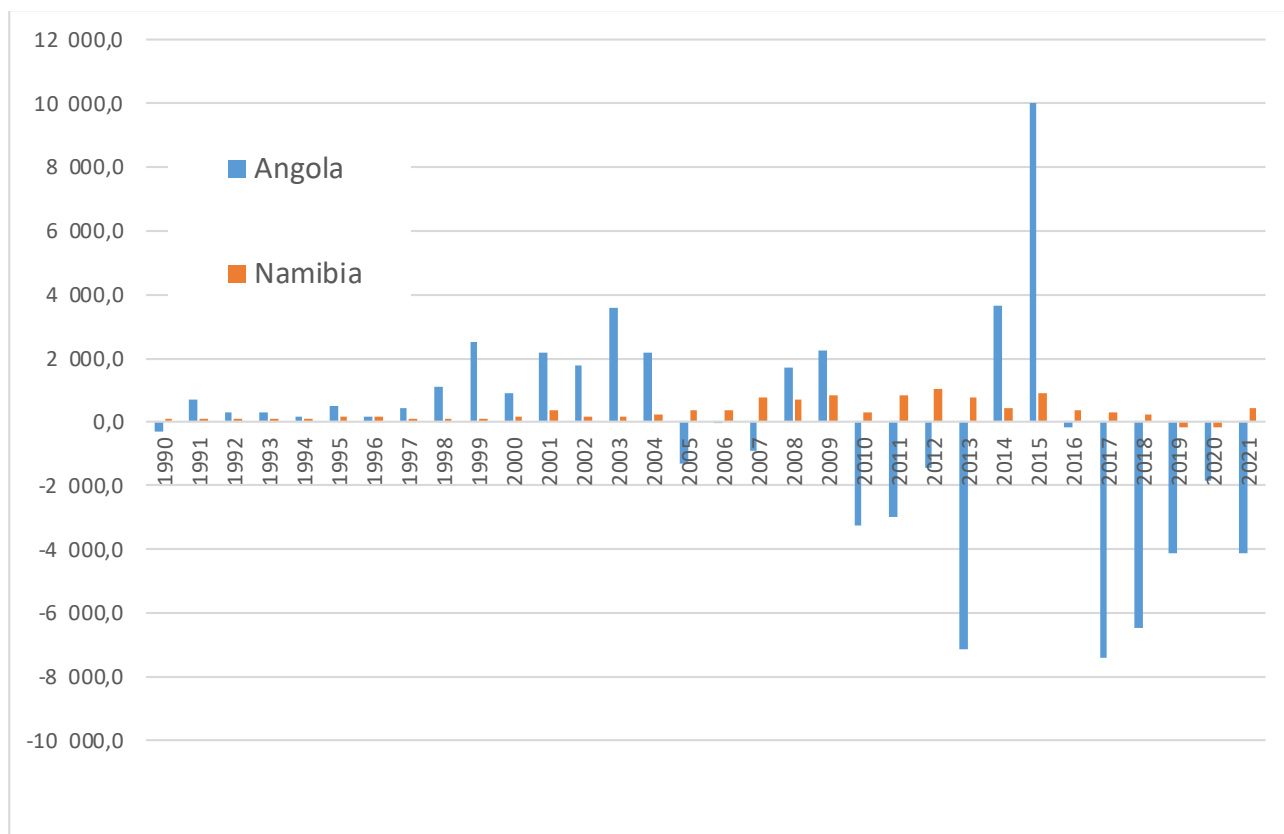


Source: Author's own calculation based on UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

⁵ See: fDi intelligence: THE fDi report 2021 – Global greenfield investment trends, <https://fdi-report-2021.fdiintelligence.com/files/ThefDiReport2021.pdf>.

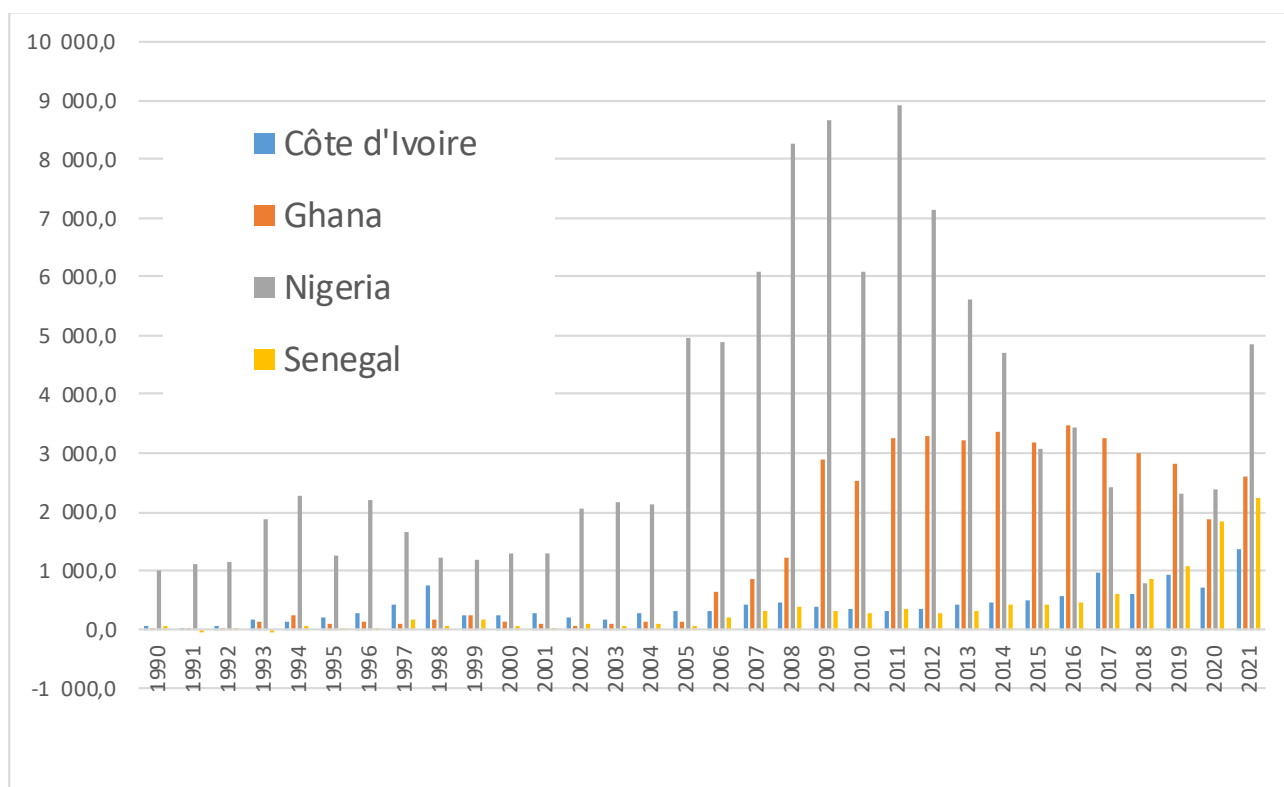
⁶ Greenfield investment is a type of FDI in which a parent company creates a subsidiary in a different country, building its operations from the ground up.

Figure 2. FDI inflows, Angola and Namibia 1990-2021 (million USD)



Source: Author's own calculation based on UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure 3. FDI inflows, Western Africa 1990-2021 (million USD)

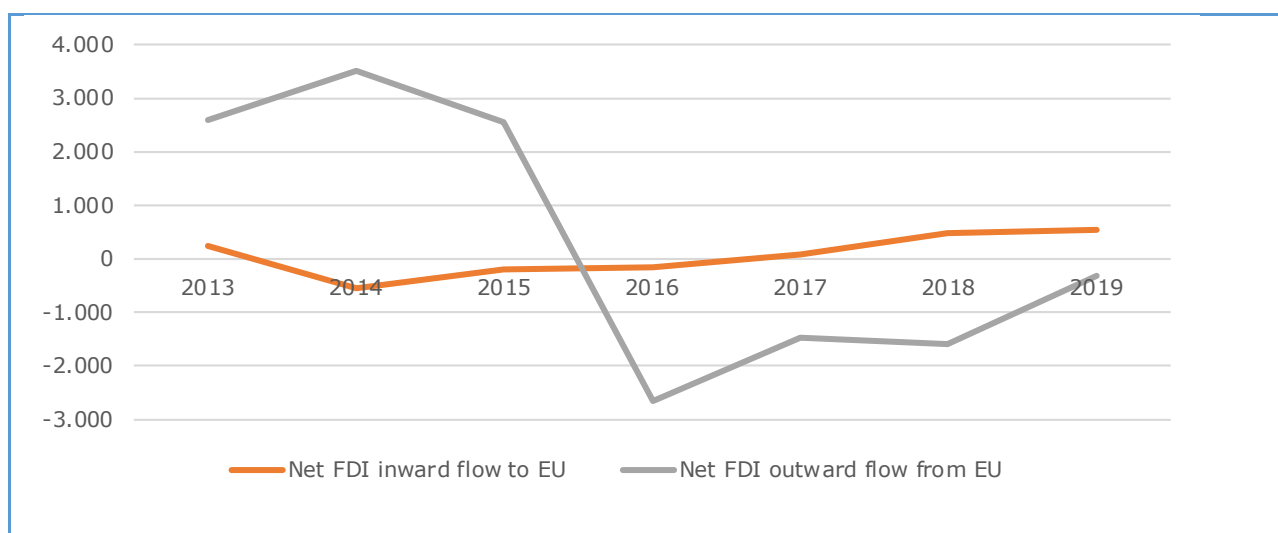


Source: Author's own calculation based on UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Regarding Angola more specifically, during the last 10 years FDI has contributed little to the country's overall investment capital: with the exception of 2014 and 2015, Angola was subject to net FDI outflows every year since 2010. This resulted in a substantial decline in FDI inward stocks from USD 43 billion in 2011 to less than USD 17 billion in 2020; EU FDI in Angola did not behave structurally different from total FDI in the country. The development is primarily the result of the dominance of investment in the petroleum sector in combination with the response of oil-sector investments to world oil price fluctuations. Over the period 2012 to 2018, on average 97 % of all inward FDI was in the petroleum sector.⁷ In addition, of the small share of non-oil inward FDI in 2016 and 2017, 86 % was in diamond mining, meaning that FDI in non-oil, non-diamond activities was minimal. According to UCAN-CEIC, **“the sectors with the greatest potential to generate employment and income for the people are those that have received the least foreign direct investment, such as agriculture and industry”**.⁸

Also the EU's FDI in Angola clearly focuses on the performance of Angola's petroleum sector. According to the Commission's Sustainability Impact assessment (SIA) in support of trade negotiations with Angola for EU-SADC EPA accession, net EU FDI flows to Angola were about EUR 3 billion until 2015. From 2016 onwards, EU FDI flows to Angola were negative, although with decreasing magnitude; by 2019 the outflow of EU FDI in Angola had almost stopped (EUR –317 million); in that year, EU27 FDI stocks in Angola stood at EUR 13.9 billion. Conversely, Angolan FDI flows to the EU were much steadier and show an increasing trend; reaching EUR 544 million in 2019. With Angolan FDI stocks in the EU reaching EUR 2.6 billion in that year, bilateral FDI activity is much more balanced than between the EU and many other African (and indeed developing) countries.

Figure 4. EU FDI flows to and from Angola, 2013-2019 (million EUR)



Note: Values for 2013-17 are for EU28; 2018-2019 are for EU27. Source: Eurostat, EU direct investment flows, breakdown by partner country and economic activity.

So far, neither the Commission nor the Council have presented clearly comprehensible designs on which **criteria could be used to prioritise potential partner countries for the conclusion of SIFAs**. Parliament would be well advised to fill this gap, if only to achieve more planning security. **Prioritisation** would be possible according to several criteria: a selection **based purely on the economic interests** of the EU would give preference to those states that are crucial for securing the medium- and long-term socio-economic goals of European societies. Based on this, however, the treaty-based barriers imposed on trade policy that politically impede closer cooperation between the EU and third countries would have to be taken into

⁷ See: UCAN-CEIC. 2019. 'Relatório Económico de Angola 2018'. Luanda: Universidade Católica de Angola/Centro de Estudos e Investigação Científica, p. 90.

⁸ Idem., p. 90.

account: In this respect, the **EU's objectives in the field of sustainable development and the protection and promotion of human and citizen rights** should play a decisive role in the decision on whether to open negotiations. Since the streamlined text of the IFD agreement currently being negotiated at WTO level focuses on the consideration of corporate social responsibility, the prevention and fight against corruption, money laundering, terrorism financing, tax fraud and tax evasion⁹, **a particular selection criterion** would be to explore the **readiness of potential partner states with regard to the goals pursued by the EU in terms of sustainable development, human rights, civil rights and labour rights core standards**.

Regarding the African states, prioritization could be achieved for example by **focusing on the major economies of the continent**. By size of GDP, Nigeria, South Africa, Morocco and Kenya are the biggest economies. Nigeria's GDP size may be explained mostly by its resources and demographic. South Africa's leading role in Southern Africa is underlined by the fact that it is not just a major destination country of FDI but also the biggest African country investing in the continent.¹⁰ From 2016 to 2020 it has invested 8.2 billion USD in Africa. In 2020, the second largest amount (3.3 billion. USD) of outbound FDI of the Middle East and Africa originated from South Africa (FDI Intelligence 2021).¹¹ Prioritization could also be effectuated by **focusing on investment attractiveness**. In terms of the absolute amount of foreign capital invested, Nigeria and Ethiopia have received the most FDI. However, Nigeria's surge in FDI can be explained primarily by oil and gas investment, while Ethiopia benefitted from a tripling of Chinese investment as a part of the Belt and Road Initiative. Nigeria, Côte d'Ivoire and Ethiopia witnessed the biggest growth in FDI flows in 2021. In relation to GDP size, Ethiopia and Ghana received the most FDI, although both countries have extremely bad credit rating (CCC and CCC+ by Standard&Poor's). An investment attractiveness ranking by the Rand Merchant Bank came to the conclusion that Morocco (2nd), South Africa (3rd) and Rwanda (4th) were the most attractive countries for investors. Ghana was ranked 6th, Côte d'Ivoire 8th and Kenya 9th while Nigeria, Ethiopia and Angola did not figure among the Top 10.¹²

Table 1. FDI performance breakdown

	Growth of FDI flows (2020-2021)	FDI flow compared to GDP (FDI/GDP)	FDI stock 2021 in million USD	GDP in billion USD	% of announced FDI projects from the EU	Top 3 areas of announced FDI projects	Major untapped potentials for European exporters	RMB Investment attractiveness rating 2021
Angola	-122 %	-5.57 %	13166	74.5	41.40 %	Communication / Coal, Oil, Gas / Financial Services	Automotive, / Medicaments / Food processing	/

⁹ The consolidated texts of the draft agreement are considered as restricted documents. We therefore rely on the published "EU Proposal for WTO disciplines and commitments relating to investment facilitation for development" of February 2020 (https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158673.pdf). Here, chapter 2.6 on "cross-cutting" issues addresses EU proposals for the agreement negotiations' items 26 (corporate social responsibility) and 27 (measures against corruption). The published text of the last available version of the draft agreement "WTO Structured discussions on investment facilitation for development – Consolidated document by the coordinator "Easter Text" revision 6", Doc. No. INF/IFD/RD/74/Rev.6, of 9 February 2022, can be retrieved at: <https://web.wto.org.tw/DownFile.aspx?pid=367074&fileNo=0>. Note that the "cross-cutting" issues have moved into section VI "Sustainable Investment", covering Articles 30 on "Responsible Business Conduct", and 31 on "Measures against Corruption".

¹⁰ See: EY: Reset for growth: fast forward, EY Attractiveness Report – Africa, November 2021, https://assets.ey.com/content/dam/ey-sites/ey-com/en_zs/topics/attractiveness/reports/ey-aar-reset-for-growth-final.pdf.

¹¹ See: The fDi REPORT 2021. Global greenfield investment trends, <https://fdi-report-2021.fdiintelligence.com/files/ThefDiReport2021.pdf>.

¹² See: How we made it in Africa: "Where to invest in Africa: Report reveals top 10 economies", Cape Town, 22 September 2021, <https://www.howwemadeitinafrica.com/where-to-invest-in-africa-report-reveals-top-10-economies/126466/>

Côte d'Ivoire	94 %	1.98 %	12821	69.75	41.90 %	Financial Services / Business Services / Food and Beverages	Automotive / Medicaments / Agribusiness	8.
Ghana	39 %	3.42 %	41021	76.36	27.40 %	Financial Services / Food and Beverages / Business Services	Automotive / Medicaments / Agribusiness	6.
Kenya	-37 %	0.41 %	10458	109.8	20.50 %	Financial Services / IT Services / Food and Beverage	Automotive / Medicaments	9.
Morocco	52 %	1.64 %	72941	131.47	51.70 %	Business Services / Auto components / Transport & Warehousing	Automotive / Avionics	2.
Nigeria	103 %	1.10 %	91857	441.54	20.30 %	Business Services / Software IT / Financial Services	Automotive / Medicaments	/

Source: UNCTAD bilateral FDI database on flows and stocks, UNCTAD FDI Country Profiles, UNCTAD Country Fact Sheets, fDi Markets, ITC Export potential (<https://exportpotential.intracen.org/en/products/tree-map?fromMarker=w&exporter=w&toMarker=w&market=w&whatMarker=k>), S&P global ranking.

Focusing on the interests and preferences of European investors, Morocco has the highest share of announced FDI projects from the European Union (51.70 %). Côte d'Ivoire and Angola have around the same share in announced FDI projects from the EU (41.9 and 41.4 %). Ghana has a share of 27.40 European FDI projects and Kenya and Nigeria score at around 20 %. Looking at major untapped potentials for European Exporters, Morocco has huge untapped potential with 2 billion USD of untapped market segment in motor vehicles for the transport of persons, commercial vehicles and automotive components. South Africa also has 1.2 billion USD of untapped potential in this market segment plus an additional USD 784 million in the pharmaceutical sector. Nigeria also possesses huge untapped market segments with USD 500 million in motor vehicles for transport of persons and USD 801 million in medicaments. Looking at raw materials needed for the EU's green transition (particularly cobalt, copper, lithium, nickel and rare earth elements) one country might be of specific interest: The Democratic Republic of Congo (DRC) currently produces 69 % of the global cobalt and has 46.1 % of proven reserves. It also is fourth in the global production of copper with 7.8 % of global production and 3.5 % of the global reserves.¹³ As the Commission is currently preparing a proper Raw Materials Act the DRC might be an important partner for a future SIFA.

If the potential partners for SIFAs are **prioritised according to the criterion of their treaty-based linkage with the EU**, then those states with which the EU has concluded European Partnership Agreements (EPA) stand out the most. Cameroon signed the EPA between the EU and Central Africa as the only country in the region on 15 January 2009. The EPA with Côte d'Ivoire entered into provisional application on 3 September 2016. The EPA with Ghana entered into provisional application on 15 December 2016. Negotiations of the regional EPA covering 16 countries in West Africa were concluded on 30 June 2014. All EU Member States and 13 West African Countries signed the EPA in December 2014, except Nigeria, Mauritania and The Gambia. The Gambia signed on 9 August 2018 and Mauritania on 21 September 2018, leaving Nigeria the only country of West Africa that has not signed the EPA. In 2009 Mauritius, Seychelles, Zimbabwe and Madagascar signed an interim EPA, which is provisionally applied since 14 May 2012. The provisional application for Comoros started on 7 February 2019. Negotiations for the 'deepening' of the

¹³ See: L. Leruth, A. Mazarei, P. Régibeau, L. Renneboog (2022): Green Energy Depends on Critical Minerals. Who Controls the Supply Chains? PIIE Working Paper 22-12/2022, <https://www.piie.com/sites/default/files/documents/wp22-12.pdf>.

existing EPA were officially launched in Mauritius in October 2019. Since then, nine rounds of negotiations have taken place, the last one in September 2022. The negotiations cover all trade related areas such as rules of origin, trade barriers to trade, customs and trade facilitation, sanitary and phytosanitary standards, trade and sustainable development, trade in services, investment liberalisation and digital trade, intellectual property rights, public procurement and means of implementation. Regarding the East African Community (EAC), negotiations for a regional EPA were successfully concluded on 16 October 2014. While all EU Member States and the EU have signed the agreement, the EAC still need to sign and ratify the EPA to be fully implemented. The EAC Summit of February 2021 concluded that those members who wished to implement the EPA should be able to engage with the EU with a view to starting the implementation of the EPA under the principle of variable geometry. In this regard, on 17 February 2022, EU and Kenya launched talks on an interim EPA with binding provisions on trade and sustainable development. As to the EPA with Southern African Development Community (SADC), negotiations were successfully concluded on 15 July 2014, and the provisional application started on 10 October 2016. Provisional application for Mozambique began on 4 February 2018.

Angola's accession to the EU-SADC EPA is expected to realise a number of Angolan and EU policy objectives. For Angola, preferential market access to the EU for non-oil goods under an EPA would help diversify away from mineral fuels and diamonds. Angolan membership of the EPA would provide stable preferential access to the EU market. For the EU, Angola's liberalisation under the EPA would also ensure stable preferential market access and improve transparency of trade rules. The EU is already an important supplier of machinery and inputs to Angolan companies. Reducing import duties on these goods under the EPA could improve the competitiveness of Angolan companies. Finally, joining the EPA (as well as Angola's membership in the SADC Trade Protocol) could facilitate regional economic integration between Angola and the other SADC countries, as the EPA rules of origin allow for regional cumulation.

3 Origin and nature of SIFAs

SIFAs are based on good governance and cooperation. For the OECD, *"the ultimate purpose of investment facilitation is to encourage new investments and reinvestments by providing investors with a transparent, predictable and efficient regulatory and administrative framework for investment while ensuring the benefits of investment are maximised."*¹⁴ Various mechanisms may thus contribute to the reduction or elimination of potential and existing obstacles faced by investors. According to the OECD, investment facilitation mechanisms can be categorised into three groups: Practical means to assist investors, policies to improve the investment environment, and state-investor processes to manage FDI efficiently and effectively.¹⁵

Some of these elements can be found in provisions of international trade agreements, either bilateral or regional, whereas others are more prevalent in domestic legislation. **In 2017, a UNCTAD study of 111 investment laws from 108 developed, developing and transition economies concluded that investment facilitation aspects were largely absent from national investment laws.**¹⁶ According to the same study, 194 new investment promotion and facilitation policies were introduced between 2010 and 2016, of which 80 % were related to investment promotion in a rather narrow sense (for example, by creating special economic zones or setting up of investment promotion agencies). By contrast, only ca. 20 % of the national policy measures consisted of facilitating investment through, for example, the establishment of one-stop shops or online registration systems for investors.¹⁷

¹⁴ See: A. Novik, A. de Crombrughe (2018): Towards an international framework for investment facilitation, OECD Investment Insights, August 2018.

¹⁵ Idem.

¹⁶ See: UNCTAD, Review of Policy Practices in Investment Facilitation, 2017.

¹⁷ Idem.

Table 2. Investment facilitation mechanisms

<p>Bilateral investment facilitation provisions can take many forms. Rodrigo Polanco identified 12 different elements of investment facilitation:</p> <ul style="list-style-type: none"> • provisions on improving investment climate, • removal of bureaucratic impediments to investment, • facilitation of investment permits, • facilitation of entry and sojourn of personnel related to investment, • transparency, • capacity-building on investment issues, • investment financing, • insurance programmes, • pre-establishment investor servicing, • post-establishment investor aftercare, • relations with investors and the private sector, and • joint cooperation and treaty bodies on investment facilitation.¹⁸ 	
Bilateral investment facilitation mechanism	Example(s)
<i>Practical means to assist investors navigate through the various regulations and procedures when investing</i>	A one-stop shop or single window for incoming investors, an online business registration system, information portals on legal and administrative procedures to start and operate a business, client service charters for all authorities dealing with investors, or systematic aftercare services for existing investors.
<i>Policies to improve the transparency, predictability and effectiveness of the investment environment</i>	Sound and consistent legal framework for investment, regulatory measures to simplify and/or streamline administrative procedures, good governance laws and mechanisms, or policies to provide an enabling environment for investors to act responsibly and sustainably.
<i>State-Investor processes to make these means and policies impactful</i>	Public-private dialogue, inter-agency co-ordination, capacity building for Investment Promotion Agencies (IPAs) and other public officials, and monitoring and evaluation of existing tools, mechanisms and policies.

The EU's approach to investment facilitation

For the EU, the very fabric of investment facilitation is intrinsically linked to sustainable development. Overall, **investment facilitation encompasses four factors** that support a positive relationship with sustainability: **economic development** (linkages, technology transfer, training), **environmental sustainability** (minimising negative environmental impacts of investments, mobilising environmental technologies for conservation), **societal, social development and inclusion** (gender equality, labour and employment standards, public health, education, training), and **good governance** (fair and efficient negotiations, democratic legitimacy, absence of corruption, contractual enforcement). Facilitating investment in line with the above factors is expected to **contribute to inclusive growth and sustainable development** through the benefits of investment in the host country. These benefits may include

¹⁸ See: Polanco R. (2018): Facilitation 2.0. Investment and Trade in the Digital Age, RTA Exchange, International Centre for Trade and Sustainable development, Geneva, 2018, p. V.

strengthening local productive capacity, reducing inequality, improving environmental performance and enhancing overall social resilience and solidarity.

The EU has concluded over 70 bi- or plurilateral agreements containing investment provisions. Older free trade agreements tended not to refer to investment facilitation at all. Instead, they merely set out general objectives and principles to improve the Parties' investment environment. On the other hand, the new generation trade and investment agreements such as CETA or CAI¹⁹ contain some investment facilitation provisions without expressly referring to investment facilitation. Some agreements address specific investment sectors only, such as energy, information society or environmental goods or services. Other agreements contain both general investment commitments and special regimes for specific sectors. This is the case, for example, of the Interim EPA between the EU and the SADC States (Article 12), the Interim EPA between the EU and the ESA States (Article 47), and the EU-UK Cooperation Agreement (Article 327).

Investment facilitation at the level of the WTO

Investment facilitation efforts also take place at the WTO level,²⁰ where members are entering uncharted territory. A Joint Initiative on Investment Facilitation for Development (IFD) was launched by 70 members at the 11th WTO Ministerial Conference (MC11) in December 2017 to address the trade barriers slowing down and restricting investment processes between countries. In November 2019, 98 WTO members issued a subsequent Joint Statement on IFD. Formal negotiations began in September 2020 drawing on an informal consolidated text with a view to achieving concrete outcomes by the 12th Ministerial meeting at the end of 2021.

To date, the overall WTO agreements' regime addresses the issue of investment to a lesser extent, mainly in the Agreement on Trade-Related Investment Measures (TRIMs) and the General Agreement on Trade in Services (GATS). Regarding trade facilitation more specifically, the WTO negotiations on investment facilitation for development also mirror a cautious turning away from the establishment of rules taking the form of investment protection or liberalisation enshrined in a dense network of more than 2.600 bilateral investment treaties (BITs) currently in force.²¹

In December 2021, 112 WTO members co-sponsored a Joint Statement on IFD²², in which they recognize the Consolidated Document by the Coordinator (the so-called 'Easter Text (Revision 5)') as the basis for their ongoing negotiations and state their objective to conclude by the end of 2022.²³ Participating WTO members have made significant progress on key pillars of the future IFD Agreement, such as on the transparency of investment measures. To date, **proceedings concentrate on improving the**

¹⁹ On 30 December 2020, the EU and China concluded in principle the negotiations on the Comprehensive Agreement on Investment (CAI).

²⁰ Balistreri and Olekseyuk (2021) have estimated the economic impact of various scenarios for a potential WTO IFA based on a CGE analysis. This showed that GDP in low income countries would increase by between 0.6% (for the least ambitious scenario) and more than 2 % in the "extended ambitious IFA"; welfare of low income countries would increase by 1 % to 3. 5% under these scenarios, respectively. While the overall economic effects of an IFA would increase with the coverage of the agreement, the analysis also shows that the "benefits are concentrated among the regions participating in the negotiations" (Balistreri and Olekseyuk 2021, 13). Although no precise numbers for the impact of the SIFA on Angola's GDP can be provided, based on the findings on the WTO IFA impact the economic impact for Angola of the SIFA is expected to be a substantial gain in GDP and welfare.

²¹ See: A. Berger, S. Gsell, Z. Olekseyuk (2019): Investment facilitation for development: a new route to global investment governance, Briefing Paper, No. 5/2019, Deutsches Institut für Entwicklungspolitik (DIE), Bonn, <https://doi.org/10.23661/bp5.2019>, A. Berger, A. Dadkhah, Z. Olekseyuk (2021): Quantifying investment facilitation at country level – Introducing a new index, Discussion paper 23/21, German Institute for Development, Bonn, https://www.idos-research.de/uploads/media/DP_23.2021.pdf.

²² See: <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:WT/L/1130.pdf&Open=True>.

²³ See for the future agreement's text draft: WTO Structured discussions on investment facilitation for development – Consolidated document by the coordinator "Easter Text" revision 6, INF/IFD/RD/74/Rev.6, 9 February 2022, <https://web.wto.org.tw/DownFile.aspx?pid=367074&fileNo=0>.

predictability of investment measures, simplifying and speeding up investment-related administrative procedures, strengthening the dialogue between governments and investors, and promoting the uptake by companies of responsible business conduct practices, as well as preventing and fighting corruption; and ensuring special and differential treatment, technical assistance and capacity building for developing and least-developed countries.²⁴

Traditionally, the **promotion of sustainable development through investment facilitation remains rare**, both in domestic and international texts. Regarding domestic law, the Investment Code (*Code des investissements*) of Côte d'Ivoire states in Article 3 that one of its main objectives is to "*favour sustainable development through productive and socially responsible investments in Ivory Coast*".²⁵ In addition, Article 6 of the Ivorian Decree (2018/647) of 1 August 2018 implementing the Investment Code states that "*investors are obliged to contribute to the transformation of the economic models of their local contractors to take into account ecological and environmental criteria in order to limit the negative impact of their activity on the environment*".²⁶ Regarding existing BITs, only a small portion includes provisions on sustainability.²⁷ As an example, Article 15.2 of the Ivory Coast-Canada BIT invites Parties to promote Corporate Social Responsibility by encouraging investors to adhere to internationally recognised standards of development.

4 Key provisions of the EU's SIFA with Angola

The EU has started to negotiate investment facilitation provisions with Angola for a self-standing SIFA and discussed with some of the Eastern and Southern Africa countries the inclusion of a SIFA as part of the modernisation of the existing EPA. In this context, the EU launched the EUR 300 billion strong "Global Gateway Africa – Europe Investment Package" that aims to support partner countries for a strong, inclusive, green and digital recovery and transformation by accelerating the green transition, the digital transition, sustainable growth and decent job creation, by strengthening health systems, and by improving education and training. The initiative provides an alternative to the Chinese approach to global infrastructure development, the US's Build Back Better World initiative, or the UK's Clean Green Initiative. The Investment Package is delivered through Team Europe initiatives. Accordingly, the EU, its Member States and European financial institutions work together to support concrete and transformational projects jointly identified in priority areas.

The **draft EU-Angola SIFA contains eight chapters** addressing general provisions (overall objectives and definitions, MFN clause), investment transparency and predictability, the streamlining of authorisation procedures, the set-up of focal points and stakeholders' involvement, investment and sustainable development, dispute avoidance and settlement, cooperation and institutional provisions, and final provisions.

Regarding the agreement's **scope**, Parties will **retain the right to regulate** within their territories to achieve legitimate policy objectives, such as the protection of public health, social services, public education, safety, the environment including climate change, public morals, social or consumer protection, privacy and data protection, or the promotion and protection of cultural diversity. In addition, the Parties

²⁴ See: WTO, MC 12 Briefing Note: Investment Facilitation for Development, https://www.wto.org/english/thewto_e/minist_e/mc12_e/briefing_notes_e/bfinvfac_e.htm. The related EU proposal for negotiations "EU Proposal for WTO disciplines and commitments relating to investment facilitation for development" of February 2020 can be found at https://trade.ec.europa.eu/doclib/docs/2020/march/tradoc_158673.pdf.

²⁵ [Translated from French] "Le présent code a pour but de favoriser le développement durable par des investissements productifs et socialement responsables en Côte d'Ivoire (...)"

²⁶ [Translated from French] "Les investisseurs doivent contribuer, dans la mesure du possible, à la transformation des modèles économiques de leurs sous-traitants locaux pour prendre en compte les critères écologiques ou environnementaux permettant de limiter les impacts négatifs de leurs activités sur l'environnement."

²⁷ Angola-Brazil, Ivory Coast-Canada and Kenya-Japan.

affirm that **the Agreement will not create any new obligations with respect to investment liberalisation, any new rules for the protection of established investors and their investments, and any rules for the settlement of investor-state disputes, or modify existing rules.**

With regard to the transparency of the investment framework, the SIFA includes rules on the publication of all laws and other regulations related to investment, all restrictions and conditions on investment, and specific contact information on the competent authorities involved in the approval of investments. In addition, the Parties undertake to publish practical guides informing authorities to investors of those steps required to invest in their territory. These guides shall include, inter alia, the requirements and procedures relating to business start-up and registration, acquisition and registration of property, e.g. land ownership rights, construction permits, payment of taxes, or access to finance, especially for micro, small and medium-sized enterprises (MSMEs). The chapter on streamlining the authorisation procedure contains provisions to prevent an applicant from having to contact more than one competent authority for each authorisation application. In addition, the chapter specifies the minimum rules on publication obligations, fees and the processing of applications. Each Party shall maintain or establish appropriate mechanisms, referred to as "investment facilitation focal points", to serve as the first point of contact for investors with respect to investment-related measures covered by this Agreement. In this context, the Parties recognise the importance of close domestic coordination between the authorities and agencies responsible for regulating and implementing investment-related measures and procedures in order to facilitate, attract, retain and expand investment. To this end, mechanisms will be established to coordinate activities aimed, inter alia, at facilitating investment, promoting regulatory coherence and predictability of government policies and procedures, and promoting coherence of central, regional and local investment policies and procedures. To facilitate coordination, each Party is encouraged to designate a lead government agency in a manner consistent with its legal system.

The SIFA also provides the basis for the establishment of **an Investment Facilitation Committee** to discuss possible improvements to the Agreement and take binding decisions in this regard. The Committee is tasked with exchanging information and reviewing progress on technical assistance and capacity building support for the implementation of the SIFA, identifying technical assistance and capacity building needs, and seeking ways and methods to avoid or resolve problems that may arise in the areas covered by the Agreement and to resolve disputes over the interpretation or application of the Agreement. In addition, the Committee maintains close contact with relevant international organisations active in the field of corporate social responsibility or responsible business conduct. Finally, the Committee is likely to act as a **key interlocutor between the executive bodies of the Parties to the Agreement and an annual civil society dialogue** will discuss the implementation of the Agreement. The views and opinions expressed in this dialogue may be submitted to the Investment Facilitation Committee.

As to the **chapter on investment and sustainable development**, Parties affirm their commitment to promote the development of investment in a way that is conducive to decent work for all, as expressed in the ILO Declaration on Social Justice for a Fair Globalization of 2008, as well as to promote investment policies that further the objectives of the Decent Work Agenda, in accordance with the 2008 ILO Declaration on Social Justice for a Fair Globalisation, and the 2019 ILO Centenary Declaration for the Future of Work. Moreover, they agree to respect, promote and effectively implement throughout its territory, including in 'export processing zones' and other 'special economic zones', the internationally recognised core labour standards as defined in the fundamental ILO Conventions. Regarding multilateral environmental governance and agreements, Parties affirm their commitment to promote the development of investment in a way that is conducive to a high level of environmental protection. They commit to strengthen their cooperation on investment-related aspects of environmental policies and measures, bilaterally, regionally and in international fora, including in the UN High-level Political Forum for Sustainable Development, UN Environment, UNEA, MEAs, or the WTO. Regarding Investment and climate

change, the Parties agree to effectively implement the UNFCCC and the Paris Agreement, to promote the mutual supportiveness of investment and climate policies and measures thereby contributing to the transition to a low greenhouse gas emission, resource-efficient economy and to climate-resilient development. In this context, Parties shall facilitate and encourage investment in sustainable production and consumption, in environmental goods and services, investment of relevance for climate change mitigation and adaptation, investment that is consistent with conservation and sustainable management of forests, investment for the sustainable use of biological resources and the conservation of biodiversity, and measures to conserve biological diversity when it is subject to pressures linked to investment.

Overall, by incorporating such a rather detailed and comprehensive chapter on the linkage between investment facilitation and sustainable development, **the EU and Angola tend to go far beyond respective commitments made by Parties under the IFD that is currently negotiated within the WTO.** Note that the latter's draft Article 30.1 only addresses sustainable investment, and calls on Members to "encourage investors and enterprises operating within its territory or subject to its jurisdiction to voluntarily incorporate into their business practices and internal policies internationally recognized principles, standards and guidelines of responsible business conduct that have been endorsed or are supported by that Member."

5 Investment and gender in the SIFA

Interestingly, the agreement's TSD chapter also contains a specific provision on Investment and gender equality. However, unlike the chapter's preceding provisions, which have a rather binding character to tie investment policies to specific sustainable development criteria, the Parties only recognise that inclusive investment policies can contribute to promoting women's economic empowerment and gender equality in line with Goal No. 5 of the UN 2030 Agenda for Sustainable Development. The Parties thus underscore their intention to implement the Agreement in a manner that promotes and enhances gender equality.²⁸

According to Korinek et.al., most challenges and issues related to gender equality and women's economic participation are highly influenced by mainly domestic factors.²⁹ Trade and investment facilitation can mitigate this development. Gendered barriers faced by Angolan women and girls are embedded in patriarchal norms and traditional-cultural practices, such as child marriage, dowry practices, criminalisation of abortion, girls' access to science, technology, engineering and mathematics, and all forms of gender-based violence. According to the Global Entrepreneurship Monitor's (GEM) survey carried out in 2018-2019 in 59 countries globally, Angola has the highest rate of entrepreneurs among the working age population from all surveyed countries, i.e., 40.3 % of men and 40.7 % of women of working age are entrepreneurs (while the global average is of 13.9 % for men and 10.2 % for women). 23.5 % of male entrepreneurs work on their own (47.8 % among female entrepreneurs), while 1.1 % of male entrepreneurs and 1.5 % of female employ more than 20 persons. 83.2 % of women-led enterprises operate in wholesale and retail trade (compared to 63.4 % for men), 7.7 % in healthcare, education and social services (7.2 % for men), 5.0 % in manufacturing and transportation (9.7 % for men), 2.6 % in financial, professional, consumer and

²⁸ In the Global Gender Gap Index 2020, Angola ranked 118th out of 153 countries, and 96th in the category "Economic participation and Opportunity" for women (WEF, 2020). Angola has signed and ratified several regional and international treaties and protocols geared at promoting gender equality, such as ILO conventions No. 100 on equal pay and No. 111 on non-discrimination at work. The national legal and policy framework relevant for women includes also National Policy on Gender Equality and Equity (Decree 222/2013), a National Programme for Support of Rural Women (Decree 138/2012) and a Strategy for advocacy and resource mobilisation for its implementation (National Development Plan 2018-2022). The 7th periodic report of Angola on its implementation of the UN's Committee on the Elimination of Discrimination against Women's (CEDAW) provisions stated that the country had made progressive steps to promote female representation in politics (women making up 30.5 % of Members of Parliament).

²⁹ See: J. Korinek, E. Moïsé, J. Tange (2021): Trade and gender: A Framework of analysis, OECD Trade Policy Papers, No. 246, OECD Publishing, Paris, <https://doi.org/10.1787/6db59d80-en>.

administrative services (7.9% for men), 1.2 % in ICT – information and communication technology (4.9 % for men), and 0.2 % in agriculture and mining (6.9 % for men) (GEM, 2019).³⁰

Against this background, **specific provisions in the SIFA can potentially contribute to help to fight women's discrimination** by targeting areas where women are strongly represented and affected by systematic discrimination (e.g. services sector, informal employment sector, textile sector) or areas where women are disproportionately affected by legislative and administrative barriers or discrimination. Korinek et.al. address an important barrier in this context, namely tariff and non-tariff measures in key sectors for women-owned enterprises and especially for women-owned SMEs. Agreement provisions that explicitly refer to gender equality definitely have the advantage of raising the profile and awareness of the issue, thus contributing to its visibility and perceived importance. This is usually done by referring to the importance of women's economic empowerment.³¹ However, gender provisions can also reaffirm existing, legally binding commitments such as ILO conventions, thus highlighting their importance for the SIFA's implementation. Their effective implementation could then be further promoted by including them in the dispute settlement mechanism of the agreement. The ultimate benefit of such provisions lies in their enforceability. This is true even if they only reaffirm existing obligations. In order to ensure that the SIFA does not negatively impact women, the Parties could also, through gender-specific and/or gender-mainstreaming provisions, oblige investors to comply with the respective applicable gender equality legislation (especially in relation to labour standards) and promote corporate social responsibility.

6 Conslucions

The establishment of an Investment Facilitation Committee in Article 7.2. of the EU-Angola SIFA is likely to be of interest to the European Parliament from a democratic policy point of view. This committee should not only discuss possible improvements to the agreement, but also be empowered to take binding decisions. Whether the committee may also take decisions to amend the agreement has not yet been conclusively clarified. In any case, it would have to be ensured in the course of further, parliamentary consultations that an executive body established via an agreement is accountable to the parliaments of the contracting Parties.

The Commission's Sustainability Impact assessment (SIA) in support of trade negotiations with Angola for EU-SADC EPA accession recommended that the use of soft provisions in the SIFA should be minimized as far as possible. This could require the EU to make binding commitments for technical assistance to ensure the 'feasibility' of certain measures mentioned in the SIFA. In addition, the SIA urged Angola and the EU to work for the inclusion of strong, enforceable provisions on investment and sustainable development. It should be noted in this regard that, with the exception of the SIFA's draft article on gender and investment, the relevant TSD provisions are indeed largely binding in nature. The SIA, based on the first draft of the SIFA, pointed out that the current draft of the SIFA does not include provisions that allow for the enforceability of commitments made. In the meantime however, the complete EU proposal includes a dispute settlement chapter which covers all provisions in the SIFA, including those on dispute settlement. The Commission's SIA already pointed out a number of limitations in the SIFA that we believe are not adequately addressed in the draft SIFA: For example, **the draft agreement still contains a relatively large number (18) of articles and provisions that limit the Parties' obligations by providing that they apply "to the extent possible", "to the extent practicable", or simply "as appropriate"**. The SIA correctly pointed out, "without objective, clear, and observable criteria for what is 'feasible' and what is not, there is a risk that provisions subject to 'feasibility' will not be implemented; and it would then be up to the Investment Facilitation Committee (or dispute settlement mechanisms, if applicable) to determine what is

³⁰ See: GEM 2019/2020 Global Report, <https://www.gemconsortium.org/report/gem-2019-2020-global-report>.

³¹ See: M. Solís, S. N. Katada (2009): Explaining FTA Proliferation: A Policy Diffusion Framework. In: Solís M., Stallings B., Katada S. N. (eds.) Competitive Regionalism. International Political Economy Series. Palgrave Macmillan, London.

feasible." In our view, the EU and Angola did not limit the possibility of "feasibility" as much as possible. **Another way to ensure "feasibility" of measures would be to provide technical assistance.** The draft agreement already provides for this (in Article 7.1). However, a clear reference to the purpose of the assistance could be made, for example, by **clarifying that the primary purpose of technical assistance is to ensure that the Parties can fulfil the obligations under the SIFA, especially when these are linked to feasibility, practicability, or appropriateness.**

Based on the EU Council's Negotiation Directives,³² the previous Commission proposal,³³ the text proposal for the Agreement issued by the Commission,³⁴ and the draft agreement's text of 9 September 2022, the SIFA will certainly aim at improving the investment climate and facilitate investment, especially for MSMEs. It is based on principles of non-discrimination, openness, transparency and stability, covers rules on transparency and good administrative practices related to investment, as well as cooperation on investment issues with a particular focus on investment contribution to sustainable development. It will however not cover investment liberalisation, investment protection, or an investor-state dispute settlement mechanism.³⁵ It would also not cover portfolio and other short-term capital movements.

To be sure, **one might criticise the SIFA for containing certain insufficient or no binding, legally enforceable elements. On the other hand, the SIFA is an innovative element of European and African trade policy,** the effects of which will probably only become apparent in the trial phase. In this respect, the EU and Angola should quickly conclude the SIFA and use this "political experiment" to document their goodwill toward other potential partners. The agreement will certainly have positive effects for investors, especially for SME's, as they will find a comprehensive, legally secure framework for the effective implementation of their business decisions.

In this context, we would also like to emphasise the **model character of the SIFA for subsequent, similar agreements.** After all, with the SIFA, **Angola and the EU are entering into stronger mutual commitments to tie investment promotion to sustainable development goals than is apparent in the framework of the IFD negotiated within the WTO.** If the SIFA between the EU and Angola is successfully concluded and ratified, it will be difficult to deviate from these sustainability, human rights and labour rights conditions in subsequent SIFAs.

³² Council of the European Union: Negotiation directives for the negotiation of an agreement on investment facilitation with the Republic of Angola, 8441/21 ADD 1, 10 May 2021.

³³ European Commission: Recommendation for a Council Decision authorising the opening of negotiations with Angola for an agreement on investment facilitation, COM(2021) 138 final, 23 March 2021.

³⁴ EU's proposal for the SIFA of 14 June 2021 (updated on 23 September 2021), <https://trade.ec.europa.eu/doclib/html/159654.htm>.

³⁵ See Art. 1.2(4) of the EU's proposal for the SIFA.

PE 702.567

EP/EXPO/INTA/FWC/2019-01/LOT5/1/C/12

EP/EXPO/INTA/FWC/2019-01/LOT5/4/C/13

Print ISBN 978-92-846-9877-6 | doi: 10.2861/268710 | QA-05-22-364-EN-C

PDF ISBN 978-92-846-9878-3 | doi: 10.2861/800905 | QA-05-22-364-EN-N