



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# **Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement**

Ex-post Evaluation ■ 1 March 2021



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**LSE Consulting**

LSE Enterprise Ltd  
London School of Economics and Political Science

Houghton Street  
London, WC2A 2AE

(T) +44 (0)20 7106 1198  
(E) [consulting@lse.ac.uk](mailto:consulting@lse.ac.uk)  
(W) [lse.ac.uk/consultancy](http://lse.ac.uk/consultancy)



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## Abbreviations

|          |   |
|----------|---|
| AfCFTA   | African Continental Free Trade Area                               |
| AFRODAD  | African Forum and Network on Debt and Development                 |
| ACP      | African-Caribbean-Pacific   |
| ACA      | Agreement on administrative cooperation                           |
| CEACR    | Committee of Experts on the Application of Conventions (ILO)      |
| COMESA   | Common Market for Eastern and Southern Africa                     |
| CGE      | Computable general equilibrium                                    |
| CBD      | Convention on Biological Diversity                                |
| CITES    | Convention on International Trade in Endangered Species           |
| CSR      | Corporate Social Responsibility                                   |
| CPA      | Cotonou Partnership Agreement                                     |
| CTF      | Customer and Trade Facilitation                                   |
| DEVCO    | Directorate-General for International Cooperation and Development |
| DG Trade | Directorate-General for Trade                                     |
| EALA     | East Africa legislative Assembly                                  |
| EAC      | Eastern African Community   |
| ESA      | Eastern and Southern Africa                                       |
| EPA      | Economic Partnership Agreement                                    |
| ECDD     | Engagement Communautaire pour le Développement Durable            |
| EBA      | European Banking Authority  |
| ECDD     | European Commission   |
| EDF      | European Development Fund   |
| EIB      | European Investment Bank  |
| EPA      | Economic Partnership Agreement                                    |
| EP/INTA  | European Parliament Committee on International Trade              |
| EU       | European Union  |
| EBA      | Everything-but-Arms   |
| ESA5     | Five ESA countries  |
| FAO      | Food and Agriculture Organisation                                 |
| FATF     | Financial Action Task Force                                       |
| FDI      | Foreign Direct Investment   |
| FTA      | Free Trade Agreement  |
| GDPR     | General Data Protection Regulation                                |
| GSP      | Generalised System of Preference                                  |
| GI       | Geographical Indications  |

|         |  |
|---------|--|
| GTAP    | Global Trade Analysis Project  |
| GHG     | Green House Gas  |
| GDP     | Gross Domestic Product   |
| HDI     | Human Development Index  |
| IUU     | Illegal, unreported and unregulated fishing                                  |
| IOC     | Indian Ocean Commission  |
| IOTC    | Indian Ocean Tuna Commission   |
| TARIC   | Integrated Tariff of the European Union                                      |
| IPR     | Intellectual Property Rights   |
| ILO     | International Labour Organisation  |
| ITC     | International Trade Centre   |
| IL      | Intervention Logic   |
| JP      | Joint Programming  |
| LDC     | Least Developed Country  |
| LSE     | London School of Economics and Political Science                             |
| MOSC    | Maison des Organisations de la Société Civile                                |
| MSME    | Micro, Small & Medium Enterprises  |
| MFN     | Most Favoured Nation   |
| INRAPE  | National Institute of Research in Agriculture and Fisheries                  |
| NGO     | Non-Governmental Organisation  |
| NTM     | Non-tariff measures  |
| OECD    | Organisation for Economic Co-operation and Development                       |
| ORs     | EU's outermost regions   |
| OCT     | Overseas countries and territories   |
| PPPs    | Public-private Partnerships  |
| PPP     | Purchasing Power Parity  |
| RECs    | Regional Economic Communities  |
| REX     | Registered Exporter Sytem  |
| RBC     | Responsible business conduct   |
| ROO     | Rules of origin  |
| SEATINI | The Southern and Eastern Africa Trade Information and Negotiations Institute |
| SPS     | Sanitary and phytosanitary measures  |
| SME     | Small and Medium Size Enterprise   |
| SAPSN   | Southern Africa People's Solidarity Network                                  |
| SADC    | Southern African Development Community                                       |
| SFPA    | Sustainable Fisheries Partnership Agreement                                  |
| SITC    | Standard International Trade Classification                                  |



|        |  |
|--------|--|
| SOE    | State-owned enterprises                            |
| SIA    | Sustainability Impact Assessment                   |
| SDG    | Sustainable Development Goals                      |
| SFPA   | Sustainable Fishery Partnership Agreement          |
| TARIC  | Integrated Tariff of the European Union            |
| TBT    | Technical barriers to trade                        |
| TSD    | Trade and Sustainable Development                  |
| TFA    | Trade Facilitation Agreement                       |
| TOR    | Terms of Reference                                 |
| UNFCCC | UN Framework Convention on Climate Change          |
| UK     | United Kingdom                                     |
| UN     | United Nations                                     |
| UNCTAD | United Nations Conference on Trade and Development |
| WEO    | World Economic Outlook                             |
| WITS   | World Integrated Trade Solution                    |
| WTO    | World Trade Organisation                           |

## Executive Summary

In 2007, six countries of the ESA region<sup>1</sup> (Comoros, Madagascar, Mauritius, Seychelles, Zambia and Zimbabwe) concluded an interim Economic Partnership Agreement with the EU. In 2009, four countries (Madagascar, Mauritius, Seychelles and Zimbabwe) signed the agreement, which has been provisionally applied for these countries since 14 May 2012. Mauritius and Seychelles started liberalising tariffs on EU imports in 2013 and Madagascar and Zimbabwe started liberalising in 2016 and 2017 respectively. The EPA foresees consecutive rounds of liberalisation over 10 years and the tariff liberalisation process should conclude in 2022. Comoros signed the agreement in July 2017 and ratified it in January 2019, with entry into force in February 2019. Comoros is therefore part of the negotiations to deepen the Agreement. The interim EPA between the EU and the five ESA partners (ESA5) includes the following chapters: Abolition of EU duties and quotas for imports from these countries; gradually opening up EU exports to these countries; a protocol on rules of origin (RoOs); provisions on fisheries and trade defence; commitments to cooperate on technical barriers to trade, and standards on animal and plant health; rules and commitments on development cooperation; and mechanism for settling disputes.

The interim EPA has a number of distinct objectives. First, it aims at the promotion of peace, stability and democracy. Second, economic growth is to be sustained through regional economic integration and trade; in particular intra-African trade within the EPA. Third, sustainable development is a key priority of the EPA. By reducing all tariffs to zero on goods that are classified under the EU-ESA EPA as originating from the ESA EPA countries, the EU has carried over its market access provisions from the Cotonou Partnership Agreement.. In exchange, the ESA5 countries will liberalize their market for 80-90% of EU imports, over a period of 10 years. All ESA5 EPA countries are expected to finalise their tariff reduction schedules at the same time so that, by 2022, all goods which originate from the European Union, except for the goods excluded from liberalisation, should enter the ESA5 EPA markets free of duty.

## Implementation and Awareness of the interim EPA

**Almost all exports of originating goods from Madagascar and Mauritius enter the EU market free of duty and about 97 per cent of originating goods from Seychelles and 96 per cent of Zimbabwe's originating exports enter the EU market free of duties.** Utilisation Rates for EU goods entering the markets of Madagascar, Mauritius, Seychelles and Zimbabwe are currently rather low.

**The stakeholder consultation shows that civil society in Madagascar and Seychelles has low levels of awareness of the interim EPA whereas in Mauritius and Zimbabwe it has high levels of awareness.** Respondent's submissions point to a range of sources of information – such as the print and digital media, academic writing, capacity building programmes, including meetings – which have helped stakeholders learn more about EPAs and the processes involved.. The ESA5 private sector companies, including SMEs, find it difficult to take advantage of opportunities presented through the EPA because of the comprehensive rules.

## Rules of Origin

The overall framework governing rules of origin contains product-specific rules and a combination of wholly produced rules and substantial transformation rules. In some product specific RoO there is a choice between change of tariff classification, specific process, value addition and local content rules. The ESA4 countries make significant use of the EPA preferences made available to them by the EU. **A number of challenges remain to be addressed for rules of origin to be improved further and for the benefit of the majority of stakeholders:** closer alignment of the development and trade components of the EPA; and involvement of the private sector and potential new investors in trade negotiations, to the extent possible.

## Analysis of Trade Flows

The analysis of trade flows the authors of this study have conducted accounts for the fact that individual partner countries' tariff liberalisation processes started at different points in time. Mauritius and the Seychelles started liberalising in 2013, and Madagascar and Zimbabwe in 2016 and 2017 respectively.

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<sup>1</sup> Eastern and Southern Africa (ESA) is a diverse EPA group including Indian Ocean islands (Comoros, Madagascar, Mauritius and Seychelles), countries of the Horn of Africa (Djibouti, Ethiopia, Eritrea and Sudan) and some countries of Southern Africa (Malawi, Zambia and Zimbabwe).

**ESA4 countries' goods exports to the EU followed different trends in the period 2009 to 2019 including the period that followed 2012.** Exports from Madagascar to the EU show an upward trend following the year 2012. Goods exports from the Seychelles remained relatively stable, while exports from Mauritius and Zimbabwe slightly declined.. ESA4 countries' goods imports from the EU follow different trends for the period 2009 to 2019. Diverging trends also emerge for the period that followed the elimination of import tariffs by ESA4 countries. Total EU goods exports to Madagascar and Mauritius significantly increased after the beginning of the tariff liberalisation process. Total EU goods exports to the Seychelles and Zimbabwe remained largely unchanged after 2013 and 2017 respectively.

**EU27-ESA4 investment stocks have increased significantly.** In 2018, stocks of EU FDI in ESA4 countries amounted to a total of 17.1 billion EUR (as compared to 13.1 billion EUR in 2014). Individually, Mauritius accounted for by far the largest part with 15.7 billion EUR alone. Seychelles' part amounted to 778 million EUR, while the respective figures were €366 million EUR for Zimbabwe and 268 million EUR for Madagascar. ESA4 FDI stocks in the EU amounted to 10.3 million EUR in 2018. This also constitutes a significant increase compared to 2014 when FDI stocks amounted to 6.3 million EUR only.

## Economic Impacts

The European Commission's DG Trade undertook a set of modelling exercises on the basis of a computable general equilibrium (CGE) model (for Madagascar, Mauritius and Zimbabwe) and a partial equilibrium (PE) model (for the Seychelles; due to data limitations).

**Both models indicate that ESA4 countries benefit from the EPA with the EU in terms of higher trade volumes.** Increased specialisation and improvements in the international division of labour cause a reallocation of domestic productive resources (labour and capital) to more productive uses, which causes domestic production to rise in ESA4 countries, reflected by increases in these countries' real GDP (with EU GDP remaining largely unchanged). In absence of the EPA, EU total exports to Madagascar, Mauritius and Zimbabwe are estimated to be 30% lower, 32% lower and 8% lower respectively. The PE model results indicate that the EPA contributes to rising EU exports the Seychelles. In addition, the interim EPA has led to new trade opportunities for the EU's outermost regions and overseas countries and territories, especially those in proximity to ESA4 countries, in different ways. As concerns trade diversion at the expense of LDCs, goods and services exports to the EU are hardly affected by the EPA.

**These numbers are generally mirrored by the estimates computed for the countries' overall economic activity (economic output, GDP).** Importantly, no region experiences a reduction in aggregate economic output, which indicates that the EPA with the EU contributes to growth in ESA countries overall economic activity. Due to its economic size, for the EU the impact of the EPA on overall economic output is overall negligible (but positive). The impacts of the interim EPA on wages are generally negligible, with the exception of Mauritius.

**The EPA ?? has led to an export concentration ratios and increased specialisation in commodities in which ESA4 countries have international competitive advantage.** This can also be observed for goods exports to regional trade blocs such as notably SADC and COMESA. As such the interim EPA contributes to deepening regional and intra-African trade integration, as it increased the preparedness of ESA4 countries for implementing the African Continental Free Trade Area (AfCFTA).

## Social, Gender, Human Rights and Environmental Impacts of the Interim EPA

**The review of the evidence gathered so far indicates that the interim EPA overall has not had major impacts on environmental, social conditions, gender and human rights conditions in ESA5 countries.** Concerning environmental impacts related to the interim EPA, these mainly appear linked to the scale of EU exports. Major structural effects linked to a diversification of exports have not been identified.

**The review of major exporting sectors has identified important ongoing environmental, social, gender and human rights concerns.** These include concerns over social conditions in agricultural sectors with major exports to the EU. Reductions in employment, low salaries and instances of child labour are not specifically a direct result of trade with the EU but these issues are a concern for sectors exporting to the EU. Concerns over labour conditions have been raised in manufacturing, in which women appear to be more adversely affected. Increased production can also increase water consumption and water pollution. In Madagascar and Zimbabwe, there are strong social, human rights and environmental concerns linked to mining.

**The ESA5 countries have made some policy and institutional reforms:** while progress and actions have varied, there thus have been improvements in governance. The EU has provided support in a number of areas through its development cooperation, though strong links between national reforms, EU development cooperation, the Agreement itself and environmental, social and human rights conditions were not found. In sum, social, gender and human rights concerns in these sectors have continued during the implementation of the interim EPA, indicating key areas where further policy action is needed.

## Results of development cooperation under the EPA

**To specify and operationalize the general objectives of the interim EPA, the EPA includes multiple references to cooperation and development assistance.** The partners have also developed a toolkit labelled Development Matrix to define key areas, objectives and illustrative activities. The development assistance to ESA5 nations designed to help implement the interim EPA takes place mainly within the framework of the European Development Fund (EDF). The two relevant EDFs to be considered for the evaluation within the EU-ESA5 interim EPA are the 10<sup>th</sup> programme, lasting from 2008-2013, and the 11<sup>th</sup> EDF (2014-2020). Apart from the EDFs, the EU is supporting the ESA5-countries in the framework of different other programmes, mostly organized in regional clusters, mirroring the Regional Economic Communities (RECs). Finally, each of the ESA5 countries received a grant of 10 million EUR (Comoros: 6 million EUR) for the implementation of the EPA in 2020.

**The European Commission introduced criteria for an assessment of the individual programmes' impact on ESA5 countries.** Among them, relevance, effectiveness, efficiency and influence with respect to governance are central. Although it is not trivial to exactly judge the overall impact of the EU's development assistance to ESA5 countries in the process of implementation of the EU-ESA5 interim EPA, it can generally be assessed as positive. The different projects and programmes have increased the ability of ESA5 countries to make use of the interim EPA. Problems include the lack of ownership and governance issues on the side of the ESA5 governments and deficit in the targeting of the measures on the EU's side. Mauritius seems to be an exception that made very good use of the support. In sum, the EU assistance to ESA5 countries is coherent with the general objectives of the interim EPA between the European Union and the five Eastern and Southern African partners.

## Conclusion

The ex-post evaluation shows that the interim EPA has helped integration ESA5 countries closer to the EU, but also within Africa and with each other. Trade with the EU has increased, awareness in the civil society and business communities could be raised. Open questions concern sustainability issues and governance problems.

## 2. Introduction and Methodology

### 2.1 Objective of the study and ex-post report

The objective of the Sustainability Impact Assessment is to estimate possible impacts of a deepening of the Economic Partnership Agreement between the European Union (EU) and five ESA partner countries (ESA5). However, in order to be able to assess future impacts of further liberalisation, it is likewise necessary to understand impacts thus far. Therefore, the scope of this study includes a mini ex-post evaluation of the EPA to review impacts across all areas of the Agreement (EU Member states as well as the ESA5 countries, including where possible data on Comoros), which are inter-related and crucial for understanding the economic, human rights, social aspects, environmental (including climate), and development cooperation impacts of the current agreement by way of secondary and primary data collection and analysis. The ex-post evaluation report is structured as follows: after this brief introduction, we assess the implementation of the EPA (Task 6); rules of origin (Task 7); analysis of trade and investment flows (Task 8); economic, social, human rights and environmental impact of the EPA (Task 9, which we have split into two chapters); horizontal effects on governance and the business environment (Task 9); development cooperation (Task 10) and conclusions (Task 11). We also enclose a number of annexes, which provide more granular information for each subject.

### 2.2 Introduction to the existing EPA between the EU and Eastern and Southern Africa

In 2007, six countries of the ESA region<sup>2</sup> (Comoros, Madagascar, Mauritius, Seychelles, Zambia and Zimbabwe) concluded an interim Economic Partnership Agreement with the EU. In 2009, four countries (Madagascar, Mauritius, Seychelles and Zimbabwe) signed the agreement, which has been provisionally applied for these countries since 14 May 2012. Mauritius and Seychelles started liberalising tariffs on EU imports in 2013 and Madagascar and Zimbabwe started liberalising in 2016 and 2017 respectively. The EPA foresees consecutive rounds of liberalisation over 10 years and the tariff liberalisation process should conclude in 2022. Comoros signed the agreement in July 2017 and ratified it in January 2019, with entry into force in February 2019. Comoros is therefore part of the negotiations to deepen the Agreement. The interim EPA between the EU and the five ESA partners (ESA5) includes the following chapters: Abolition of EU duties and quotas for imports from these countries; gradually opening up EU exports to these countries; a protocol on rules of origin (RoOs); provisions on fisheries and trade defence; commitments to cooperate on technical barriers to trade, and standards on animal and plant health; rules and commitments on development cooperation; and mechanism for settling disputes.



**Figure 1: Map of ESA5 countries**

Source: European Commission, 2020

### 2.3 Approach to ex-post evaluation

The ex-post evaluation provides answers to the following evaluation questions:

- a) *To what extent have the objectives of the existing interim EPA been achieved?*
- b) *Which sectors, activities, groups or countries in ESA4 have benefited most as a result of the EPA and which ones have incurred losses due to the EPA? (related to task 11)*
- c) *Has the EPA with ESA4 given rise to unintended consequences? (related to task 11)*

<sup>2</sup> Eastern and Southern Africa (ESA) is a diverse EPA group including Indian Ocean islands (Comoros, Madagascar, Mauritius and Seychelles), countries of the Horn of Africa (Djibouti, Ethiopia, Eritrea and Sudan) and some countries of Southern Africa (Malawi, Zambia and Zimbabwe).

- d) *What are the shortcomings of the existing EPA that need to be addressed in the deepening negotiations?*
- e) *What good practices and lessons learned on EPA implementation on both the ESA4 and the EU side?*

In addition, the ex-post evaluation establishes the baseline for the following SIA, as it assesses the agreement to date, and analyses qualitatively and quantitatively the main impacts:

- **Economic impacts:** development of bilateral and overall trade between the EU and ESA4, impact on economic growth, economic diversification and poverty reduction, fostering of foreign investment, fiscal effects (budgetary effects, reduction of dependence on tariff revenues and revenue diversification);
- **Social impacts** (disaggregated by gender, when possible): job creation, level of employment, wages, inequality, winners and losers, poverty reduction, labour rights, labour standards, working conditions, impacts on women and vulnerable groups, effects on respect of basic human rights;
- **Gender impacts:** effects on women's economic empowerment, employment and welfare, gender equality;
- **Impacts on environment and climate:** impacts on greenhouse emissions, air quality, land use, energy efficiency, forestry, biodiversity, water protection, etc, as well as animal welfare;
- **Impacts on governance and business environment:** overall impacts on aspects of governance and business environment;
- **Impacts on consumers:** effects on consumer prices and safety in ESA4, effects on product variety and product quality;
- **Effects on regional integration and third parties:** effects on regional integration in the ESA region, under e.g. COMESA, SADC or AfCFTA, effects on EU's outermost regions and on Least Developed Countries.

In order to assess the economic impact of the Agreement, the study will rely (partly) on economic modelling in the form of General and Partial Equilibrium Analysis :

In addition to the other tools outlined in Annex II, the analysis is based on a set of modelling exercises which the European Commission's DG Trade undertook – on the basis of a computable general equilibrium (CGE) model (for Madagascar, Mauritius and Zimbabwe) and a partial equilibrium (PE) model (for the Seychelles; due to data limitations). The models applied account for the dismantling of tariffs for the EU's ESA partner countries. The CGE model output includes changes in trade flows and domestic output for various product groups and services sectors, changes in aggregate GDP as well as the relative impact on welfare, prices and wages at the macroeconomic level. The PE model output does not include macroeconomic effects, i.e. it does not provide estimates for GDP, wages and the aggregate price level. The modelling provides estimates for the impact of the EPA on trade flows and other economic variables against the counterfactual of not having an agreement in place. The baseline underlying the counterfactual includes MFN tariffs on the side of ESA countries and GSP, EBA or MFN tariffs on the EU side.<sup>3</sup> The following descriptions of the models' calibration are based on DG Trade's internal analysis.

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<sup>3</sup> MFN tariffs depend on development level of each of the countries.



### 3. Implementation of the EPA

#### 3.1 Interim EPA: principles of the Agreement

The principles of the Agreement, which constitute the basis for further negotiations between the Parties to reach a comprehensive EPA, are outlined in Article 4 of the interim Agreement legal text and include the following principles:

##### 3.1.1 *Building on the acquis of the Cotonou Agreement*

**The Cotonou Partnership Agreement (CPA) is a comprehensive agreement between the EU and the African, Caribbean and Pacific (ACP) countries, signed in Cotonou on 23 June 2000.** The CPA was due to expire in 2020 but the post-Cotonou agreement is still being negotiated and needs to be approved and ratified. The Parties have, therefore, agreed that the CPA will remain in place until 30 November 2021, unless the new Agreement enters into force or is provisionally applied before that date.<sup>4</sup> The CPA is based on three complementary pillars: development cooperation, economic and trade cooperation, and the political dimension so, in building on the acquis of the CPA, the ESA EPA should build on, and strengthen, these three pillars.

**The development cooperation pillar of the interim EPA has been limited allocated resources to implement.** To assist with implementation of the EPA, under the European Development Fund (EDF), the EU has allocated individual countries in the ESA5 group a total of €10 million in project financing. These resources have been used to improve and strengthen trade facilitation measures and instruments in general, such as the National Economic Licensing System in Mauritius and the project that aims to boost Seychelles' exports by encouraging economic diversification, production of higher value products and exploitation of niche markets. There are programmes financed through the European Development Fund to assist the ESA5 countries, which are not directly dedicated to take advantage of the EPA.<sup>5</sup>

**Negotiations of the EPA have strengthened the dialogue between the ESA5 and the EU** and are viewed, in general, by the ESA5 countries as strengthening economic and trade cooperation between them and the European Union. **There has been no political dialogue under the auspices of the interim EPA** although there has been political dialogue between the individual ESA5 countries and through SADC under the Cotonou Partnership Agreement.

##### 3.1.2 *Strengthening regional integration in the ESA region*

Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe are all members of the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Corporation (SADC). Four of the members, these being Comoros, Madagascar, Mauritius and Seychelles are also members of the Indian Ocean Commission. Only Mauritius has, to date, ratified the African Continental Free Trade Agreement but the other countries are expected to ratify the agreement in the near future. **The ESA5 countries, therefore, already belong to two FTAs with two different sets of rules of origin, with the AfCFTA making it three.** ECDPM note that "EPA negotiations with the European Union add another layer to these overlapping intra-regional processes, since the new partnership agreement and related tariff reductions are to be negotiated and implemented by ACP sub-regions and not individual states.....this configuration should be consistent with the ongoing regional integration initiatives."<sup>6</sup>

**There are two schools of thought on whether EPAs can strengthen regional integration in the EPA region.** Some argue that the EPA negotiations themselves can offer an opportunity to strengthen the regional integration processes and to address the contradictions created by multiple membership. Others argue that

<sup>4</sup> On 3<sup>rd</sup> December 2020, the Chief Negotiators of the EU and the Organisation of African, Caribbean and Pacific States (OACPS), formerly known as the ACP Group of States, reached a political deal on the text for a new Partnership Agreement that will succeed the CPA. The new partnership agreement still needs to be approved, signed and ratified by the parties. The draft agreement is understood to cover a wide range of issues such as sustainable development and growth, human rights and peace and security and will be geared to empower each region. Once in effect, the Agreement will serve as the new legal framework and guide political, economic and cooperation relations between the EU and 79 members of the OACPS for the next twenty years.

<sup>5</sup> See Chapter 8 in this Report.

<sup>6</sup> ECDPM (2006) Overview of the regional EPA negotiations: <https://ecdpm.org/wp-content/uploads/2013/11/IB-14E-Overview-Regional-EPA-Negotiations-ESA-EU-EPA-2006.pdf>



EPAs add a further layer of complications to an already complicated regional trade environment, with another set of origin rules, certificates of origin, administration procedures, tariff schedules and exclusions. Regarding the latter point of view, Krapohl and Van Huut suggest that Regional Organisations in Africa have not managed to form coherent coalitions while negotiating EPAs.<sup>7</sup> Either the membership of EPA groups is not congruent with the membership of existing regional organisations, or crucial member states refuse to sign the EPAs and put their regions' unity at risk. There is evidence in the literature that this may apply to ESA interim EPA. Krapohl and Van Huut suggest that the reason for this may be the differentiated trade rules of the EU, which privilege some trade partners and some commodity exports over others. Some African countries, which enjoy privileged access to the European market, do not have incentives to implement EPAs and obstruct the negotiation process or refuse to implement the EPAs.

The interim EPA allows ESA States to maintain regional preferences among themselves and with other African countries and regions without the obligation to extend them to the EU. This is an extremely important provision, especially in the context of the AfCFTA and the COMESA and SADC FTAs and presumably will be maintained under the comprehensive EPAs.

### 3.1.3 Asymmetry, Special and Differential Treatment and Variable Geometry

**The asymmetry principle applies to trade liberalisation, the application of trade related measures and trade defence instruments.** This principle is being applied by both parties but, as EPAs have to be WTO compatible, there is only limited scope for asymmetry. Krapohl and Van Huut suggest implementing the principle ESA5 countries may cope with economic challenges, such as loss of revenue and increased competition, which is one of the aspects we tackle in the economic analysis.<sup>8</sup>

**Special and Differential Treatment (SDT) for the ESA LDCs is to be provided to take account of the vulnerability of small landlocked and island countries, including in the level and pace of trade liberalisation.** The countries that make up the ESA5 have different phase down schedules, although all need to complete the phase down schedules by 2022, and different percentages of tariff lines which are liberalised, reflecting SDT being applied. The interim EPA allows variable geometry in that it allows an ESA State in a position to do so to undertake liberalisation within an earlier timeframe and schedule.

The interim EPA provides for inclusiveness of application of development cooperation provisions such that ESA LDCs not in a position to conclude a tariff offer should be able to benefit from all aspects of the EPA. Given that the provisions for economic and development cooperation are in the Cotonou Partnership Agreement and the associated European Development Fund, ACP members can benefit from economic and development cooperation, whether or not they are implementing an EPA.

### 3.1.4 Late Entry

The interim EPA allows ESA LDCs that have not yet submitted tariff reduction offers to do so after signature of the Interim Agreement on the same or flexible conditions and to benefit fully from its provisions. Although these provisions existed in the interim EPA, Zambia, which was part of the original interim EPA negotiations, did not take advantage of the provision as it has not submitted a tariff liberalisation schedule under the EPA. It would seem appropriate to maintain the same provision in the comprehensive EPA so that a member of the ESA grouping could join the EPA but this would have to be done by the new member accepting all conditions of the comprehensive EPA and an immediate tariff phase down if the country joined the EPA after 2022, meaning that the new entrant would not be able to renegotiate any of the terms of the comprehensive EPA.

<sup>7</sup> Sebastian Krapohl & Sophie Van Huut (2020) A missed opportunity for regionalism: the disparate behaviour of African countries in the EPA-negotiations with the EU, *Journal of European Integration*, 42:4, 565-582, DOI: [10.1080/07036337.2019.1666117](https://doi.org/10.1080/07036337.2019.1666117)

<sup>8</sup> Mareike Meyn (2005) *The Challenges of Economic Partnership Agreements (EPAs) for Regional Integration and Trade Capacity Building in Southern Africa* <https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.501.1270&rep=rep1&type=pdf>

## 3.2 Market Access

### 3.2.1 Implementation of market access commitments by the EU

The EU has reduced all tariffs to zero on goods that are classified under the EU-ESA EPA as originating from the ESA EPA countries. The EU has carried over its market access provisions from the Cotonou Partnership Agreement and has agreed to some measures that liberalise the ESA-EU EPA rules of origin that make it easier for ESA countries to access the EU market and take advantage of preferences. These rules of origin liberalisation measures include a single transformation rule for textiles and garments, liberalising marine fisheries rules of origin and, with the introduction of the comprehensive EPA, “accounting segregation” for fungible materials and advantageous rules for the export of sugar from ESA to the EU (“shipment of sugar”), has been introduced.<sup>9</sup> The rules of origin for the full EPA also replace the provision on ‘direct transport’ by a rule on ‘non-alteration’ and introduces the possibility of using the Registered Exporter system (REX) for EU exports to the ESA countries. The EU is in full compliance with its EPA market access commitments.

### 3.2.2 Implementation of market access commitments by the ESA5 states

The main market access commitments and obligations for the ESA EPA countries of the Agreement, in legal terms, are outlined in Chapter II (Trade Regime for Goods), Article 5 through to Article 24 of the Official Journal of the European Union (L111 of 24 April 2012) and Annexes. **ESA countries have, by and large, complied with selected commitments, meaning the ESA4 (Comoros has just started the process) have complied with commitments where there is a clear process that needs to be committed to, under Chapter II of the i-EPA Agreement.** All ESA5 EPA countries are expected to finalise their tariff reduction schedules at the same time so that, by 2022, all tariffs applied to goods which originate from the European Union, except for the excluded goods, should enter the ESA5 EPA markets free of duty.

**The tariff liberalisation offer of Comoros excludes nearly 20 per cent of imports from the EU while Madagascar’s tariff liberalisation offer was about 19 per cent of all EU imports.** As the EPA has to be in compliance with the provisions of the General Agreement on Tariffs and Trade (GATT), EPAs should cover “substantially all trade” (Article XXIV of GATT) which the EU interprets as meaning that EPAs should cover 90 per cent of trade between the two parties. As the EU provides preferences under 100 per cent of its tariff lines and, taking account of the principles of asymmetry and variable geometry, the EU accepts that ESA5 countries can offer duty free, quota free market access on 80 per cent of their tariff lines, with the mean average being 90 per cent of substantially all trade. See specific country details in Annex to Chapter 2.

Following negotiations and agreement with the EU, Zimbabwe revised its tariff liberalisation schedule but maintained the end date of tariff liberalisation as 2022. The revised market access offer (tariff liberalisation schedule) is contained in Statutory Instrument No. 217 of 2019 entitled Customs and Excise (Economic Community) and Eastern and Southern Africa (ESA) Economic Partnership Agreement) (Suspension) (Market Access Offer) Regulations, 2019 published on 4 October 2019.<sup>10</sup>

## 3.3 Levels of Awareness

During the study, Civil Society Organisations (CSOs), Government Officials, national trade promotion agencies, national Revenue Authorities, national Chambers of Commerce, Trade and Industry and private sector companies were interviewed to get an understanding of the levels of awareness faced by ESA5 economic operators in implementing the interim EPA.

<sup>9</sup> See Chapter 3 of this Report.

<sup>10</sup> At the time of writing the AUC, AfCFTA Secretariat and Afreximbank are in the process of designing the AfCFTA Adjustment Facility. The current thinking in the AfCFTA Secretariat is that this compensatory mechanism, and possibly the adjustment facility itself, will be funded from a 0.5 per cent levy on all goods being imported by AfCFTA members from third countries. This will probably not be a directive from the African Union as part of the AfCFTA but could well be an option open to AfCFTA member states. This would mean a levy, which would be interpreted as equivalent to an applied duty, would be applied to imports of the ESA5 countries on all goods coming from the EU. This would contravene the EPA agreement if Article 14 of the i-EPA remained as part of the EPA Agreement, even taking into account the provisions of Article 12. One issue that may cause a challenge with the comprehensive EPA Agreement is the standstill clause (Article 14) which states that “Subject to Article 12, the Parties agree not to increase their applied customs duties on products imported from the other Party”. The African Continental Free Trade Agreement (AfCFTA), which all the ESA5 countries have signed up to, but which, to date, only Mauritius has ratified, has an adjustment window which may include a compensatory mechanism to mitigate tariff losses when countries join the AfCFTA.

**The level of awareness of the interim EPA varies by country and by government authority and within the private sector and industry.** In all ESA5 countries the level of awareness of government officials in economic ministries, such as ministries dealing with trade, industry, finance and agriculture, are reported to be high. The government officials are aware of the EPA and are also familiar with the processes and procedures that need to be complied with to get preferential market access to the EU market under the interim EPA. It is reported that other government ministry officials usually do not have a high level of awareness of the EPA but this is not considered to be a challenge as these non-economic ministries are not mainstreamed into the trade agenda.<sup>11</sup>

**Ministries and agencies addressing small and medium sized enterprises issues were reported as not being specifically aware of the provisions of the EPA.** In discussions with ESA5 government officials and trade promotion agencies, it was pointed out that enterprises that are classified as SMEs in the ESA5 countries are usually too small to compete in the EU market. Thus, a low level of awareness amongst SMEs and those in government working with SMEs is also not a major challenge to implementation of the EPA. SMEs are not able to benefit from economies of scale to participate in global supply chains or have the resources to comply with EPA requirements.

**Trade promotion agencies and the private export sector are very aware of EPA provisions and how to benefit from EU preferential market access.** The trade promotion agencies actively promote the EPA and assistance is provided through the trade promotion agencies to the export sector to strengthen the export sector in ways that allow them to benefit from EU market access preferences. Numerous examples were given by the national trade promotion agencies of assistance provided through the EU (EDF), or EU member states through bilateral aid, to specific sectors and specific industries. This assistance is targeted to improve competitiveness, such as how to reduce costs of production or improve packaging, and to ensure compliance with EU market access regulations, such as TBT and SPS. This indicates a high level of awareness of the EPA by government officials (as they need to apply for this assistance), of trade promotion agencies (as they need to be involved in the project itself) and the productive sector or industry (the ultimate beneficiary).

**There is an increasing interest in EPA negotiations by civil society in Zimbabwe, Madagascar, Mauritius and Seychelles.** Whereas Zimbabwe still leads in the number of CSOs following the negotiations, there has been an impressive rise in the number of CSOs from Madagascar and Seychelles engaged in EPA negotiations. This was observed from the frequency of articles and blogs on the negotiations published by the CSOs; self-organised national consultative meetings on EPA negotiations; and the incorporation of a trade agenda by CSOs in their strategic plans and work plans. Civil Society Organisations (CSO) who have higher than average levels of awareness displayed the following characteristics.<sup>12</sup>

- They work on socio-economic development issues including trade; investment; intellectual property; human rights; environment; climate change, debt and agriculture as part of their mandates.
- They were members of Civil Society networks such as Africa Trade Network; AFRODAD; Economic Justice Network; PACJA and Third World Network-Africa, who have played a critical role in raising awareness and building the capacity of their members in research and advocacy on trade and trade related policies and negotiations.
- They are networked with relevant Government Ministries, Departments and Agencies (MDAs) including Ministries of Trade, Agriculture, Foreign Affairs and the Revenue Authorities. Some of the CSOs, such as the Zimbabwe Council of Churches, have been part of the Government Negotiating Team and are periodically consulted on EPA implementation.

**Documented reasons for low levels of CSO awareness of the existing EPA range from limited availability and publication of information on EPAs to organisational focus on other core issues that do not prioritise trade.** There could also be limited inclusion of CSOs in the process of preparing trade policies and in trade negotiations, such as EPA negotiations by their respective governments, limited appreciation by governments of the role of CSOs in trade negotiations and limited resources from development partners for CSO work in trade advocacy. Respondents of the surveys carried out indicated that the EU Trade Advocacy

<sup>11</sup> There has been a discussion on whether other government departments should be involved to ensure compliance with labour and human rights components of the EPA but as the EPA provisions do not go beyond other international commitments made by the ESA5 countries on labour and human rights, there is no apparent reason for these ministries and government agencies to focus specifically on these provisions in the EPA.

<sup>12</sup> However, the fact that no CSOs registered to participate in the recently concluded EPA Civil Society Dialogue on the negotiations to deepen the EU-ESA5 EPA, would indicate either a lack of awareness a lack of interest about EPAs amongst the CSOs.

Fund should focus on supporting CSOs to engage in EPA negotiations and popularising the implementation of the EPA.

Access to information on EPAs comes from many sources but mainly from the internet and websites such as the EU's expansive website(s); ESA5 government websites, including national trade portals and the websites of trade promotion agencies, Bilaterals.org, SEATINI Zimbabwe, Economic Justice Network and Third World Network Africa. Many of the ESA5 government websites give access to the legal text of the EPA as published in the EU's official Journal. There is also a rich source of information and interpretation of EPA provisions in research and consultancy reports. Many of these reports have been prepared using EU resources.

### 3.4 Main Obstacles and Challenges to Implementation

The main obstacles and challenges to implementation of the ESA interim EPA include the following:

#### 3.4.1 Administration of Rules of Origin

The EU has made strong efforts to harmonise the procedures of rules of origin under its different preference schemes, including the EPA, so that the appropriate form to be used as proof of origin, the movement certificate EUR.1, invoice declarations and the issuance of the certificate of origin for cumulation purposes is the EUR.1.<sup>13</sup> The authority issuing movement certificates EUR.1 is, usually, the national Customs authority. Despite many technical assistance and capacity building initiatives in the ESA5 directed at improving the capacity of both the private sector and Customs with the administration of certificates of origin, administrative challenges remain with the completion of the EUR.1 in the ESA5 countries. However, these challenges should be eased, or even be eliminated, with the exclusive use of self-certification, ceasing the issuance of movement certificates EUR.1

#### 3.4.2 Compliance Challenges

The ESA5 private sector companies, including SMEs, find it difficult to take advantage of opportunities presented through the EPA because of quality constraints, rules of origin and costs of production. The business sector in the ESA5 is not strategically positioned to meaningfully export to the European market and, with business capacity utilisation dropping to about 27 per cent because of the effects of COVID-19, this position can only get worse. Companies reported difficulties in complying with EU Standards and SPS measures, including the REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulation that has become extremely costly for SMEs in terms of compliance costs.<sup>14</sup> Private standards also constitute an additional barrier to the private sector and SMEs in ESA5 to access the EU Market.

#### 3.4.3 Rules of Origin and Value Chains

The comprehensive EPA rules of origin are an improvement on the rules of origin used in the interim EPA and in the CPA in terms of their restrictiveness but there is concern from ESA that they are still not liberal enough to allow ESA5 countries to become part of global value chains and still benefit from preferential market access into the EU. Modern manufacturing processes used in the developed world comprise global value chains that involve different companies in different countries adding value along the value chain and often adding very small percentages of value to the final product. The ESA-EU EPA rules of origin are structured in such a way that relatively large percentages of value addition, such as 40 per cent, need to be added to the product and there needs to be a cumulation agreement in place, for the product to benefit from preferences into the EU. These rules of origin do not reflect modern manufacturing processes so the EPA preferences will not be much of an incentive to new investors wanting to establish themselves in ESA5 countries and access the EU market.

#### 3.4.4 Pro-Poor trade provisions and offers

Churches under the banner of the "All Africa Council of Churches" have, according to their own submissions, played an important role in advocating for economic policies that are pro-poor in nature. At the core of the Churches' submission was that any kind of economic policy, including international trade policies, should be geared towards sustainable development and equitable growth, for the benefit of the people. In a statement

<sup>13</sup> Note that when the Cotonou preferences were replaced by the EPA and Everything-but-Arms preferences those countries that opted to use the EBA preferences, which is a Generalised System of Preferences (GSP) needed to move from the EUR.1 form to the Form A. If Zambia, for example were to join the ESA EPA and switch from EBA to EPA, it would probably shift from using for A to the REX system rather than using the EUR.1 form again.

<sup>14</sup> No specific figures were reported by stakeholders during the interviews.

produced by the All-Africa Council of Churches in 2019, churches are encouraging the EU to consider positions in the comprehensive EPA that should not be oppressive, but instead be fair and just and serve the people.

#### 3.4.5 Low importance of the Development dimension

EPAs are supposed to have both a trade and a development dimension. There is a strong focus on the trade dimension but less focus on the development dimension. The development dimension has been limited to mainly technical assistance whereas the needs of the ESA5 are more in trade infrastructure, which needs to be addressed if ESA5 countries are to successfully compete in the EU markets.

### 3.5 Opportunities

#### 3.5.1 Preferential Market Access

**The main opportunities for the ESA5 are to take advantage of preferential market access opportunities offered to them into the EU market.** To do this the ESA5 countries will need to address what the United Nations Industrial Development Organisation (UNIDO) calls the “3Cs” - inadequate competitiveness of supply capacity, conformity with international standards, and connectivity to markets. If fully implemented, the ESA EPAs can help Africa tackle these challenges and to help the ESA5 industrialise, which they cannot do without guaranteed export markets. In a reciprocal negotiation setting, a party cannot be a value-claimer if it is not willing to be a value-creator. As Emily Jones puts it in her book, *Negotiating Against the Odds*, “market access concessions are the currency of trade negotiations” and the ESA EPA gives the ESA5 countries a legally guaranteed access to EU markets.<sup>15</sup>

#### 3.5.2 Self-certification as proof of origin

**The Registered Exporter system (the REX system) is a system of certification of origin of goods based on a principle of self-certification.** The origin of goods is declared by economic operators themselves by means of so-called statements on origin. To be entitled to make out a statement on origin, an economic operator is registered in a database by his competent authorities. The economic operator becomes a “registered exporter”. The REX IT system has been developed by the European Commission. The main functionalities of the REX system are:

- Registration of exporters: Exporters apply to become registered exporters by filling in an application form and by returning it to their competent authorities. The competent authorities register exporters who submit complete and correct application forms.
- Modification of registration data: once registered, a registered exporter has the obligation to communicate to his competent authorities all changes on his registered data. The competent authorities then perform the modifications in the REX system for the registered exporter.
- Revocation of exporters: in some cases, a registered exporter will be revoked from the REX system. This can happen for instance if the company ceases to exist or if the registered exporter commits fraud. Depending on the reason, the revocation is done either on request of the registered exporter or on the initiative of the competent authorities.

Self-certification is expected to significantly ease the administration of the issuance of the certificates of origin. It does not in any way change the rule of origin.

### 3.6 Key findings and recommendations on implementation

The EPA development agenda could be based on a self-assessment of needs by the ESA5 countries themselves and take a demand side approach (meaning that the ESA5 countries outline their needs) rather than a supply side approach (meaning that the EU specifies the funding available and how that funding can be utilised – such as on TA rather than blended financing for trade-related infrastructure). This would follow the approach taken under the WTO’s Trade Facilitation Agreement (TFA) where each country was expected to assess their needs to implement the twelve TFA Articles in addition to establishing the National Trade Facilitation Committee.

<sup>15</sup> <https://www.theiqc.org/blog/eu-africa-trade-relations-africa-needs-economic-partnership-agreements/>



**Each ESA5 country could establish a National EPA Committee which could develop the trade and development components of the National EPA Plan, based on the commitments made in the comprehensive EPA, and monitor implementation on a continuous basis, with a regional coordinating mechanism in place.** The National EPA Committee (NEPAC) would comprise government (Ministries of Finance, Trade, Infrastructure, Economic Development and Industry), the Chambers of Commerce, Manufacturers Association, a representative of MSMEs and a representative of civil society organisations and a representative from academia and would meet on a monthly basis, or more often if necessary. It would be responsible for drawing up a National EPA Plan that would finalise the country's inputs into the EPA negotiating agenda, to be coordinated at the regional level so that the ESA5 had a common negotiating position. The NEPAC would also be responsible for monitoring implementation of the EPA – both the trade and development agendas.

**ESA5 countries need better coordination of capacity building activities.** The National EPA Committees or another body could coordinate the capacity building activities required to allow CSOs, government departments and industry to actively participate not only in the negotiations (which would also benefit the country in all other negotiations, including the AfCFTA negotiations) but also in benefiting from the EPAs themselves. For example, there has been a lot of generic capacity building in rules of origin, but this is not adequate for industry. Industry needs to delve into the specific rules of origin for the products it makes and to understand whether it can comply with the rules of origin as they are now. If they cannot comply, they would need to understand what needed to change, either in the processes they follow, or in the rules of origin themselves, to allow them to benefit from the EPA. They would then need to either make changes in the supply and value chains they use or convince the ESA5 countries to negotiate a change in the rules of origin with the EU, in the understanding that restrictive rules of origin often derive from the ESA5 and not the EU. This would require continuous capacity building, most probably provided through the national Chambers of Commerce or Ministry responsible for Industry, rather than from short term technical assistance programmes such as TradeCom II.

**ESA5 countries need to improve the visibility and flow of information.** The NEPAC could also be responsible for improving the visibility and flow of information on EPAs, outlining the possible advantages as well as explaining what mitigation is being done to address the negative aspects of EPAs. This improvement in visibility and information flows could take advantage of social media platforms, websites, public meetings, radio programmes and television programmes. The communication strategy would be a part of the National EPA Plan.

## 4. Rules of Origin

### 4.1 Overview

The Rules of Origin (RoO) for the Eastern and Southern Africa Interim EPA are contained in Council Decision of 13 July 2009<sup>16</sup>. On 14 January 2020, the EPA Committee adopted Decision No 1/2020<sup>17</sup> which entered into force on 31 March 2020 and amended certain provisions of Protocol 1.<sup>18</sup> In addition to amending the definition of the concept of 'originating products' and methods of administrative cooperation, Decision 1/2020 of the EPA Committee allows for 'accounting segregation' for materials, replaces the provision on 'direct transport' by a rule on 'non-alteration' and introduces the possibility of using exclusively self-certification as proof of origin and ceasing the issuance of movement EUR.1

Decision 1/2020 does not change the overall framework governing rules of origin, which remain as product-specific rules and a combination of wholly produced rules and substantial transformation rules. The substantial transformation rules include value addition rules, local content rules, change of tariff classification rules and specific process rules. In some product specific RoO there is a choice between change of tariff classification, specific process, value addition and local content rules. There are also cases, such as in Chapter 85 (generators, electric motors, apparatus for communication in a wireless network, microphones, video recording equipment, etc.) where there is a choice between two value addition rules.

### 4.2 Preference Utilisation by ESA Countries into the EU

To estimate the effectiveness of the EU-ESA EPA we have calculated the preference utilisation rate for the EU into the ESA markets and for the ESA countries into the EU market. The preference utilisation rate is the value of utilised preferences as a share of the value of preference eligible trade, which is the sum of the 'value of utilised preferences' and the 'value of non-utilised preferences'. Annex VI gives details of utilised preferences of ESA EPA originating exports into the European Union.

**What is evident from the data is that for EPA eligible exports from Madagascar, Mauritius, Seychelles and Zimbabwe<sup>19</sup> the four EU-ESA EPA countries make significant use of the EPA preferences made available to them by the EU.** Almost all exports of originating goods from Madagascar and Mauritius enter the EU market free of duty (either under MFN zero or under EPA preferences) and about 97 per cent of originating goods from Seychelles and 96 per cent of Zimbabwe's originating exports enter the EU market free of duties. There are various reasons why not all of ESA's originating goods are entering the EU market free of duties, including because exporters are not completing the required EUR.1 forms, possibly because they calculate that the cost of completion of the administrative formalities to obtain a certificate of origin, either in the time it takes or the financial cost, will be more than the MFN duties paid.

**Apart from base metals and nickel, which are not dutiable into the EU, most exports from Madagascar have high preference utilisation rates (PURs).** All fish and fish products that enter the EU market are classified as originating from Madagascar.

**Mauritius takes maximum advantage of preference margins offered by the EU.** This was the case under the Lomé and Cotonou agreements as well as under the ESA EPA. Mauritius's biggest export into the EU is Chapter 16 products, which, in this case, is tinned fish from Princess Tuna. All fish and fish products exported into the EU by Mauritius is deemed to be originating from the ESA EPA region which means, as is the case for Madagascar, that fish tinned and exported by Princess Tuna to the EU is caught by fishing vessels owned by EU or ESA companies or is within the derogation allowing non-originating fish to be processed in ESA EPA countries in order to benefit from preferences.

**The second largest export from Mauritius into the EU are goods classified under Chapter 61, so articles of apparel and clothing accessories, not knitted or crocheted.** Mauritius has a history of developing industries on the back of EU preferences and has incorporated preferences into its industrialisation and trade policies and strategies. For example, its tuna canning industry buys tuna from, usually, EU owned fishing vessels that are fishing in the ESA EPA countries' Exclusive Economic Zones (EEZs) and beyond, so that they

<sup>16</sup> E2012/196/EC [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOL\\_2012\\_111\\_R\\_0001\\_01](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOL_2012_111_R_0001_01)

<sup>17</sup> OJ L 93, 27 March 2020 <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L:2020:093:FULL&from=EN>

<sup>18</sup> The text of Protocol 1, defining the concept of 'originating products' and methods of administrative cooperation to the Interim Agreement, is replaced by the text set out in the Annex to Decision 1/2020 of the EPA Committee.

<sup>19</sup> Comoros is excluded because it has only recently ratified the EU-ESA EPA.



benefit from preferences into the EU market. In addition, Mauritius managed to benefit even from the double transformation rules of origin that applied to garments and apparel when they existed by encouraging firms with vertical integration to import yarn, make fabric and then make garments.

**The main exports from Seychelles to the European Union are frozen fish (HS Chapter 03) and canned tuna (HS Chapter 16).** The tuna is mainly caught by purse seiner fishing vessels owned by EU nationals and the fish is brought into Victoria fishing harbour on Mahé island. It is then either transferred frozen into reefers and transported, or transhipped, to the EU (this being the HS Chapter 3 fish) or landed in Victoria harbour and moved to the Thai Union Indian Ocean Tuna Limited (IOT) factory where the fish is canned, and the canned fish exported all over the world, including to EU countries.

From the data available, the third largest export from Seychelles into the EU is mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes. Although all of this is dutiable and EPA eligible, none of these exports benefit from EPA preferences. **The fourth largest export from the Seychelles to the EU is products of HS Chapter 90.** High tech companies have been encouraged to set up in Seychelles. One of these is Chelle Medical Limited, a subsidiary of Venner Capital SA. Chelle has operated as a medical device assembly contract manufacturer in the International Trade Zone Sector of the Seychelles since 1996. These are not dutiable so enter the EU free of duty without having to use EPA preferences. The fifth largest export from the Seychelles to the EU is products of HS Chapter 15, which is most probably a by-product from the fish canning process and is fish oil. Again, this product is not dutiable so enters the EU free of duty without having to use EPA preferences.

### 4.3 Preference Utilisation by EU into ESA Countries

**The Utilisation Rates for EU goods entering the markets of Madagascar, Mauritius, Seychelles and Zimbabwe are low.** The highest utilisation rates for the top ten EU imports into Madagascar is for Chapter 73 (Articles of iron or steel) with a UR of 44 per cent. There are three Chapters where the UR is between 21 per cent and 25 per cent (Articles classified under Chapters 85, 84 and 39) and one at 13 per cent (vehicles) but, for the rest of the top ten imports, by Chapter Head, there is no utilisation of preferences.

**The EU does not utilise many of the preferences it has into the Mauritian market.** The EU has a utilisation rate of 63 per cent for goods under Chapter 23 (animal fodder) and a 10 per cent utilisation rate for products classified under Chapter 22 (beverages, spirits and vinegar). The rest of the URs are 3 per cent or lower. For Seychelles, six of the top ten imports from the EU have URs of between 35 per cent and 49 per cent (vegetables; fruit and nuts; coffee, tea and spices; processed fish and meat; miscellaneous edible preparations; and cereals, flour, starch or milk) while URs for the rest of the top ten imports are between 5 per cent and zero. For Zimbabwe the highest UR of the top ten imports from the EU is 7.7 per cent so, effectively preferences are either not utilised for EU imports or Zimbabwe is not allowing these preference margins to be utilised. The figures are reported in Annex VI.

### 4.4 Challenges in Determining and Applying Rules of Origin

The main challenges in determining and applying rules of origin include the following:

#### a) How to mainstream trade preferences into trade (and industrial) policy options

**For EPAs to be a useful tool for countries who have signed up to EPAs there is need for these countries to incorporate, or mainstream, EPAs into their trade policies.** There is a tendency for African countries, and not just in the context of EPAs, to take a defensive position in trade negotiations and focus on potential tariff losses that will take place when introducing a PTA. This is at the expense of taking measures to take maximum advantage of the flip side of the preferential trade agreement, which is improved market access in the first place.

**When EPAs were initially introduced there was, second, a high expectation about how EPAs would increase FDI into the countries which signed EPAs because third country international business would want to take advantage of the certainty that EPAs introduced.** This increase in investment was to assist countries that signed EPAs to not only increase production, and trade, of “traditional” goods but also to promote diversification of production into new products as well as becoming a part of new global value chains.

There is need to attract foreign direct investment into “new” and high-tech industries and allow start-up companies to secure preferences into both African and EU markets and to do this using modern manufacturing processes that rely on global value chains. For this to happen there will have to be a reassessment of how

origin is determined so that preferences can be given to products that ESA EPA countries can produce as part of, at least value chains that are European-based.

**b) How industry can ensure that it is involved in the negotiations of rules of origin that reflect modern manufacturing processes**

The EPA rules of origin (and most preferential rules of origin governing African free trade agreements) have their origins in the Lomé Convention, signed in 1975, when manufacturing processes were different from those used 45 years later.<sup>20</sup> The private sector, and in particular potential investors in “new industries” and new global value chains in the ESA5 countries, would need to be a part of the negotiations on rules of origin if a sense of reality regarding value addition or local content percentages are going to be introduced into EPA rules of origin. The same principle applies to specific processes, which tend to change rapidly with new technologies being introduced.

**c) Understanding of the Rules of Origin**

**Although access to the rules of origin themselves is not restricted, interpretation of the rules is not easy for businesses, and especially SMEs.** Take, for example, the following rule of origin for essential oils, perfumery, cosmetic or toilet preparations which is a product exported from the ESA into the EU:

**Table 1: Sample rules of origin description**

| HS<br>Heading<br>No (1) | Description of product<br>(2)   | Working or processing carried out on non-originating<br>materials that confers originating status<br>(3) or (4)  |  |
|-------------------------|---|--|--|
| ex<br>Chapter<br>33     | Essential oils and resinoids;<br>perfumery, cosmetic or toilet<br>preparations; except for:   | Manufacture in which all the<br>materials used are classified<br>within a heading other than that<br>of the product. However,<br>materials classified within the<br>same heading may be used<br>provided their value does not<br>exceed 20 % of the ex-works<br>price of the product | Manufacture in which the value<br>of all the materials used does<br>not exceed 40% of the ex-<br>works price of the product  |
| 3301                    | Essential oils (terpeneless or not),<br>including concretes and absolutes;<br>resinoids; extracted oleoresins;<br>concentrates of essential oils in fats,<br>in fixed oils, in waxes or the like,<br>obtained by enfleurage or<br>maceration; terpenic by-products of<br>the deterpenation of essential oils;<br>aqueous distillates and aqueous<br>solutions of essential oils | Manufacture from materials of<br>any heading, including<br>materials of a different<br>“group” in this heading.<br>However, materials of the same<br>group may be used, provided<br>their value does not exceed<br>20 % of the ex-works price of<br>the product                      | Manufacture in which the value<br>of all the materials used does<br>not exceed 40 % of the ex-<br>works price of the product |

To make use of the EPA rules of origin an economic operator needs to take into account:

- the Introductory Notes to the List in Annex II;
- Annex II, this being the list of working or processing required to be carried out on non-originating materials in order that the product manufactured can obtain originating status, and
- other annexes, of which there are thirteen in total.

<sup>20</sup> Take, for example, the manufacture of the Apple i-Phone, which has a “Made in China” sticker on the box. But the Apple i-Phone is not actually manufactured in China, in the traditional sense, but assembled in China (mainly by a Taiwanese company – Foxconn) from component parts obtained from all over the world. The value addition of the assembly process in China is about 4 per cent of the ex-factory gate price of the i-Phone. The manufacture of smart phones, being high-value, low weight commodities requiring skilled labour, could be an industry the ESA countries may wish to promote and use the EPA to secure investment in. But the ESA EPA rules of origin for a smart phone (HS 8517) are Manufacture in which the value of all the materials used does not exceed 40 per cent of the ex-works price of the product AND where the value of all the non-originating materials used does not exceed the value of the originating materials used OR Manufacture in which the value of all the materials used does not exceed 25 per cent of the ex-works price of the product.

The interpretation of the documents requires a significant investment for a company, especially an SME, and even more so when the company is not sure whether it will be able to benefit from EU-ESA EPA rules of origin before it makes this time investment, so perhaps would not consider this investment a priority.

It would be advisable for each EPA country to have a draw-down facility which would support a specific company to interrogate rules of origin for that company specifically and to make recommendations on what rules of origin would be appropriate for that particular company and industry.

#### d) Being able to Adapt

Some countries, Mauritius being a good example, have based their trade and industry strategies on taking advantage of preferential rules of origin. The sugar, processed fish and textile and garment industries in Mauritius are examples of that country's companies taking full advantage of the preferential market access opportunities offered by the EU prior to the introduction of EPAs. Now that conditions in Mauritius, in the EU and in the rest of the ACP, which is competition for Mauritius, have changed, Mauritian industries need to adapt quickly to take account of these changes. Mauritius has taken steps to adapt so, for example, has moved into niche markets for sugar and into service industries. Mauritius has shown that it is able to adapt quicker and more substantially than other economies in the ESA group. The other countries could take advantage of the development component of EPAs to explore new sectors where there are opportunities to take advantage of and to put in place a programme that will attract foreign direct investment into these sectors and new opportunities.

**The above-mentioned challenges do not stop producers in the EU-ESA EPA from taking advantage of the duty-free, quota-free market access offered by the European Union under EPAs.** The ESA countries (excluding Comoros) have between 96 per cent and 100 per cent preference utilisation rates into the EU. But exports benefitting from preferential market access are in very few commodities and almost exclusively in wholly produced commodities, such as fish and fish products, sugar, spices and nuts, or garments and apparel which are regarded as traditional exports for the ESA EPA countries. There is no evidence to suggest that new investors are coming into the ESA countries to take advantage of market access into the EU in sectors other than the traditional commodity-based markets.

Specific challenges on rules of origin raised by survey respondents, and not addressed elsewhere, included the following submissions by respondents, included in Annex IV:

- The quantum of the automatic derogation for fish is too low, while the derogation rules are difficult to apply. Under the Cotonou Partnership Agreement there was an annual automatic derogation to use a total of 8,000 metric tonnes of non-originating fish for canning and 2,000 metric tonnes of non-originating tuna loins for all 77 countries of the ACP group. A major gain for the ESA-EU EPA was to get the same volume of automatic derogation for non-originating tuna for canning (8000 metric tons) for Mauritius, Seychelles and Madagascar and non-originating tuna loins (2000 metric tons) for Mauritius and Seychelles.-The interim EPA also allows for a value tolerance of up to 15 per cent for non-originating inputs of fresh or frozen fish in the manufacture of fish products. These derogations are needed at certain times of the year by the canneries in Seychelles, Madagascar and Mauritius, both when the tuna has moved out of the EEZs (because of a change of seasons) or when the purse seiners are staying in harbour such as when the vessels have almost reached their Yellowfin quotas). The rules are difficult to apply when combined with sanitary and phytosanitary and traceability provisions. The canneries cannot put fish into a can from different fish so the 15 per cent derogation rule has to be applied by consignment.
- The verification of proof of origin at import can be burdensome owing to lack of awareness of exporters on issuance of an invoice declaration where there is no clear indication of originating products or incorrect origin declaration wording on the invoices. This can be addressed with improved awareness of importers and exporters and the full move to self-certification.
- The procedural and documentation requirements define the administrative cost burden to firms of proving compliance and impact the government's capacity to verify compliance. Compliance with the specific rules of origin can imply greater production costs to firms. It can involve maintaining batch-level production records, identifying all materials used and the sourcing, costs, and origin status of those materials. Customs are generally allowed to review and verify the origin of goods entered under preferences for around five years after the goods are released, depending on the agreement. Firms that seek to benefit from preference must be able to produce these records on demand at any point in that period.
- The application of value/weight tolerance. ANNEX II(a) to Protocol 1 outlines the derogations from the list of working or processing required to be carried out on non-originating materials so that the product

manufactured can obtain originating status, accordingly to Article 7(2). However, this information is not indicated in the invoice declaration it is difficult to apply this derogation.

- Lack of transparency of registered products for Registered Exporters. The EU website provides an indicative list of registered products. During the process of implementing the REX for the comprehensive ESA EPA it will be necessary to clarify registered products and other implementation issues.

## 4.5 Use of Cumulation

Customs and the Chambers of Commerce in Mauritius and Seychelles report that exporters are using bilateral cumulation in production of prepared or preserved fish (HS1604), vanilla pods (HS08905) and reduced-sized models and similar recreational models (HS9503) but are unable to use the diagonal cumulation provisions. This is because the requirements of diagonal cumulation, such as the conclusion of administrative cooperation agreements are too stringent to make it a useful tool to increase trade.

**Customs and Chambers of Commerce from the ESA5 countries suggested that rules of origin need to be improved to meet current challenges of trading with EU.** For instance, there are several products under ANNEX XII of the Rules of Origin Protocol (products excluded from cumulation with South Africa) which are now duty free, but ESA cannot cumulate on such products. Furthermore, the rules of origin are so stringent that the local canneries depend heavily on EU operators (vessels) for the raw tuna. The survey respondents suggested that the comprehensive EPA should have more flexible rules of origin on specific products of interest to ESA5 and that that the EPA should allow a flexible mechanism for cooperation on customs matters.

## 4.6 Capacity of Customs

**In general, Customs of ESA EPA countries have the capacity to properly apply, implement and administer the preferential rules of origin used in the ESA-EU interim EPA and have no major challenges** in applying rules of origin including the system of establishing the proofs of origin, subsequent verification of origin and administrative cooperation with the EU Member States' customs authorities.

There are some occasional challenges such as, for example, the classification of Omega 3 oil. There has been some interest in Seychelles in producing Omega 3 oil and exporting the oil. The tariff classification for Omega 3 oil will depend on what processes are used to manufacture the Omega 3 oil. If, for example, the Omega 3 oil is used as a medicament it could be classified under HS30.03 or HS30.04. If it is not chemically modified it could be classified under 15.16 but if it is chemically modified, it could be classified under HS15.17. Customs can base their classification rulings on similar cases and a Tariff Classification Advance Ruling from Canada Border Services Agency ruled that Golden Omega Fish Oil TG3322 was to be classified under HS15.17. As the oil had undergone trans-esterification it was excluded from heading HS15.16. However, the other heading it could be classified under was HS15.17 but this is "margarine and edible mixtures or preparations of animal or vegetable fats, or oils, or of fractions of different fats, or oils of this Chapter; other than edible fats, or oils, or their fractions of heading HS15.16." Since the product was not margarine, imitation lard, butter substitute, shortening, palm oil or palm kernel oil, the CBSA classified it under other edible mixtures or preparations of animal oils. In situations like these there needs to be very close cooperation between the Customs Authorities of the exporting country and the importing country.

## 4.7 Key findings and recommendations

The overall objective of EPAs, in terms of trade, is to increase the amount of trade between the EU and the countries that have signed EPAs. This is to be achieved by putting in place preferential market access arrangements between the two trading partners. For rules of origin to be improved further, for the benefit of the majority of stakeholders, the following would need to happen:

### 1) Closer alignment of the development and trade components of the EPA

Although EPAs are often thought of, primarily, as being trade deals, they also have a developmental objective, including supporting sustainable development and poverty alleviation, promoting regional integration and linking trade policy with tools for development. To maximise their effect, EPAs should be integrated, or mainstreamed, into the ESA5 countries' trade policies. However, it is often, but not always, the case that EPA signatories are more concerned about possible negative impacts of a trade deal, such as revenue loss from tariff reductions, and the penetration of their markets by, in this case, European-based firms, than they are about taking advantage of improved market access.

For example, each country is preparing a national implementation plan for the EPA and these plans will focus on sustainable development aspects but may not focus on how a trade component can feed into sustainable development. A national implementation plan could start with identifying what products (or services) the ESA country has, or can have, a competitive advantage in, especially in the EU market, with preferences. Once this has been established, ESA countries could look at what constraints they face to ensure the products to be traded are classified as originating. If rules of origin need to be adjusted to ensure the goods are classified as originating then the ESA country needs to prepare its negotiating position to argue its case, which should also include estimates of impact on poverty alleviation and on sustainable development.

EU imports into the ESA countries free of duties need not always be considered to be a negative aspect of EPAs. If for example, a country is short of a commodity, such as wheat flour, it could import wheat flour free of duty and use it to produce food products which could be exported as well as supporting food security in the country. The same principle could apply to high-tech industries where component parts of, for example, information and telecommunications technology (ICT) equipment could be imported free of duty and assembled in the ESA country and then, using cumulation provisions, could be sold back into the EU market, and other ESA countries free of duty.

## **2) Involve the private sector and potential new investors in trade negotiations, to the extent possible**

The European Union and its ESA partners in the EU-ESA EPA are continually improving the rules of origin. The last set of improvements introduced accounting segregation for materials, relaxed the 'direct transport' rule by replacing it with a 'non-alteration' rule and introduced the possibility of using the Registered Exporter Scheme (REX) for EU exports to the ESA countries. These changes will benefit existing producers in the ESA5 countries but may not attract new investors in new industries or suppliers in new, or non-traditional, global value chains. It is important that the ESA5 countries are able to define in their trade and industrialisation policies what the target industries and value chains are into the EU market and involve the potential investors and private sector stakeholders in the trade negotiations, including negotiations on rules of origin, to ensure the agreed rules of origin can be complied with so that these "new" producers can benefit from the preferences offered by the EU.

## **3) Ensure mitigation of negative aspects of the EPAs**

The two main negative potential impacts of EPAs will be on tariff loss and possibly loss of business for domestic producers. It is possible to calculate potential tariff loss prior to losing this revenue and to then make adjustments to compensate for this loss, such as either adjusting the value added tax, or taking measures to improve compliance. Potential loss of business has been addressed by excluding sensitive products from tariff liberalisation, with the exclusions including basic food items, chemicals, plastic and paper articles, textiles, consumer electronic goods, vehicles etc. Mitigation measures could be part of the development component.



## 5. Analysis of trade and investment flows

Madagascar, Mauritius, Seychelles and Zimbabwe have provisionally applied the interim EPA since May 2012. As a part of the interim EPA, the EU offers duty free quota free access for all imports from ESA4 countries. This access to the EU market is permanent, full and free to all products.

ESA countries phase out duties partially and continue a process of liberalising their markets to EU imports in line with individual schedules of each ESA4 country which are annexed to the interim EPA. Comoros, Madagascar and Zimbabwe will liberalise around 80% of their trade until 2022. Mauritius will liberalise 96% and Seychelles will liberalise 98% of their goods trade. The parties take note of the status of implementation of tariff reduction and modification of the tariff nomenclature in regular EPA Committee meetings and continuously exchange relevant information on tariff reduction.

**There are sensitive products that are excluded from liberalisation.** These vary according to the individual offer of each ESA country. However, they include mainly agricultural products as well as a set of industrial goods, including for example plastics, paper and textiles. Table 2<sup>21</sup>

**Table 2: Main sensitive products excluded from liberalisation, per ESA country<sup>22</sup>**

|                   |  |
|-------------------|--|
| <b>Madagascar</b> | Meat, milk and cheese, fisheries, vegetables, cereals, oils and fats, edible preparations, sugar, cocoa, beverages, tobacco, chemicals, plastic and paper articles, textiles, metal articles, furniture        |
| <b>Mauritius</b>  | Live animals and meat, edible products of animal origin, fats, edible preparations and beverages, chemicals, plastics and rubber articles of leather and fur skins, iron & steel and consumer electronic goods |
| <b>Seychelles</b> | Meat, fisheries, beverages, tobacco, leather articles, glass and ceramics products and vehicles  |
| <b>Zimbabwe</b>   | Products of animal origin, cereals, beverages paper, plastics and rubber, textiles and clothing, footwear, glass and ceramics, consumer electronic and vehicles  |

### 5.1 Patterns in ESA4 goods trade

#### 5.1.1 Patterns in ESA4 countries' goods exports to the EU

**ESA4 countries' goods exports followed different trends in the period 2009 to 2019.** Diverging trends also emerge for the period that followed the elimination of import tariffs by the EU in 2012. Exports from Madagascar (CAGR<sup>23</sup>: +8.6%) to the EU show an upward trend following the year 2012. Exports from the Seychelles remained relatively stable (CAGR: +2%), while exports from Mauritius (CAGR: -2.8%) and Zimbabwe (CAGR: -1.3%) slightly declined. Amounting to 989 million EUR in goods exports to the EU in 2019, Madagascar is the largest ESA4 exporter to the EU, followed by Mauritius (613 million EUR), Zimbabwe (359 million EUR) and the Seychelles (182 million EUR). This is outlined by

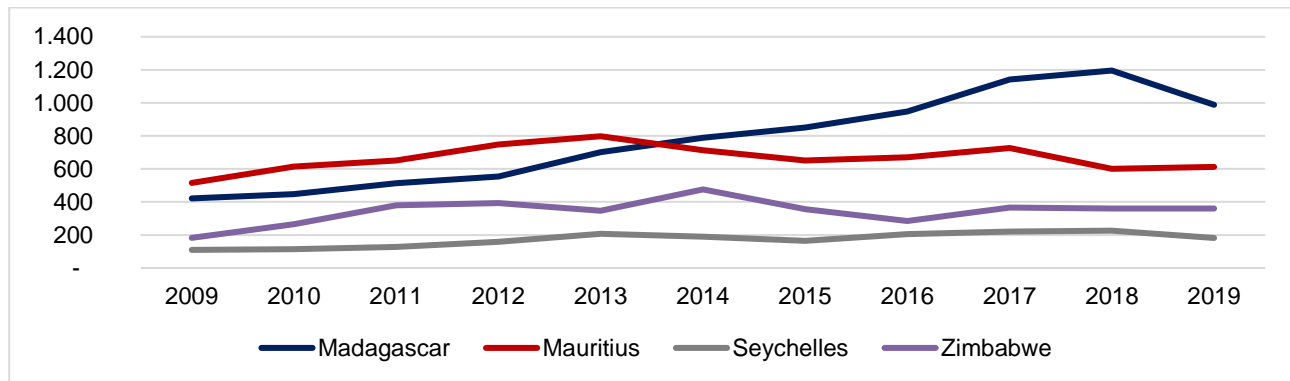
<sup>21</sup> The analysis of trade flows accounts for the fact that individual partner countries' tariff liberalisation processes started at different points in time. The EU eliminated import tariffs already in 2012. Mauritius and the Seychelles started liberalising tariffs on EU imports in 2013, and Madagascar and Zimbabwe started liberalising in 2016 and 2017 respectively. Accordingly, the analysis of ESA4 countries' exports to the EU and other jurisdictions focuses mainly on the period 2012-2019, i.e. the period following the tariff elimination on the side of the EU. The analysis of ESA4 countries' imports from the EU and other jurisdictions focuses mainly on the period that followed the beginning of the tariff liberalisation process in individual ESA4 countries, i.e. 2016-2019 for Madagascar, 2013-2019 for Mauritius, 2013-2019 for the Seychelles, and 2017-2019 for Zimbabwe.

<sup>22</sup> European Commission. Access2Markets Portal. Available at: <https://trade.ec.europa.eu/access-to-markets/en/content/epa-eastern-and-southern-africa>

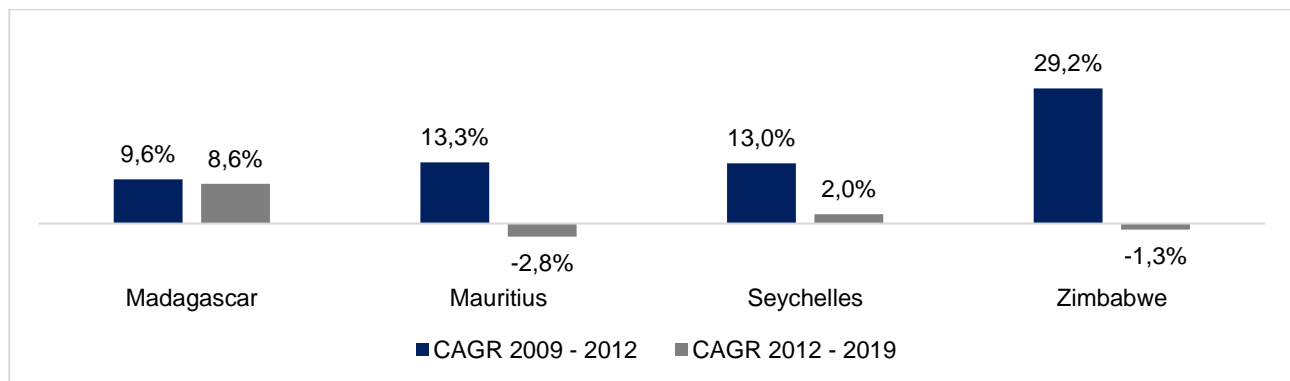
<sup>23</sup> Compound annual growth rate.

Figure 2 and Figure 3,



**Figure 2: Development of ESA4 countries' total goods exports to the EU27, in million EUR**

Source: Eurostat.

**Figure 3: Annual growth rates of ESA4 countries' goods exports to the EU27**

Source: Eurostat. Note: Numbers represent growth in trade value.

### 5.1.2 Diversification of goods exports from ESA4 countries to the EU

Goods trade statistics indicate that ESA4 countries' exports to the EU are generally highly concentrated among the top 20 export commodities (Table 3). The concentration of exports within the top 20 export commodities increased for Madagascar, Mauritius and Zimbabwe after 2012 while remaining unchanged for the Seychelles. This trend indicates increased specialisation in commodities in which ESA4 countries have international competitive advantages (see individual country analyses below). The concentration ratio within the group of top 20 commodities only increased for Madagascar, reflecting a stronger concentration on fewer export commodities in 2019 compared to 2012.

**Table 3: Development of concentration/diversification among ESA4 countries' top 20 exports to the EU27, HS 4 categories**

| Exports to EU27 | 2019                    |                                  | 2012                    |                    |
|-----------------|-------------------------|----------------------------------|-------------------------|--------------------|
|                 | Share of top 20 exports | HHI <sup>24</sup> top 20 exports | Share of top 20 exports | HHI top 20 exports |
| Madagascar      | 85%                     | 0.13                             | 80%                     | 0.10               |
| Mauritius       | 82%                     | 0.17                             | 65%                     | 0.17               |
| Seychelles      | 100%                    | 0.61                             | 100%                    | 0.96               |
| Zimbabwe        | 100%                    | 0.76                             | 88%                     | 0.81               |

<sup>24</sup> Herfindahl-Hirschman Index is a common measure of market concentration

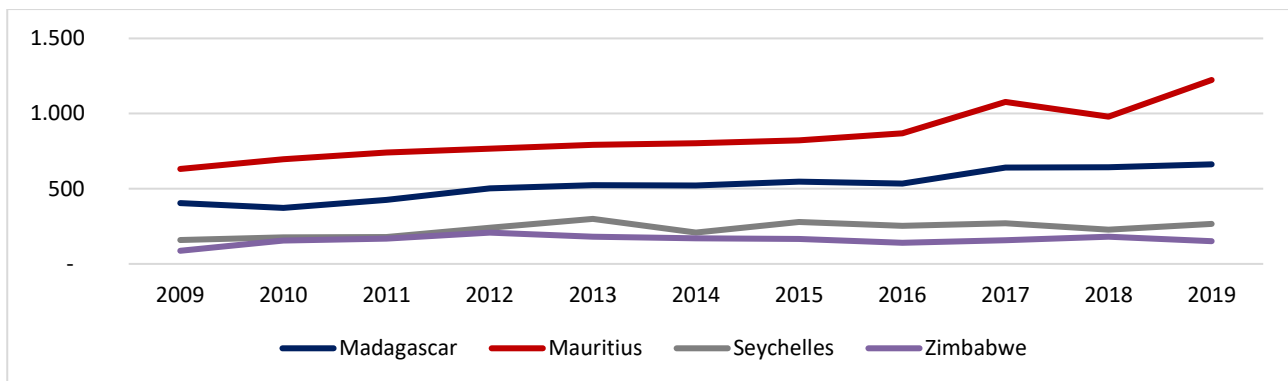
Source: UN Comtrade. Note: The EU eliminated import tariffs in 2012. The Herfindahl-Hirschman Index (HHI) is a common measure of commodity concentration of exports and imports. Higher values indicate that exports are concentrated on fewer commodities.

### 5.1.3 Patterns in ESA4 countries' goods imports from the EU

**ESA4 countries' goods imports from the EU follow different trends for the period 2009 to 2019** (Figure 4 and

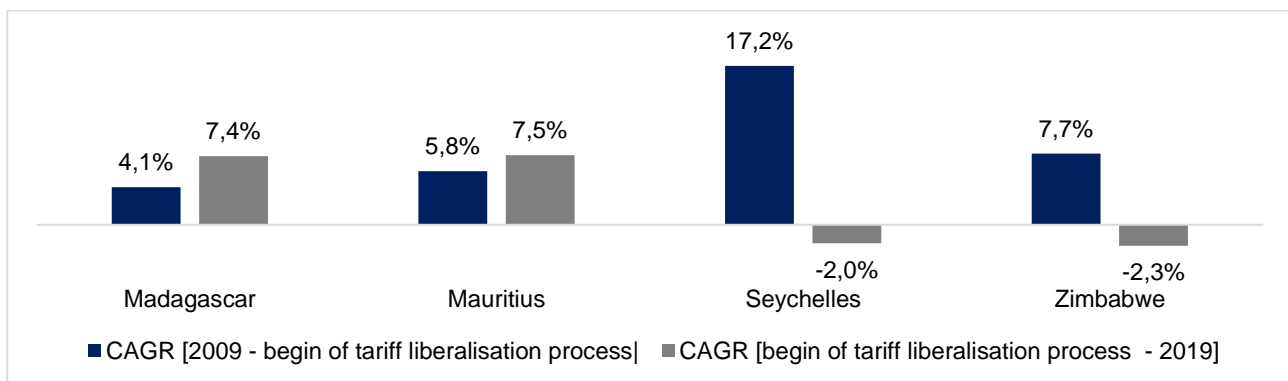
Figure 5). Diverging trends also emerge for the period that followed the elimination of import tariffs by ESA4 countries. Total EU goods exports to Madagascar (2016-2019 CAGR: +7.4%) and Mauritius (2013-2019 CAGR: +7.5%) significantly increased after the beginning of the tariff liberalisation process. Total EU goods exports to the Seychelles (2013-2019 CAGR: -2%) and Zimbabwe (2017-2019 CAGR: -2.3%) remained largely unchanged after 2013 and 2017 respectively. Amounting to 1.2 billion EUR in imports from the EU in 2019, Mauritius is the largest ESA4 importer of goods exported from the EU, followed by Madagascar (662 million EUR), the Seychelles (265 million EUR) and Zimbabwe (151 million EUR).

**Figure 4: Development of ESA4 countries' total goods imports from the EU27, in million EUR**



Source: Eurostat. Note: The EU eliminated import tariffs in 2012. Mauritius and Seychelles started liberalising tariffs on EU imports in 2013 and Madagascar and Zimbabwe started liberalising in 2016 and 2017 respectively.

**Figure 5: Annual growth rates of ESA4 countries' goods imports from the EU27**



Source: Eurostat. Note: The EU eliminated import tariffs in 2012. Mauritius and Seychelles started liberalising tariffs on EU imports in 2013 and Madagascar and Zimbabwe started liberalising in 2016 and 2017 respectively.

### 5.1.4 Diversification of ESA4 countries' goods imports from the EU

**Goods trade statistics for 2019 indicate that EU goods exports to Mauritius and the Seychelles are generally more diversified compared to the year marking the beginning of the tariff liberalisation process (Table 4).** Lower shares of the top 20 commodities in total goods exports and lower concentration ratios for the top 20 export commodities indicate improved market access conditions for EU goods exporters. A similar pattern emerges for Zimbabwe, although the numbers should be interpreted with caution, given the short time horizon following the year of the beginning of the tariff liberalisation process (two years) and Zimbabwe's recent political and economic crisis. EU goods exports to Madagascar are slightly more concentrated among the top 20 commodities, with a slightly higher concentration within the top 20 import commodities in 2019 compared to 2016.



**Table 4: Development of concentration/diversification among ESA4 countries' top 20 imports from the EU27, HS 4 categories**

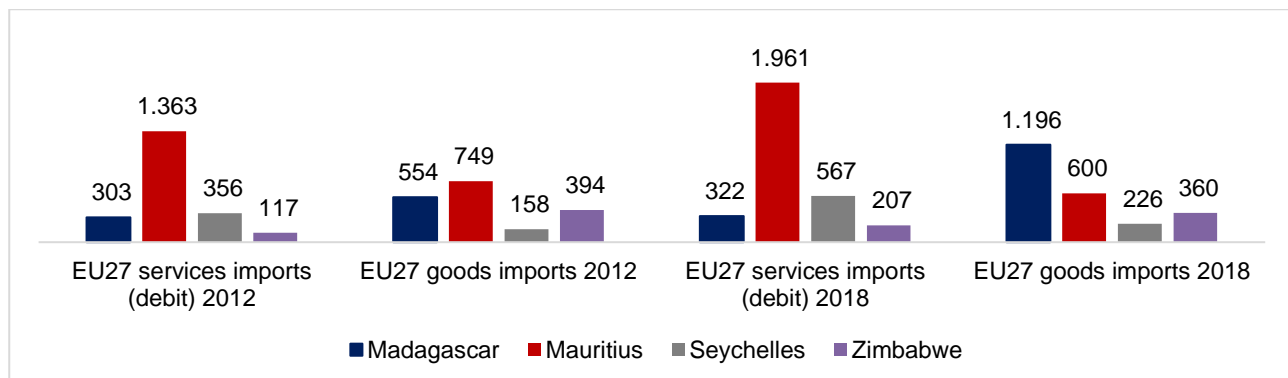
|                   | 2019                    |                    | Year marking the start of tariff liberalisation process |                    |
|-------------------|-------------------------|--------------------|---|--------------------|
| Imports from EU27 | Share of top 20 exports | HHI top 20 exports | Share of top 20 exports                                 | HHI top 20 exports |
| Madagascar        | 45%                     | 0.08               | 37%   | 0.06               |
| Mauritius         | 46%                     | 0.09               | 47%   | 0.18               |
| Seychelles        | 60%                     | 0.26               | 72%   | 0.43               |
| Zimbabwe          | 65%                     | 0.10               | 70%   | 0.13               |

Source: UN Comtrade. Note: The EU eliminated import tariffs in 2012. Mauritius and Seychelles started liberalising tariffs on EU imports in 2013 and Madagascar and Zimbabwe started liberalising in 2016 and 2017 respectively. Source: UN Comtrade. Note: The EU eliminated import tariffs in 2012. The Herfindahl-Hirschman Index (HHI) is a common measure of commodity concentration of exports and imports. Higher values indicate that exports are concentrated on fewer commodities.

## 5.2 Patterns in ESA4 services trade

### 5.2.1 Patterns in ESA4 countries' services exports to the EU25

ESA4 countries' total services exports to the EU generally increased from 2012 to 2018, amounting to 322 million EUR for Madagascar in 2018, 2 billion EUR for Mauritius, 567 million EUR for the Seychelles, and 207 million EUR for Zimbabwe. For Mauritius and the Seychelles, services exports to the EU are significantly higher than goods exports, driven by these countries' strong tourism services exports (Figure 6).

**Figure 6: Development of ESA4 countries' total services exports to the EU27, 2012 and 2018, in million EUR**

Source: Eurostat.

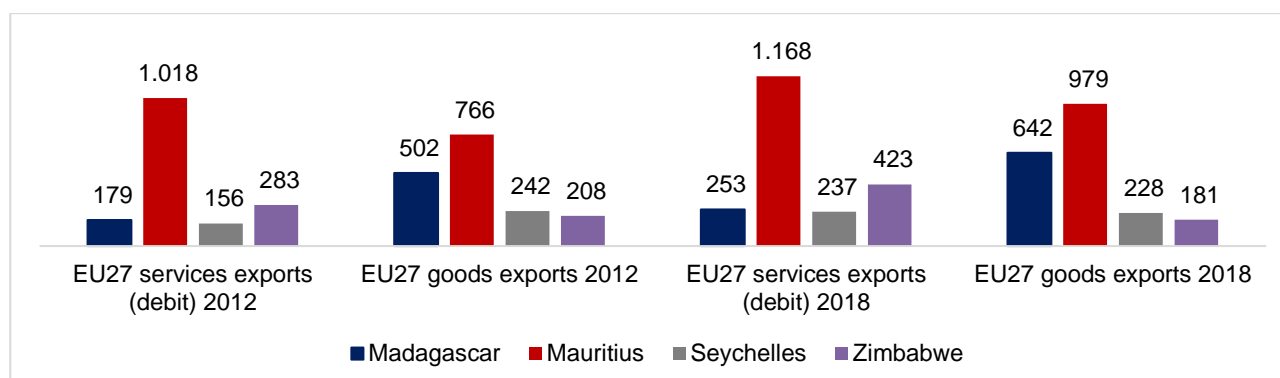
### 5.2.2 Patterns in ESA4 countries' services imports from the EU<sup>26</sup>

ESA4 countries' total services imports from the EU generally increased from 2012 to 2018, amounting to 253 million EUR for Madagascar in 2018, 1.2 billion EUR for Mauritius, 237 million EUR for the Seychelles, and 423 million EUR for Zimbabwe (Figure 7). For the EU, services exports to Mauritius and the Seychelles are higher than goods exports.

<sup>25</sup> Balance of payments-based services trade statistics are only available at aggregate level for ESA4 countries' services exports to the EU. The latest year for which data is available is 2018.

<sup>26</sup> Balance of payments-based services trade statistics are only available at aggregate level for ESA4 countries' services imports from the EU. The latest year for which data is available is 2018.

**Figure 7: Development of ESA4 countries' total services imports from to the EU27, 2012 and 2018, in million EUR**



Source: Eurostat.

### 5.3 Patterns in ESA4 trade with non-EU jurisdictions and regional trade integration

ESA4 countries' total goods exports to non-EU jurisdictions increased significantly in the period 2012 to 2019, indicating that **ESA4 countries' businesses deepened their international trade relationships with the rest of the world and also contributed to the deepening of regional (intra-African) trade integration** (Annex VII). As concerns the latter, growth in goods exports to (neighbouring) African countries (members of EAC, SADC and COMESA) was often higher than growth in goods exports to the rest of the world, with the exemption of Zimbabwe, whose economy suffered from political and economic crisis in 2019. As outlined in Annex VII, except for Zimbabwe, ESA4 countries' imports from non-EU jurisdictions also increased strongly in the period marking the beginning of the tariff liberalisation process in ESA4 countries and 2019. It should be noted though that growth in goods imports from non-EU jurisdictions to ESA4 countries were generally lower than growth in ESA4 countries overall goods exports to non-EU jurisdictions.

**Trade statistics indicate that ESA4 countries' goods exports to non-EU jurisdictions are generally highly concentrated among the top 20 commodities exported to these jurisdictions** (see Annex VII). This pattern is most pronounced for ESA countries' goods exports to EAC, SADC and COMESA trading blocs, indicating a trends toward increased specialisation in commodities in which ESA4 countries have international competitive advantages. The patterns in concentration ratios for ESA countries' top 20 export commodities are generally more diverse. As different patterns emerge for individual ESA4 countries and their export partners, the derivation of conclusions would require further export destination-specific analysis. A diverse picture also emerges for goods imports to ESA4 countries for which indicators of top 20 concentration in total trade and concentration within the groups of top 20 import commodities (Annex VII).

### 5.4 Country-specific trade patterns (see Annex VII for detailed review)

#### 5.4.1 Trade patterns Madagascar

- In 2019, Madagascar's top 20 goods exports to the EU accounted for about 85% of the country's total goods exports to the EU.
- Madagascar's top 20 goods imports from the EU accounted for about 45% of the country's total goods imports from the EU in 2019.
- Madagascar's commodity exports to non-EU jurisdictions partly mirror the country's commodity exports to the EU.

#### 5.4.2 Trade patterns Mauritius

- In 2019, Mauritius' top 20 goods exports to the EU accounted for about 82% of the country's total goods exports to the EU.
- In 2019, Mauritius' top 20 goods imports from the EU accounted for about 46% of the country's total goods imports from the EU.
- Mauritius' commodity exports to non-EU jurisdictions partly mirror the country's commodity exports to the EU.

#### 5.4.3 Trade patterns Seychelles

- In 2019, Seychelles' top 20 goods exports to the EU accounted for about 100% of the country's total goods exports to the EU.
- In 2019, Seychelles' top 20 goods imports from the EU accounted for about 60% of the country's total goods imports from the EU. T
- Seychelles' commodity exports to non-EU jurisdictions partly mirror the country's commodity exports to the EU.

#### 5.4.4 Trade patterns Zimbabwe

- In 2019, Zimbabwe's top 20 goods exports to the EU accounted for almost 100% of the country's total goods exports to the EU.
- In 2019, Zimbabwe's top 20 goods imports from the EU accounted for about 65% of the country's total goods imports from the EU in 2019.
- Zimbabwe's commodity exports to non-EU jurisdictions partly mirror the country's commodity exports to the EU.

### 5.5 Foreign Direct Investment

**EU27-ESA4 investment stocks have increased significantly in recent years. In addition, almost half of current global gross direct investment flows in Mauritius originate in the EU.** In 2018, stocks of EU FDI in ESA4 countries amounted to a total of 17.1 billion EUR. Individually, Mauritius accounted for by far the largest part with 15.7 billion EUR alone. Seychelles amounted to 778 million EUR, while the same figures were €366 million EUR for Zimbabwe and 268 million EUR for Madagascar.<sup>27</sup>

In total, this is a significant increase from 2014 when EU FDI in ESA4 countries amounted to 13.1 billion EUR. ESA4 FDI stocks in the EU amounted to 10.3 billion EUR in 2018. This also constitutes a significant increase compared to 2014 when FDI stocks amounted to 6.3 billion EUR only (see Table 5).

**Table 5: EU27-ESA4 FDI stocks (billion EUR)**

|                | 2014   | 2015   | 2016   | 2017   | 2018   |
|----------------|--------|--------|--------|--------|--------|
| <b>Inward</b>  | 6.347  | 5.128  | 10.143 | 8.078  | 10.310 |
| <b>Outward</b> | 13.137 | 14.364 | 1.448  | 17.785 | 17.119 |

Source: Eurostat

Due to data scarcity regarding detailed investment stock or flow data in the case of many ESA4 countries, the following analysis will lay a focus on Mauritius where more detailed data is available.

Mauritius can be regarded as a stable legal environment and has a reliable reputation when it comes to banking structures and its financial sector. These environmental factors also explain the relatively large level of EU FDI stock in Mauritius compared to other ESA4 countries. In 2019, global gross direct investment flows in Mauritius have been estimated at 536 million EUR. Real estate activities were the most important sector accounting for 405.3 million EUR, followed by financial and insurance activities (13.4 million EUR) and manufacturing (9.1 million EUR). Out of these total investment flows, close to half (240 million EUR) originated from the EU27, in particular from France (accounting for 178 million EUR alone).

Mauritius' gross direct investment flows abroad accounted for 97 million EUR in 2019. The most important sectors were financial and insurance activities as well as accommodation and food service activities. Out of these total investment flows abroad, 32.4 Million EUR were directed to Africa and 5.6 million EUR were directed to the EU27.<sup>28</sup>

<sup>27</sup> Note that investment activity in Zimbabwe is currently hampered by an uncertain economic situation, a lack of serious business climate reforms and missing foreign capital inflows. These factors currently limit the activities of foreign investors in the country.

<sup>28</sup> Bank of Mauritius. Preliminary Gross Direct Investment Flows: 2019. Available at:

[https://www.bom.mu/sites/default/files/di\\_2019q4\\_website.pdf](https://www.bom.mu/sites/default/files/di_2019q4_website.pdf). Calculated to EUR based on average exchange rate of 0.0251 EUR/MUR for 2019 (See: <https://www.exchangerates.org.uk/MUR-EUR-spot-exchange-rates-history-2019.html>).

## 5.6 EU's Outermost Regions and Overseas Countries and Territories

The interim EPA has led to new trade opportunities for outermost regions and overseas countries and territories, especially those in proximity to ESA4 countries, in different ways. An assessment of the impacts of the interim EPA on the EU's outermost regions (ORs) and Overseas Countries and Territories (OCTs) is key to understand how the EPA can help to address some of the key challenges that ORs and OCTs are facing. These challenges typically stem from their remote location, insularity, small size, difficult topography and climate, but also from their economic dependence on a reduced number of products.

**Out of the EU's nine outermost regions, La Réunion and Mayotte are in close proximity to ESA4 countries and are thus most impacted by the EPA.** La Réunion's economy is largely focused on the services sector and some manufacturing activities. Also agriculture plays an important role, in particular the sugar industry as sugar production accounts for 50% of total exports. Also Rum production is important. Mayotte's economic activity is largely based on the agricultural sector, such as fishing and raising of livestock. Regarding the sensitive fish sector for Mayotte, we have seen that the interim EPA has not resulted in a significant increase of fish exports from Mauritius, a main exporter of fish products, to the EU since 2012. In fact, a small reduction of -0.5% annually can be observed since the provisional application of the EPA. Accordingly, the interim EPA does not result in a significant increase of international competition in this key sector.

**The EU's ORs and OCTs can also profit from the interim EPA in a number of ways.** As outlined above, we can observe a diversification of ESA4 countries' goods imports from the EU since the implementation of the interim EPA. In particular, our analysis shows that EU goods exports to Mauritius, the Seychelles and Zimbabwe are generally more diversified compared to the year marking the beginning of the tariff liberalisation process.

**This diversification of imports of ESA4 countries increases the opportunities resulting from these import markets also to the EU's ORs, especially those in close proximity like La Réunion and Mayotte.** ORs can benefit from a more diversified range of import activities of ESA4 countries, which can in turn help them to diversify their own export activity and further develop their export industries. In addition, they can generally benefit from increased trade and export opportunities, both as a result of increased trade activity, and economic openness as a result of tariff reductions. OCTs can also profit from expanding trade activities in general resulting from the interim EPA. As such, the interim EPA provides opportunities that contribute to closer trade integration between the EU's ORs and OCTs, and their neighbouring countries.

## 5.7 Role of other trade agreements

**The interim EPA has contributed to economic continental integration in Africa. In addition, the role of other ESA4 trade agreements with third countries for the use of the EPA with the EU was limited.** As outlined above, the EPA has led to a development of export concentration ratios and increased specialisation in commodities in which ESA4 countries have international competitive advantage and which can also be observed for goods exports to regional trade blocs such as notably SADC and COMESA. As such, trade with these trading blocs further allowed the interim EPA to contribute to deepening regional and intra-African trade integration. Furthermore, the agreement also contributed to overall continental integration in Africa as it increased the preparedness of ESA4 countries for implementing the African Continental Free Trade Area (AfCFTA).

**In addition to these regional agreements, ESA4 countries have each also concluded several trade agreements with third countries on a bilateral basis or are beneficiary of preferences for example under the GSP.** Annex VII provides a more detailed overview of the regional agreements, GSP preferences as well as bilateral trade agreements for each ESA4 country. As outlined in the previous section covering preference utilisation, the utilisation rate of the interim EPA by ESA4 countries has been consistently at a very high level (see chapter on rules of origin). Accordingly, overall the role that these other trade agreements with third countries have played for the use of the EPA with the EU can be considered to be limited.

### Box 1: Other factors affecting trade

It is also key to consider the analysis of trade flows in the context of other factors affecting trade such as changes in commodity prices, natural disasters and macroeconomic policies such as in particular exchange rate policies of ESA4 countries. **The exchange rate of the Seychelles has stayed at a stable level over recent years, also due to robust tourist presence.** Also inflation remained at a low level of 2.6% in 2019. Also the exchange rate of the Euro to the Mauritian Rupee has stayed relatively stable from 2012 to 2019 (with a EUR/MUR exchange rate of approximately 38 in early 2012 and a corresponding value of 40 in



2019). Also the Seychelles Rupee has stayed relatively constant with a EUR/SCR exchange rate of 18 in early 2012 and approximately 15.5 in 2019.<sup>29</sup>

**In contrast the Malagasy Ariary has experienced a constant depreciation since 2012 (EUR/MGA exchange rate of 2900 in January 2012 compared to above 4000 in 2019).** Also Zimbabwe has seen a local currency depreciation of the Zimbabwean Dollar especially in recent years (EUR/ZWD exchange rate in 2017 of 380 compared to 410 in 2019).<sup>30</sup> In Zimbabwe, this also contributed to a rising inflation reaching 230% in July 2019. However, this rise in inflation is also due to rising food and agricultural commodity prices caused by a declining production of agriculture in Zimbabwe in recent years. Food security was also affected by natural disasters such as cyclone Idai in 2019 and drought conditions caused by El Nino. The analysis of trade flows in the agricultural sector has to take into account this economic situation which has impacted prices in agricultural commodities especially in recent years.<sup>31</sup>

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<sup>29</sup> <https://www.xe.com/currencytables/>

<sup>30</sup> <https://www.xe.com/currencytables/>

<sup>31</sup> [https://trade.ec.europa.eu/doclib/docs/2020/november/tradoc\\_159048.pdf](https://trade.ec.europa.eu/doclib/docs/2020/november/tradoc_159048.pdf)

## 6. Economic impacts

This chapter sets out the modelling results for Madagascar, Mauritius and Zimbabwe, resulting from the CGE modelling and results for the Seychelles, resulting from the PE modelling. The specifications are outlined in Annex II on research methods and analytical model.

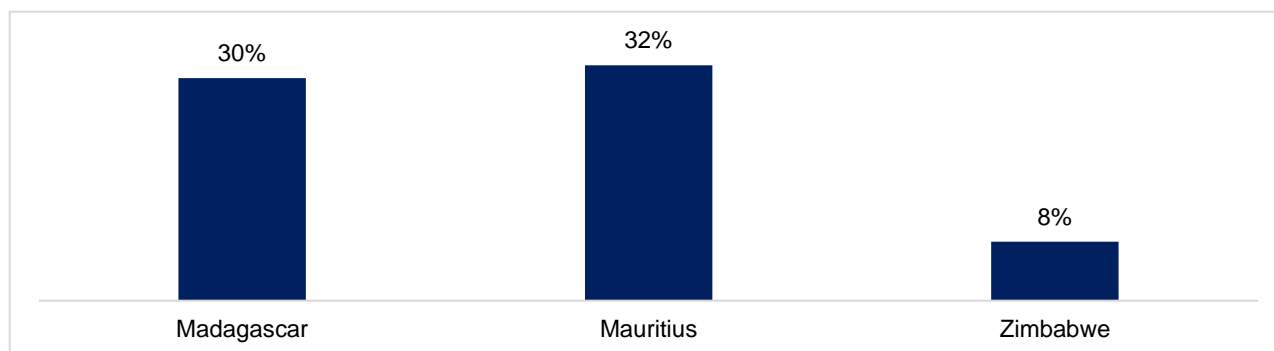
### 6.1 Modelling results for Madagascar, Mauritius and Zimbabwe

#### *EU exports to ESA states*

As concerns total EU exports in absence of the EPA, **the biggest gains are estimated for Madagascar and Mauritius, but moderate gains in exports from the EU are also estimated for Zimbabwe.** In absence of the EPA, EU total exports to Madagascar are estimated to be 30% lower, exports to Mauritius are estimated to be 32% lower and exports to Zimbabwe are estimated to be 8% lower (see Figure 8).

As concerns specific industries, **the EU's manufacturing sectors are estimated to benefit most from tariff reductions on the side of ESA countries**, with “Manufactures n.e.c.” (which includes a wide array of high and less knowledge-intensive products), “Machinery and equipment” and “Other metal products” taking the lead (see Table 13). It should be noted that EU exports of “Wearing apparel” to Madagascar and Mauritius show high percentage increases too, but compared to manufacture exports the absolute levels of apparel and other textiles' exports from the EU to ESA countries are low.

**Figure 8: Projected changes in total EU exports due to the EPA**



Source: DG Trade estimations.

#### *ESA4 exports to the EU*

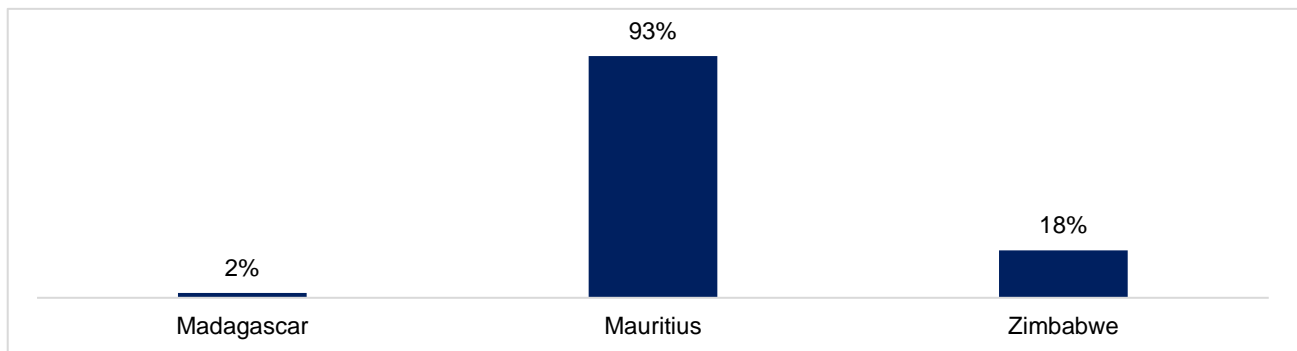
**Mauritius and Zimbabwe are estimated to gain most from the EPA, with Mauritius benefiting most from preferential market access to the EU in terms of ESA countries' total exports to the EU.** Madagascar's exports to the EU would largely remain unchanged in absence of the EPA. Total EU imports from Madagascar are estimated to be 2% lower in absence of the EPA. By contrast, EU imports from Mauritius are estimated to be 93% lower and exports to Zimbabwe are estimated to be 18% lower in the case of no EPA (see Figure 9).

**ESA countries' agricultural and less knowledge-intensive (and less skill-intensive) manufacturing sectors are estimated to benefit most from tariff reductions that go beyond preceding preferential tariffs** (Madagascar, Zimbabwe) and MFN tariffs (Mauritius) respectively, with the highest relative changes estimated for exports of “Sugar and sugar crops” for Mauritius and Zimbabwe (see Table 14). It should be noted that the counterfactual export levels modelled for of sugar products' exports are comparatively low for both countries. Yet, due to significant percentage increases, sugar products are estimated to rise to a significant export commodity due to the EPA with the EU. Similar results are estimated for “Fisheries and processed fish”, for which exports are rather negligible for Zimbabwe, but relatively high for Mauritius, when compared to other ESA countries and other commodities exported from Mauritius to the EU. Exports of textiles products from Mauritius and Zimbabwe to the EU are also estimated to be significantly lower in absence of an EPA. While the textiles and apparel sectors are rather negligible for the economy of Zimbabwe, it is of higher importance to Mauritius. For Mauritius and Zimbabwe “Other crops” industries are also estimated to benefit most from the EPA. This sector is of particular importance for Zimbabwe, accounting for a relatively high share

in the country's overall exports to the EU.<sup>32</sup> By comparison, the "Other crops" sector is must less important to Mauritius' economy.

**As concerns trade diversion at the expense of LDCs, goods and services exports to the EU are hardly affected by the EPA.** LDC countries already benefit from duty-free, quota-free market access in goods markets. Some rather minor market distortions can be expected for the "Sugar and sugar crops" sector for which non-ESA LDC exports are estimated to decline by 5%.

**Figure 9: Projected change in total EU imports from ESA**

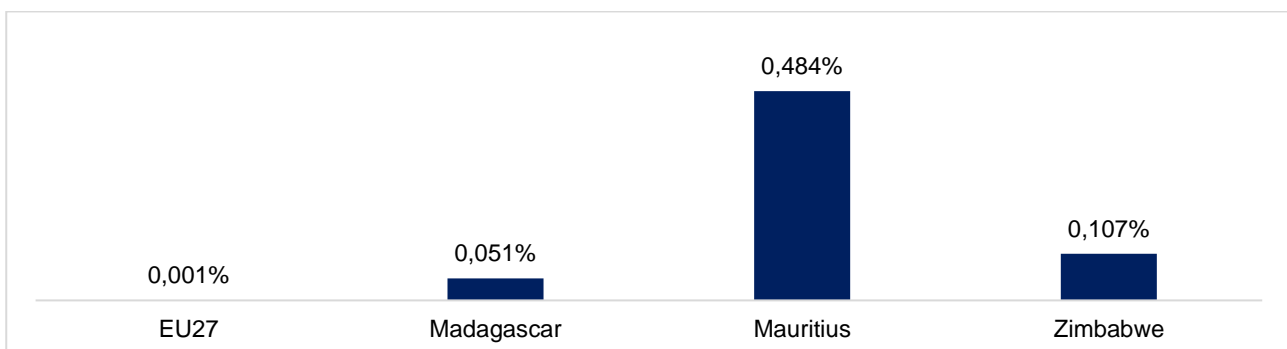


Source: DG Trade estimations.

**The impacts of the EPA are estimated to be relatively low, often negligible for most sectors of the economy when considering domestic sector output (overall production by domestic industries) in the EU and ESA countries** (see Table 12). At the same time, Mauritius' sugar products production is estimated to increase by 52.1% due to the EPA with the EU, Mauritius' fishery and seafood sector is estimated to gain 10.2%, and Mauritius' textiles sector is estimated to expand by 6.3% ("Textiles") and 5.7% ("Wearing apparel") due to the EPA. Madagascar's "Non-ferrous metals" sector is estimated to rise by 5.2% due to the EPA.

These numbers are generally mirrored by the estimates computed for the countries' overall economic activity (economic output, GDP). **Importantly, no region experiences a reduction in aggregate economic output, which indicates that the EPA with the EU contributes to growth in ESA countries overall economic activity.** Due to its economic size relative to the trade at stake in the EPA, for the EU the impact of the EPA on overall economic output is overall negligible (but positive, see Figure 10). By contrast, Madagascar's overall GDP is estimated to be 0.05% higher due to the EPA. Mauritius' GDP is estimated to be 0.5% higher due to the EPA, and Zimbabwe's GDP is estimated to be 0.1% higher respectively.

**Figure 10: Projected change in aggregate GDP**

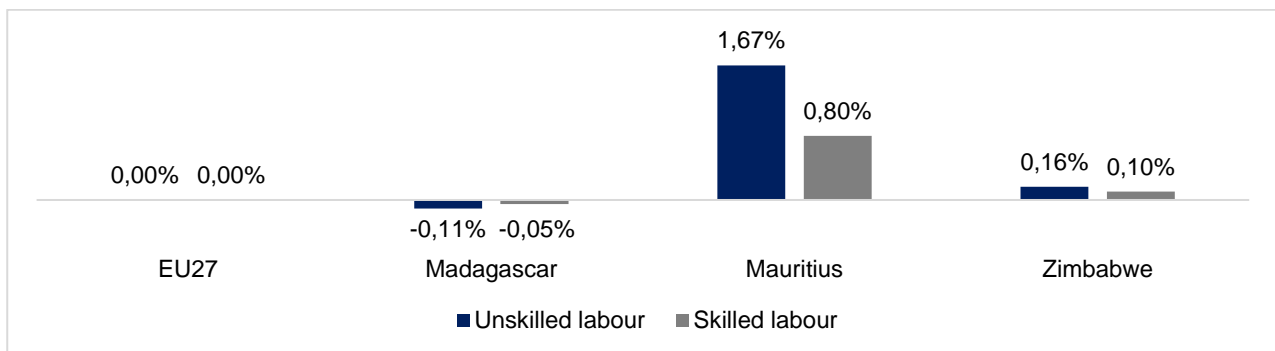


Source: DG Trade estimations.

**Similar to production and GDP effects, the impacts of the EPA on wages are generally negligible, with the exception of Mauritius (see Figure 11).** For both skilled and unskilled labour wages in Mauritius' economy are estimated to rise by 1.7% and 0.8% respectively due to the EPA with the EU.

**Figure 11: Projected changes in wages, skilled and unskilled labour**

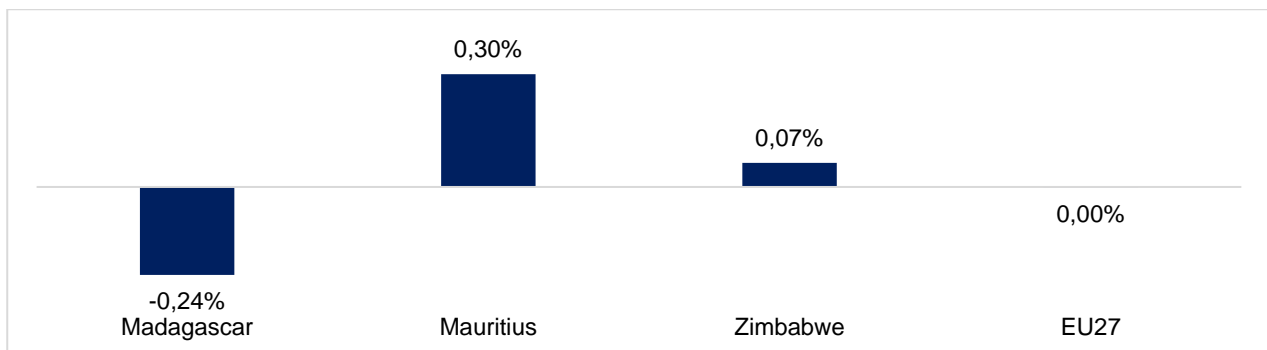
<sup>32</sup> Exports under this sector of Zimbabwe are mainly tobacco.



Source: DG Trade estimations.

As concerns effects on consumers, the estimates on the EPA's impact on consumer prices, can generally be considered as below the perception threshold, reaching from -0.24% for Madagascar to +0.3% for Mauritius (see Figure 12). Similarly, the effects on consumer prices for Zimbabwe are estimated at +0.07%, while no changes are estimated in the case of the EU27.

**Figure 12: Changes in consumer prices, based on Fisher CPI**



Source: DG Trade estimations.

## 6.2 Modelling results for the Seychelles

The estimates from the PE model indicate that the EPA contributes to rising bilateral exports for both the EU and the Seychelles. Table 15 and Table 16 outline the estimated changes in the top 20 post-EPA exports from the EU27 to the Seychelles and from the Seychelles to the EU27 respectively.

Total EU27 exports to the Seychelles are estimated to be 26% higher compared to a no-EPA situation. Seychelles' total exports to the EU27 are estimated to be 573% higher compared to a no-EPA situation. While EU27 exports show relatively high increases in processed food and manufactured products, the significant percentage increase in Seychelles' exports to the EU are driven by substantial increases in exports of "Prepared or preserved tunas, skipjack and Atlantic bonito" (+32,710,548% compared to a pre-EPA export value of about 500,000 EUR). Accordingly, for the Seychelles the results show a very strong concentration of both current trade and preferential gains in one tariff line of processed fish, i.e. 160414 (tuna, skipjack and bonito). This line attracts tariffs of 24% or 25% ad valorem, which, for a weakly differentiated product such as fish, can be considered prohibitive. At the same time, it should be noted that economic activity, economic growth and foreign exchange earnings in the Seychelles reside very much in the tourism services sector, not in the commodity or low-tech manufacturing sectors, as is the case for other countries in the region.

## 6.3 Budgetary Impacts

Regarding budgetary impacts, the interim EPA has not had any significant negative impacts on overall tax revenue in ESA4 countries. Overall tax revenues have increased significantly for all ESA4 countries since 2019. Figure 1 in Annex VIII shows overall tax revenues in current local currencies for Madagascar, Mauritius, Seychelles and Zimbabwe. Tax revenues in Madagascar have increased consistently and at a strong rate since 2009 and a similar upwards trend can be observed in the case of Seychelles. In the case of

Mauritius, tax revenues have consistently increased as well, with the exception of a sharp decline in 2015. Available data for Zimbabwe also suggests an upwards trend since 2009.

When analysing annual tax revenue as a percentage of annual GDP, figure 2 in Annex VIII shows an overall constant level for all ESA4 countries from 2009 to 2019. Figure 3 illustrates annual revenues from customs and other import duties as a percentage of annual tax revenue. Here, we can observe a stable trend in the case of Mauritius where the revenue share remained at a constant low rate since 2009. For the other three ESA4 countries, an overall negative trend can be observed, in particular in the case of Madagascar from 2009 to 2010. Also annual revenues from taxes on income, profits and capital gains have remained relatively stable since 2009. In the case of Zimbabwe and the Seychelles, an increase can be observed, while the shares of Madagascar and Mauritius decreased slightly from 2009 to 2010 and then remained stable (see figure 4). And the shares of annual revenues from taxes on goods and services even increased in the case of all ESA4 countries (see figure 5).

Finally, annual labour taxes and contributions measured in percentage of commercial profits have remained constant as well in Madagascar, Mauritius and Zimbabwe from 2009 to 2019. In the Seychelles, a strong decrease can be observed from 2010 to 2012, and the rate of taxes and contributions has remained at a constant low level since then (see figure 6).

## 6.4 Key findings

Both the CGE modelling conducted for Madagascar, Mauritius and Zimbabwe and the PE model applied for the Seychelles indicate that ESA4 countries benefit from the EPA with the EU in terms of?? higher trade volumes in commodities in which the EU and ESA4 countries have international comparative advantages. Increased specialisation and improvements in the international division of labour cause a reallocation of domestic productive resources (labour and capital) to more productive uses, which causes domestic production to rise in Madagascar, Mauritius and Zimbabwe, reflected by increases in these countries' real GDP (with EU GDP remaining largely unchanged). Similarly, for the Seychelles the PE estimates indicate that the EPA contributes to rising bilateral exports, which would also result in a reallocation of domestic resources and should translate to increases in real GDP.

## 7. Social, gender, human rights and environmental impacts

### 7.1 Overview

This section considers **the social, gender, human rights and environmental impacts of the interim EPA** since the start of its provisional application in 2012 in Madagascar, Mauritius, Seychelles and Zimbabwe.<sup>33</sup> Where available, quantitative data are presented from 2010 to 2019, using the years 2010 and 2011 as a baseline. This section provides an overview of the analysis; further details can be found in Annex IX to this report.

The analysis considers the following channels through which the interim EPA could have had impacts on the environmental, social, gender and human rights development in the ESA 5 countries:

#### 1. Provisions related to trade and sustainable development

The interim EPA does not have a dedicated chapter on trade and sustainable development, though it does have provisions in these areas, among which are the following:

- The Preamble of the interim EPA affirms that it “shall be consistent with the objectives and principles of the Cotonou Agreement”, which in turn calls for the respect of human rights and basic labour rights as well as the sustainable management of natural resources and the environment and moreover contains articles on gender issues, on trade and environment and on trade and labour rights<sup>34</sup>.
- The interim EPA also calls for coherence with the Millennium Development Goals (Art. 2), support for the implementation of international environmental agreements (Art. 49) and cooperation on natural resources, including water and biodiversity (Art. 38)
- The Agreement moreover identifies several social and environmental areas for development cooperation (Annex IV)

These provisions can have impacts in the ESA countries, though the screening suggests that as voluntary measures their effects may be limited (please see Annex IX for further details). The analysis has looked at the role of support for the implementation of international environmental agreements, and of EU development cooperation more generally.

#### 2. Trade provisions

The screening (see Annex IX to this report) suggests that **trade provisions may have important indirect impacts on social, gender, human rights and environmental conditions** via the changes in trade and production they engender. For this reason, sub-section 6.4 looks at impacts in sectors which are marked by important trade flows with the EU.

#### 3. Provisions on development cooperation

Several areas of environment and social and gender are mentioned in the Development Matrix of the interim EPA (Annex IV). EU development cooperation could thus have had a **direct impact** on these issues in ESA countries.

While the interim EPA has had a most likely small impact (see section 6.5) on the issues in question, a range of other policy initiatives – including other trade agreements and international labour and human rights conventions – along with domestic policy developments and international economic trends will also have had an effect in these spheres.<sup>35</sup> Consequently, while the analysis has sought to identify impacts related to the interim EPA, trends in environmental, social and human rights development in the ESA countries are influenced by the interplay of a broad range of factors.

This section first reviews the environmental context and trends in ESA countries, including policy developments, and then considers the context and trends related to social, gender and human rights issues.

<sup>33</sup> The analysis refers to but does not focus on Comoros, as this country fully joined the interim EPA in 2019. In addition, as indicated in the Terms of Reference for this study and agreed with the European Commission, the evaluation has not focused on possible impacts in the EU.

<sup>34</sup> Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000, Section 2 (Art.25-27), Section 4 (Art.31-32).

<sup>35</sup> Moreover, the COVID-19 pandemic has had extensive impacts in 2020; it is not covered in this evaluation, which focuses on the period to 2019.



The section then considers trends in key ESA economic sectors that export to the EU. It concludes by drawing key findings concerning the impacts of interim EPA. The results are based mainly on literature review and desk research. While the research found data and information on the environmental, social, gender and human rights context in ESA countries, **a key data gap concerned information on the impacts of the interim EPA.** For example, the consultation activities provided little information on potential impacts in the field of social, environmental and human rights issues.<sup>36</sup> Our stakeholder consultation annex describes all of the interviews and survey responses collected in ESA5 and the EU. Stakeholder consultations are still taking place within the scope of the project and these will be updated on a regular basis. To address this gap, the analysis looked more closely at key sectors exporting to the EU and used CGE modelling results to indicate potentially important areas where impacts may have occurred.

## 7.2 Environmental context and trends

**Environmental challenges for the ESA5 countries include protection of biodiversity, forests and improving resilience to climate change.** Four of the five ESA5 states are island nations (Comoros, Madagascar, Mauritius and Seychelles). They have shared characteristics including high vulnerability to climate change and extreme weather events and high importance of fishing as a sector. Together the four countries are part of the Madagascar and Indian Ocean Islands biodiversity hotspot, with high numbers of endemic species. Madagascar in particular is recognised as being of major importance for its biodiversity, in terms of both terrestrial and marine ecosystems.<sup>37</sup> Deforestation and degradation of forests and the marine environment due to human activity are therefore major environmental concerns for these countries.

**Changes in environmental indicators related to biodiversity since the EPA has been provisionally applied are relatively limited.** Forest cover in Comoros, Madagascar and Zimbabwe appears to have decreased slightly during the period since 2010. It has slightly increased in Mauritius and remained stable in Seychelles. The share of important terrestrial biodiversity sites protected has increased by a few percentage points in Madagascar, Mauritius and Zimbabwe. Deforestation can be linked to a range of human activity, including sectors relevant to trade with the EU such as agriculture or mining. However, in Madagascar, for example, studies suggest crops for trade are not among the main drivers of deforestation.<sup>38</sup> The four countries have very different levels of carbon dioxide emissions per capita: these are linked to income levels per capita as well as main fuel sources. **From 2012 to 2019, estimated carbon emissions from fossil fuel combustion have increased in Madagascar and Mauritius but declined in Seychelles and Zimbabwe (see Table 6).** When considering other sources of carbon emissions, including land use change, emissions per capita are however estimated to have grown in all four countries.<sup>39</sup>

**Table 6: CO2 emissions (metric tons per capita) from fossil fuel combustion, 2012 and 2018 levels**

|      | Madagascar | Mauritius | Seychelles |
|------|------------|-----------|------------|
| 2012 | 0.15       | 3         | 12         |
| 2019 | 0.16       | 3.41      | 10.98      |

Source: Knoema, based on JRC EDGAR<sup>40</sup>

**The CGE modelling undertaken by DG Trade suggests that changes in trade due to the interim EPA have had little impact on the carbon dioxide emissions of the signatories to the agreement.** In fact, the

<sup>36</sup> In the survey that was carried out for the project, most respondents were from EU Member States, and most did not answer the questions on the environmental, social or human rights impacts of the interim EPA; moreover, the few that did mostly replied that they did not know about this topic. Nonetheless, one respondent from Mauritius saw moderately positive results in terms of environmental, social and human rights impacts. In interviews with civil society organisations in ESA countries, most had a low level of awareness of the interim EPA and thus of its possible environmental, social or human rights impacts, while in interviews with government and the private sector, environmental, social or human rights impacts were not among the main topics raised.

<sup>37</sup> Secretariat for the Convention on Biological Diversity (2020), Madagascar - Main Details, <https://www.cbd.int/countries/profile/?country=mg>

<sup>38</sup> Bureau national de coordination REDD+ (2017), Analyse des moteurs de déforestation et de dégradation dans les écorégions des forêts humides de l'Est et des forêts sèches de l'Ouest de Madagascar, [https://bnc-redd.mg/images/documents/rapports/Rapport\\_final\\_MoteursdelaDeforestationetDegradationdesforets.pdf](https://bnc-redd.mg/images/documents/rapports/Rapport_final_MoteursdelaDeforestationetDegradationdesforets.pdf)

<sup>39</sup> Global Carbon Project, <http://www.globalcarbonatlas.org/en/CO2-emissions>

<sup>40</sup> Knoema, CO2 emissions per capita: <https://knoema.com/atlas/Zimbabwe/CO2-emissions-per-capita>, based on JRC EDGAR emissions inventory and modelling: <https://edgar.jrc.ec.europa.eu/overview.php?v=booklet2020&dst=CO2pc>

modelling predicts that CO<sub>2</sub> emissions were slightly lower than they would have been in a scenario without the Agreement in Madagascar (-3.3%) and Mauritius (-2.6%). In Zimbabwe emissions are predicted to have been essentially the same (a 0.03% increase is calculated) with the EPA than without.<sup>41</sup>

Changes in flows of the volume of exports and imports and the type of transport used to move them can also affect the environmental impact of the interim EPA. **Data show an increase in the tonnes of exports arriving in the EU from Madagascar, Seychelles and Zimbabwe by air over the period 2012-2019.** Considered as a percentage of the weight of all goods transported by sea, air, rail or road, which are the four principal modes of transport, the share of goods arriving in the EU by air has increased from all four countries between 2012 and 2019.<sup>42</sup> Trends up to 2018 show a rising trend for all four countries, but 2019 saw a drop in the share of air transport for all except Seychelles.

**For EU exports to these four ESA countries, there has been a 12% increase in the total weight of goods transported by air.** However, as there has been an overall increase in exports by weight, and the proportion of goods transported by air in the total weight of all goods leaving the EU (by all means of transport) was slightly smaller in 2019 compared to 2012. Overall, it appears that, due to the rising quantities and shares traveling by air, **carbon dioxide emissions from goods transport between the EU and the ESA are likely to have risen.** The EPA may have had an effect on these trends; nonetheless, total emissions from goods transport are estimated to be far lower than national emissions in ESA countries.

Article 49 of the interim EPA notes that cooperation on natural resources and the environment will support the implementation of international environmental agreements, conventions and treaties. The interim EPA moreover calls for development cooperation between the EU and the other signatories of the agreement covering areas important for environmental concerns, including management of natural resources and biodiversity and sectors such as mining, agriculture, fisheries and energy.<sup>43</sup> The development matrix in Annex IV of the Agreement includes addressing environmental impacts. **The five ESA countries have ratified a broad range of international environmental agreements,** including key agreements such as the Convention on Biological Diversity, the Paris Agreement on Climate Change and the Basel Convention on Hazardous Waste. Nonetheless, a few agreements regarding fisheries and fish stocks have not been ratified by Comoros and Madagascar.<sup>44</sup>

Information on implementation of multilateral agreements is not always easy to find. Concerning the Convention on Biological Diversity, all ESA5 countries have fulfilled their reporting obligations. Moreover, all have established or updated their national biodiversity strategies since 2012. Nonetheless, whilst all five countries are signatories to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), as biodiversity hotspots they are vulnerable to illegal trade in endangered species. For example, Madagascar is an important exporter of reptiles and amphibians as pets, and whilst there is legal trade for Malagasy species regulated under CITES, researchers have found that illegal trade in CITES Appendix I species has increased significantly and strongly impacted wild populations.<sup>45</sup> **Consequently, while all five ESA countries have taken steps to implement biodiversity conventions, important gaps remain.**

Moreover, all five ESA countries have ratified the UN Framework Convention on Climate Change as well as the 2015 Paris Agreement. **The ESA countries have taken a range of actions to address the greenhouse gas emissions and to adapt to climate change.** Madagascar's 2015 energy policy calls for the development of renewable energy and also for reforestation to ensure fuelwood, which continues to be the country's main energy source. Mauritius set up a renewable energy agency in 2016. The countries have addressed climate

<sup>41</sup> Changes were not calculated for Comoros, which joined the agreement only in 2019, or for Seychelles. The CGE modelling found that the change in the EU's CO<sub>2</sub> emissions was essentially zero.

<sup>42</sup> See annex for a graph showing the evolution of the trend for each ESA4 country over the period.

<sup>43</sup> See Chapter IV of Interim Agreement establishing a framework for an Economic Partnership Agreement between the Eastern and Southern Africa States, on the one part, and the European Community and its Member States, on the other part, 2012/196/EC

<sup>44</sup> Those not ratified include, notably: the Agreement for the Implementation of the Provisions of the United Nations Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks (1995); the Southern Indian Ocean Fisheries Agreement (2006). Zimbabwe has not ratified a number of marine fisheries agreements, but as the country is land-locked this is less relevant.

<sup>45</sup> Janine E. Robinson, Iain M. Fraser, Freya A.V. St. John, J. Christian Randrianantoandro, Raphali R. Andriantsimanarilafy, Julie H. Razafimanahaka, Richard A. Griffiths, David L. Roberts (2018), 'Wildlife supply chains in Madagascar from local collection to global export', *Biological Conservation*, Volume 226, Pages 144-152, <https://doi.org/10.1016/j.biocon.2018.07.027>

adaptation: Zimbabwe, for example, launched a project on resilience in agriculture, co-financed by the Green Climate Fund.

**A review of EU development cooperation projects in the five ESA countries has identified projects in key sectors that are cited in the interim EPA and that can have important environmental impacts.** These include fisheries and agriculture projects, for example to develop more sustainable production techniques and to improve the climate resilience of these sectors. Several countries have also engaged in projects supporting the development of renewable energy; in the case of Mauritius, projects have supported the diversification of the sugar cane industry towards production of ethanol to be used as a renewable energy source. This is particularly relevant given the ceasing of the Sugar Protocol from 2009 that effectively reduced prices for Mauritian sugar, an important export.

A brief review of the support planned for the ESA interim EPA under the 11<sup>th</sup> European Development Fund Regional Indicative Programme for Eastern Africa, Southern Africa and the Indian Ocean found little mention of support for environmental objectives mentioned in the EPA.<sup>46</sup> Review of specific action documents for ESA countries to support the interim EPA found that where there are references to environmental objectives, these tend to be limited in scope.<sup>47</sup> Nonetheless, EU financing for multilateral environmental agreements (such as the Green Climate Fund under the UNFCCC) can also support policy developments and investment projects for environment and climate in ESA countries.<sup>48</sup>

**Overall, the main environmental impacts arising from the interim EPA appear to be linked to the scale of production and exports from ESA countries** (including increasing exports sent to the EU via air). Since the provisional application of the EPA, it appears that ESA exports have remained concentrated in a few sectors, mainly commodities. Consequently, there has not been a major *composition* effect, as could occur if exports move to higher-value goods with lower impacts for the volume of trade. The information available hasn't identified changes in *techniques* that could lead to more efficient production of export products, though it cannot exclude that shifts are underway. A fourth dimension where the interim EPA could influence environmental impacts – and social, gender and human rights impacts – is via improvements in *governance*: the ESA countries have made progress in the implementation of key multilateral environmental agreements and in the development domestic environmental policies. The assessment has identified examples of EU support for policy and programme developments, but a clear link to the interim EPA was not found.

### 7.3 Social, gender and human rights trends

**Key trends in employment (including women's employment) in the ESA countries include the following** (see Annex IX for sources and further details):

- The **overall formal employment rates**<sup>49</sup> (including formal and informal employment) for the ESA5 countries show wide differences, ranging in the 2010-2019 from about 40% in Comoros to about 80% in Madagascar.<sup>50</sup> Moreover, national levels did not change notably after the provisional application of the interim EPA in 2012.
- Available data show that **informal employment** plays an important role in ESA countries, ranging from about 93% in Comoros (2014) to 14% in Seychelles (2019). There appears to have been an increase in informal employment since 2010, more accentuated for female employment, in particular in countries where agriculture is the main employer (as in Madagascar and Zimbabwe).
- While **agriculture** remains the main employer in Madagascar and Zimbabwe, there has been a slow **shift towards services** from 2010-2019, and employment in services increased from 20.6% to 26.8%

<sup>46</sup> European Commission (2015), *Regional Indicative Programme for Eastern Africa, Southern Africa and Indian Ocean 2014-2020*, [https://ec.europa.eu/international-partnerships/system/files/rip-ea-sa-io-signed-20150604\\_en.pdf](https://ec.europa.eu/international-partnerships/system/files/rip-ea-sa-io-signed-20150604_en.pdf)

<sup>47</sup> See, for example, European Commission (2016) *Action Document for Zimbabwe EPA Support Project* [https://ec.europa.eu/international-partnerships/system/files/c\\_2016\\_8091\\_f1\\_annex\\_en\\_4\\_zimbabwe\\_epa\\_support.pdf](https://ec.europa.eu/international-partnerships/system/files/c_2016_8091_f1_annex_en_4_zimbabwe_epa_support.pdf)

<sup>48</sup> See also Annex ... (Tables for Task 10)

<sup>49</sup> Employment rates are calculated as employment-to-population ratios expressing the number of persons who are employed as a percent of the total workin age population. Employed persons include those in formal and in informal employment: 'Persons in employment are defined as all those of working age who, during a short reference period, were engaged in any activity to produce goods or provide services for pay or profit. They comprise employed persons "at work", i.e. who worked in a job for at least one hour; and employed persons "not at work" due to temporary absence from a job, or to working-time arrangements (such as shift work, flexitime and compensatory leave for overtime).' Employment in this sense includes all work for pay or profit, but excludes own-use production of services or goods, unpaid trainee work, volunteer work or other work activities that are not for pay or profit (see: ILOSTAT concepts and definitions, <https://ilostat.ilo.org/resources/concepts-and-definitions/> and ILO, Resolution concerning statistics of work, employment and labour underutilization, diagram 1, available at: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms\\_230304.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/normativeinstrument/wcms_230304.pdf))

<sup>50</sup> ILO data: [https://www.ilo.org/shinyapps/bulkexplorer54/?lang=en&segment=indicator&id=EMP\\_2WAP\\_SEX\\_AGE\\_RT\\_A](https://www.ilo.org/shinyapps/bulkexplorer54/?lang=en&segment=indicator&id=EMP_2WAP_SEX_AGE_RT_A)

in Madagascar and from 62.6% to 68.6% in Mauritius, though the increase in Zimbabwe has been much more limited. Tourism was a growing area for service sector employment.

- **Female employment** ranged from about 35% of the adult female workforce in Comoros to about 82% in Madagascar. Tourism has been a growing source of jobs for women in some countries. Overall, female employment has increased more than male employment.
- **Unemployment** is below 10% for all ESA countries, but higher for women than for men. While data are not complete, there appears to be an overall decrease of unemployment in the ESA countries over the time period.
- **Average earnings** range greatly across ESA countries, with agriculture having lower average earnings than other sectors and services having higher average earnings. **Women's wages** remain lower across all sectors in all countries, and particularly in agriculture. However, average earnings for female workers in Mauritius rose from about 46% of the male average in 2011 to 55% in 2019, and some increases were seen in other ESA countries.

These employment trends are linked to a broad range of factors: national policies (supported to some extent the EU development cooperation), demand for goods from the EU and from other commercial partners such as China and the US, and political stability in the countries and global economic trends. **The ESA countries have made a number of actions to develop their social, labour and gender policies since 2012.** For example, while it had already ratified all fundamental ILO Conventions before 2012, Madagascar has ratified two additional ILO instruments in 2019 which are, among others, relevant to combating child labour and forced labour<sup>51</sup>, both key social issues in the country: C189 on domestic workers and the 2014 Protocol to the 1930 Convention on Forced Labour. The instruments entered into force in Madagascar in June 2020.<sup>52</sup> Furthermore, in 2018, Madagascar amended its legal framework on child labour to prohibit the worst forms of child labour and in 2015 adopted a Code of Conduct for combating child labour in the vanilla sector.<sup>53</sup> Zimbabwe's 2013 Constitution recognises and protects labour rights. Nonetheless, a range of problems have been observed since the provisional application of the interim EPA in 2012, as seen in complaints to the ILO's Committee of Experts on the Application of Conventions and Recommendations: these including anti-union actions (sometimes by applying violence), discrimination against women and child labour, in particular in low-income ESA countries.

**The results of the CGE modelling for Madagascar, Mauritius and Zimbabwe (and the PE model for Seychelles), undertaken by DG Trade, suggests that the overall impacts of the interim EPA have been limited, though positive, for both the ESA countries and the EU in terms of outputs, exports and imports and salaries.** The modelling exercise suggest sugar cane in Mauritius, agriculture in Zimbabwe, fish processing Madagascar and Seychelles, and the textiles in Madagascar and Mauritius all benefitted compared to a scenario without an agreement. It should be recognised that CGE modelling involves a set of assumptions and mechanisms and their use has been questioned in particular when applied to developing countries whose trade is concentrated in a few sectors with a limited number of trading partners (in these cases, CGE models may underestimate the impact of trade liberalisation).<sup>54</sup> Modelling results indicating increased output and trade in a sector may not, however, necessarily translate into increased employment or salaries for workers, or improved working conditions for those employed. Other factors, such as implementation and enforcement of international conventions, competitive pressures from the international markets, shifts in demands, external shocks can influence the levels and conditions of employment.

Human rights vary significantly across the five ESA countries, with Mauritius ranked among the highest countries in the world, while human rights in Madagascar and Zimbabwe have been affected by political and economic instability. **The countries have further developed their human rights policies since 2012,** Seychelles established a Human Rights Commission in 2018, and Mauritius has improved its institutional and policy framework aimed at accelerating the elimination of discrimination against women and promoting gender equality, by establishing a Ministry of Justice, Human Rights and Institutional Reforms in September 2017 and a national mechanism for reporting and follow-up in December 2017.

<sup>51</sup> Madagascar had already ratified the following instruments related to child labour: ILO C. 138, Minimum Age; ILO C. 182, Worst Forms of Child Labour; UN CRC; UN CRC Optional Protocol on Armed Conflict; UN CRC Optional Protocol on the Sale of Children, Child Prostitution and Child Pornography; Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children.

<sup>52</sup> <https://www.dol.gov/agencies/ilab/resources/reports/child-labor/madagascar>

<sup>53</sup> Decree No. 2018-009 of 11 January 2018 amending and supplementing certain provisions of Decree No. 2007-563 of 3 July 2007.

<sup>54</sup> For a review of the main issues related with the use of CGE models in EU trade policy, see Nilsson, L. (2018). Reflections on the Economic Modelling of Free Trade Agreements. *Journal of Global Economic Analysis*, 3(1), 156-186. doi:<http://dx.doi.org/10.21642/JGEA.030104AF> INTO REFERENCES



**EU development cooperation has supported social, gender and human rights issues in ESA countries:** it included, for example, support for women entrepreneurs and promotion of activities of young people and women working in export sectors in Madagascar; funds to empower low-income women, persons with disability and other vulnerable groups in Mauritius, focusing on women's empowerment; and support for civil society organisations and for disenfranchised and vulnerable groups in Zimbabwe (see Annex IX and Chapter VIII).

**The interim EPA, as an economic and trade agreement, can in particular influence the right to an adequate standard of living:** this right, and in particular the right to food, has been problematic, especially in Madagascar and Zimbabwe, which have both seen rising undernourishment and are at risk of famine. While both countries export crops to the EU, the evidence does not indicate that the interim EPA has contributed to their food crises or made food less affordable: for the most part, neither exports nor imports of staple foods with the EU are an important item of trade.<sup>55</sup> The interim EPA also seeks to strengthen governance and the business environment, and doing so may have social and human rights impacts; while both governance and the business environment have improved in ESA countries, and EU development cooperation has provided support, there is not sufficient information to identify a direct link to social and human rights improvements (see Chapter 7).

A concern, raised for example by the UN Special Rapporteur on the Right to Food<sup>56</sup>, is that the removal of tariffs under agreements such as the interim EPA could lead to a loss of revenues for developing country governments, jeopardising public expenditure in areas related to economic, social and cultural rights, such as the rights to education and to health. **Recent data does not, however, show broad declines in ESA government expenditure on health or education as a share of GDP since the introduction of the interim EPA** (see Annex IX for further details).

## 7.4 Focus on impacts related to key economic sectors

The influence of the interim EPA on social, gender, human rights and environmental conditions can be explored further by looking at ESA economic sectors that are major exporters to the EU. Table 1 in Annex IX provides an overview of key issues in such sectors – please see Annex IX for further details. The table provides indications of the interim EPA's impacts, drawing on information in the annexes, the results from the CGE modelling of changes in exports under the interim EPA compared to a scenario without the Agreement (for further information, please see Chapter 5) and the overview of EU development cooperation.

**Among the issues identified, there have been reports of child labour in agriculture**, including for export crops such as vanilla, tobacco and sugar produced in Madagascar and Zimbabwe. This appears linked to several factors, including extreme rural poverty. While it is likely that some products involving child labour have been imported to the EU, a direct link to the interim EPA was not found.

**Social and human rights conditions in mining – including mica mining in Madagascar and diamond mining in Zimbabwe – have been a concern, along with the environmental impacts.**<sup>57</sup> In February 2020, the European Parliament adopted a resolution on child labour in mines in Madagascar in which it urged the Commission to clarify that no minerals produced by child labour were imported into the EU.<sup>58</sup>

**A range of environmental impacts have been identified** for major ESA exporting sectors, potentially including indirect deforestation pressures in Madagascar from vanilla production, water abstraction for tobacco cultivation in Zimbabwe and textiles production in Madagascar and Mauritius, and pressures on coastal zones and on fish stocks from fish exports from the island ESA countries.

**EU development cooperation has addressed environmental, social and human rights issues in some key ESA exporting sectors**, for example supporting restructuring in Mauritian sugar production. Concerning mining, Annex IV of the interim EPA includes the “promotion of health and safety standards” among the potential areas for development cooperation; however, a review has not identified any projects in this area.

<sup>55</sup> Madagascar exports a small volume of high-value rice to the EU but imports much larger volumes of rice, a main staple in the country, from Asia. Zimbabwe exports small volumes of vegetables (and also of coffee and flowers) to the EU, and it imports a small volume of wheat and meslin. Zimbabwe imports larger volumes of wheat and meslin, as well as rice and maize, from non-EU countries.

<sup>56</sup> UN Special Rapporteur on the right to food, 'Report of the Special Rapporteur on the right to food, Jean Ziegler' (10 January 2008) UN Doc A/HRC/7/5.

<sup>57</sup> These are also issues for gold mining in Zimbabwe: for further details, please see the case study on mining.

<sup>58</sup> European Parliament Resolution of 13 February 2020 on child labour in mines in Madagascar (2020/2552(RSP)).

## 7.5 Key findings

The review of the evidence gathered so far indicates that **the interim EPA overall has as yet not had major impacts on environmental, social conditions, gender and human rights conditions in ESA countries.** For example, the CGE modelling estimates that CO<sub>2</sub> emissions have decreased slightly in Madagascar and Zimbabwe compared to a scenario without the Agreement; exports in several ESA sectors have increased according to the modelling, and these may have led to small improvements in employment and wages in these sectors as well as for the economy as a whole.

**The countries have made some policy and institutional reforms: while progress and actions have varied, there thus have been improvements in governance.** The EU has provided support in a number of areas through its development cooperation, though strong links between national reforms, EU development cooperation, the Agreement itself and environmental, social and human rights conditions were not found. Positive examples include EU support for restructuring and innovation in the sugar sector in Mauritius. On the other hand, in Madagascar and Zimbabwe, it appears that political and economic instability has been a major factor shaping social and human rights conditions.

**Concerning environmental impacts related to the interim EPA, these mainly appear linked to the scale of EU exports.** Major *structural* effects linked to a diversification of exports have not been identified (indeed, Chapter 5 indicates that there has been greater concentration of exports to the EU rather than a diversification). The analysis did not find information on improvements in *environmental management techniques* or *governance* leading to reduced environmental impacts, though actions under the interim EPA as well as the SFPAs to better regulate fishing may lead to such results (see the case study on fisheries).

**The review of major exporting sectors has identified important ongoing environmental, social, gender and human rights concerns.** These include concerns over social conditions in *agricultural sectors* with major exports to the EU, including vanilla produced in Madagascar and tobacco in Zimbabwe. While reductions in employment, low salaries and instances of child labour and cases of disrespect of labour rights (see above) are not specifically a direct result of trade with the EU, these issues are a concern for sectors exporting to the EU. Concerns over labour conditions have been raised in manufacturing sectors, such as the production of *textiles* in Madagascar. In this sector as well as others including agriculture, *women* appear to be more adversely affected. Increased production in this sector can also increase water consumption and water pollution. There are strong social, human rights and environmental concerns linked to *mining* in Madagascar and Zimbabwe. In sum, social, gender and human rights concerns in these sectors have continued under the interim EPA. The information available hasn't identified a strong link between the introduction of the interim EPA and changes in these sectors, though EU development cooperation has sought to strengthen governance. These concerns nonetheless indicate key areas where further policy action is needed.



## 8. Horizontal effects on governance and business environment

The topics of governance and the business environment are closely linked; nonetheless, this section focuses on each separately. The first paragraphs review provisions of the interim EPA for these two topics. The section then looks at international measures of governance and of the business environment in the five ESA countries. As development cooperation is a key mechanism under the interim EPA to address both, the section then briefly reviews cooperation projects and programmes in these areas.

The interim EPA has few provisions on *governance*. As a general objective, the Agreement calls for improving “good governance in the ESA region” (Art. 2(b)), along with regional integration and economic cooperation; however, this objective isn’t directly accompanied by implementing provisions. The Agreement identifies governance as an area for technical assistance in the Development Matrix (Annex IV), including in the following three areas: “Technical assistance for exchange programmes and capacity building on water governance...” (area 1(d)(iii)); “...institutional governance to facilitate faster implementation of customs administration and procedures to meet emerging security requirements.” (area 3(a)(vi)); and improved governance for trade facilitation (area 4(b)).

It is expected that the negotiations on deepening the EPA will devote further attention to governance, as the Rendezvous clause (Art. 53(i)) identifies “cooperation and dialogue on good governance in the tax and judicial area” as one of the areas for negotiation for a full and comprehensive EPA.

The interim EPA contains several provisions related to the *business environment*. Its general principles include:

- “establishing and implementing an effective, predictable and transparent regional regulatory framework for trade and investment in the ESA region...” (Art. 2(f))

**The development of the regulatory framework is also a provision mentioned in articles concerning fisheries, ICT, natural resources and environment.** Moreover, Annex IV identifies the regulatory framework as a potential area for development cooperation for these areas and also for energy, agriculture, mining and regional economic cooperation. The development framework also refers to “strengthening of judicial security and legality” for private investment, commercial laws, employment laws, foreign investments, consumer rights and intellectual property rights (area 4(d)). In addition, the Development Matrix includes the following areas for potential cooperation:

- “Support policy development (of business-friendly laws and regulations)” (area 5(a)), including reviews of business and commercial laws
- “Establish mechanisms to encourage Public Private Partnerships and Community Private Partnerships” (area 5(b))

Negotiations for the deepened EPA are expected to address the business environment: among the topics included in the Rendezvous clause are, for example, “cooperation and dialogue on good governance in the tax and judicial area” (Art. 53(i)). **Consequently, the interim EPA sets out development cooperation as a key mechanism to support ESA countries for the development of both governance and the business environment. See Annex X for governance indicators.**

### 8.1 Overview of country developments on governance

While the Agreement does not define governance, several international organisations have done so. A report of the African Union, referring to UN work, sets out the following components of good governance:

“...legitimacy, whereby the government has the consent of the governed; accountability that ensures transparency and answerability for actions; respect for law and protection of human rights; and competence, which consists of effective policy making, policy implementation and service delivery”<sup>59</sup>

**This report calls for stronger leadership on good governance, greater respect for the rule of law, improved effectiveness and accountability of public bodies, greater peace and security and improved**

<sup>59</sup> African Union, *The Africa Governance Report: Promoting African Union Shared Values (Prepared by the African Peer Review Mechanism in collaboration with the African Governance Architecture)*, January 2019, available at: [https://au.int/sites/default/files/documents/36418-doc-eng-the\\_africa\\_governance\\_report\\_2019\\_final-1.pdf](https://au.int/sites/default/files/documents/36418-doc-eng-the_africa_governance_report_2019_final-1.pdf)

**governance for development, highlighting in the last areas issues including natural resources governance, illicit financial flows, development assistance, corporate governance and gender quality.**

For over two decades, the World Bank has presented annual indicators across six governance dimensions. These indicators are based on work carried out by research institutes, NGOs and other organisations. The World Bank notes that each national score is subject to a wide range of uncertainty. In addition, there is an open discussion on the accuracy of these indicators. The most recent scores for the five ESA countries, presented in terms of the global percentiles, are shown in Table 1 in Annex X: these scores are *relative*, as they present a national ranking in comparison with other countries in the world. The scores vary widely across the countries and across the dimensions of the governance. For the two higher-income ESA countries, Mauritius and Seychelles, almost all scores are in the top five percentiles globally, while the three lower-income countries, the scores are in lower percentiles.

**Since 2010, while trends have varied, the five ESA countries have generally seen improvements in terms of their ranks: their scores for voice and accountability, political stability, government effectiveness and regulatory quality have risen in most of the countries.** It should be noted that these scores represent global rankings, with large uncertainties. See Annex X.

The African Development Bank has made a Country Policy and Institutional Assessment (CPIA) for 37 countries, including three ESA countries (Comoros, Madagascar and Zimbabwe). These scores cover six areas: governance, economic management, structural policies, infrastructure and regional integration, and social inclusion and equity. The three ESA countries all score below the African average. While Comoros and Zimbabwe have seen small improvements in their overall CPIA scores between 2004 and 2018 (the years for which data are available), for Madagascar there has been a small decline.

Country policy developments have been reviewed in other parts of this report. These show a range of policy developments: for example, their environmental policy actions have included the development of new national biodiversity strategies, climate adaptation projects and other actions.

## 8.2 Overview of developments on the business environment

One measure of the business environment is the Economic Freedom Index published by the Fraser Institute<sup>60</sup>. This index is based on a range of measures, including government consumption, income tax rates, judicial independence, inflation rate, capital controls and regulatory burden. As for governance, the results provide scores that synthesise complex national situations and thus are open to discussion and interpretation. An overview of the scores for four ESA countries is presented in Table 2 in Annex X (the index is not calculated for Comoros).

**These four countries vary significantly in terms of their scores, with Mauritius ranked seventh in the world in terms of economic freedom, ahead of all EU Member States, while Madagascar and Zimbabwe were ranked in the fourth quartile globally.** From 2012 to 2018, scores have improved in all of these countries except Madagascar, where the absolute score fell slightly, and the country's rank fell from the third to the fourth quartile globally.

## 8.3 Evidence of the interim EPA's impact

While international measures of governance and the business environment have shown some improvements since 2012, the interim EPA was only one of several influences, as internal political and social developments and cooperation with other countries and with international organisations would have been among the influences. Nonetheless, the interim EPA calls for development cooperation in several areas related to governance and the business environment.

A review of development cooperation programmes and projects (see Chapter 8 and Annex XI) has identified several relevant actions. These include the following:

Governance:

- Improving public financial management and transparency in Comoros

<sup>60</sup> Fraser Institute, *Economic Freedom (data from the Freedom of the World: 2020 Annual Report)*. Available at: <https://www.fraserinstitute.org/economic-freedom/map?geozone=world&page=map&year=2018>

- Strengthening good governance, including public finance management, accountability and transparency in Zimbabwe
- Supporting government reforms and policy strategies in Madagascar

Trade facilitation:

- Regional Trade Facilitation Programme, to increase intra-regional trade in goods and services
- SADC Trade Facility Programme 2019-23, to strengthen capacities for simpler customs procedures and reduce non-tariff barriers
- Support to enhance Zimbabwe's integration into the regional and international trading system

Business environment:

- Support to improving the Investment and Business Environment in the SADC region 2019-2024, EUR 14 Million, to strengthen the investment policy framework, integrate financial markets and improve financial inclusion for local businesses and SMEs
- Assistance to put in place a comprehensive framework on intellectual property in Mauritius, and work to improve the business and investment climate in this country

In addition, development projects have supported other aspects of governance, including civil society participation, for example in Madagascar and Zimbabwe.

## 8.4 Key findings

Both governance and the business environment vary greatly across the five ESA countries, and international indicators give higher scores to the higher income countries. For both areas, international indicators show some improvements in ESA countries since the negotiation of the interim EPA.

While the influence of the interim EPA is difficult to discern, the agreement calls for development cooperation to support governance and the business environment in the ESA countries. A review has shown that relevant development projects and programmes implemented since 2012, both at regional scale and for individual countries, have sought to strengthen aspects of governance and improve key areas of the business environment in the five ESA countries. Thus, EU action is clearly linked to *outputs* in the areas of governance and the business environment, and it is likely that it also has had an influence in terms of *outcomes* within the countries.

## 9. Development cooperation

### 9.1 Development cooperation commitments of the EPA

EPAs provide preferential and reciprocal market access to the EU market for the African, Caribbean and Pacific group countries and to ACP markets for the EU. To support the African partners in their efforts to generate the full benefits of the EU-ESA5 EPA, the EU and ESA countries agreed on areas for development cooperation, which the EU grants generally through the European Development Fund (EDF).

The objectives of development cooperation within the EU-ESA5 interim EPAs are the enhanced competitiveness of ESA economies as well their structural adjustment.<sup>61</sup> These objectives are to be met by focusing on the following themes (1) infrastructure development, (2) productive sectors, (3) regional integration, (4) trade policy and -regulations, (5) trade development, (6) adjustment cost and (7) institutions. These are laid out in a toolkit labelled the Development Matrix (Annex IV of the interim EPA) that defines key areas, objectives and illustrative activities.<sup>62</sup>

This Chapter is based on the analysis of internal country fiches of the European Commission (DG DEVCO) about EU Development Cooperation with ESA5 countries as well as about 45 country specific (Annex XI) and more than 15 regional development programmes (Annex XII) within the EDF. We also refer to the stakeholder consultations, which only occasionally mention specific programmes, but give a good general impression about the development cooperation within the EPA.

**To summarize this chapter, the development component of the interim EPA contributed to these objectives.**

### 9.2 Development assistance to ESA5 partner countries

#### 9.2.1 The European Development Fund as main instrument

**The development assistance to ESA5 nations designed to help implement the interim EPA takes place mainly within the framework of the European Development Fund (EDF).** They have been introduced as an instrument of development cooperation with the founding of the European Economic Community in 1957; the first EDF started in 1959. An EDF ensures grants for development actions in the framework of Cotonou agreement between the ACP countries and the EU member States. They are designed to promote the economic, cultural and social development of the ACP States with a view to contributing to peace and security and promoting a stable and democratic political environment. In addition to the ACP countries, the EU Overseas Countries and Territories (OCTs) are included in the EDFs; they receive about 1.2 billion Euro of the 11<sup>th</sup> EDF.<sup>63</sup> Needless to say that the ESA5 countries receive only parts of these funds.

An EDF programme is a multi-annual programme. The two relevant EDFs to be considered for the evaluation within the EU-ESA5 interim EPA are the 10<sup>th</sup> programme, lasting from 2008-2013, and the 11<sup>th</sup> EDF (2014-2020). The 10<sup>th</sup> EDF activated almost 24 billion EUR, whereas the 11<sup>th</sup> EDF offers total funds of 31.6 billion EUR (EPRS 2014). Although the 11<sup>th</sup> EDF coincided with the period of the multi-annual financial framework, it is managed as a separate fund not covered by the EU budget (Gavas 2012, p.4).

Herrero et al. (2015) as well as EPRS (2014) give a detailed account of the functioning of the 11<sup>th</sup> EDF. The programme is co-managed by the EU and the recipient country that appoints a National Authorizing Officer (NAO) to run the process. **On the EU's side, the network of EU Delegations (EUDs) in the respective partner countries plays a crucial role, closely cooperating with European External Action Service**

<sup>61</sup> European Council (2012, Chapter IV) For the general objectives of the EPA, see Inception Report of the SIA in support of negotiations with ESA5 TRADE 2019/D2/D09, p. 10-12.

<sup>62</sup> European Council, 2012, Annex IV. Unfortunately, this development matrix is not picked up in the development programmes set up to support the readiness of ESA5 countries for the interim EPA.

<sup>63</sup> OCTs are 13 countries and territories with close connections to: Denmark, France and the Netherlands. They do not belong to the single market. Thus, obligations imposed on third countries in respect of trade, particularly rules of origin, health and plant health standards and safeguard measures, also apply to them. This distinguishes them from Outermost Regions (OM).

**(EEAS) and DG DEVCO.** In order to make the programme within the EDF workable, the EU is allowing a 5% share of administration costs. Although it had been discussed, the EDF does not foresee a graduation, meaning that countries who grow into a middle-income country will still participate in the EDF programmes. Nevertheless, in the period of 2010-2012, LDCs received 56% of the payments (EPRS 2014, p. 17).

**About 84% of the budget is dedicated to support National Indicative Plans (NIPs).** These contain emergency reserves as well as incentive mechanism for reforming countries. Additional 12% are dedicated to intra-ACP and inter-regional cooperation, and 4% are reserved for investment facilities. A recipient country has to sign an NIP with the EU, which identifies three sectors to focus on. The disbursement of the funds can be either on a project basis, as budget support (following certain criteria) or as sector support, which also is directed at private actors. Internal and external auditing and monitoring processes are applied, which have a good reputation (EPRS 2014, p. 15 and 18ff.).

**The EU is supporting the ESA5-countries in the framework of different other programmes, mostly organised in regional clusters, mirroring the Regional Economic Communities (RECs).** For the ESA5 group, these include the Common Market for East and Southern Africa (COMESA), the Southern African Development Community (SADC) and the Indian Ocean Commission (IOC), which acts as signatory for several African regional economic communities (RECs) with the EU.<sup>64</sup> Flagship projects are Smartfish (37 million EUR), ISLANDS (17.5 million EUR) and the Regional Integration Support Programme (RISP, 6.15 million EUR). It is also foreseen to use joint programming (JP) of EU members engaged in ESA5 and the EU; which however, is not used in all five countries. Finally, each of the ESA5 countries receives a grant of 10 million EUR (Comoros: 6 million EUR) for the implementation of the EPA in 2020.

#### 9.2.2 Development Assistance for Individual ESA5 Countries<sup>65</sup>

In this sub-section, we briefly introduce the development assistance programmes relevant for the effectiveness of the interim EPA that the EU has agreed upon with individual ESA5 countries.

**In the 10<sup>th</sup> EDF, Comoros received 60.65 million EUR** (10.5 million EUR in the B-envelope for unforeseen emergencies). In the A-envelope of the 10<sup>th</sup> EDF, Comoros received for Infrastructure and transports 27 million EUR, education 11.25 million EUR, non-focal sectors 6.75 million EUR and others (incl. MDG Initiative) 5.23 million EUR. Within the 11<sup>th</sup> EDF, Comoros' NIP concentrated on three areas, namely good governance, infrastructure, mainly roads, and technical vocational education training. Because of a low absorption capacity for funds, not all funds could be utilised in the foreseen time. Accordingly, the country is eligible to receive for the following payments: good governance 17 million EUR, education vocational training 10 million EUR, sustainable transport 36 million EUR and support measures 5 million EUR.

**In addition, Comoros is supported through regional initiatives, in particular by the Regional Integration Support Mechanism (RISM) within COMESA, the Smartfish programme of the IOC as well as ISLANDS to support Small Islands Developing States (SIDS).** It receives 6 million EUR for EPA implementation in 2020 as well as support for its accession to the World Trade Organization (WTO) and the interim EPA. Comoros benefits from thematic budget line: Climate Change (3 million EUR), Energy Facility (2.3 million EUR) and civil society organization (2.3 million EUR). France as the only member state present in Comoros and the EU agreed on JP.

**Madagascar was allocated 588.2 million EUR in the 10<sup>th</sup> EDF, but only received 303.61 million EUR until end of 2013.** The funds were allocated as such: infrastructure and transport 72 million EUR, rural development: 63 million EUR, out of concentration 112 million EUR, TCF 8 million EUR and the B-envelope 48,61 million EUR. The country signed the NIP for the 11<sup>th</sup> EDF in 2015. It focuses on governance, infrastructures and rural development. In addition, there are funds available for the civil society and the NAO and the Technical Cooperation Facility (TCF), in detail: governance 145 million EUR, infrastructures 230 million EUR, rural development 132 million EUR, civil society support 5 and TCF and NAO support 7.4 million EUR.

The country received additional funds to repair the road network after a cyclone in 2017 within the B-envelope. **It benefitted from participating in regional programmes such as Smartfish, EcoFish (28 million EUR) and programmes for maritime security, different EU facilities for water and energy as well as intra-ACP**

<sup>64</sup> These programmes and the funds dispersed through the EDF are not always easy to disentangle; see also European Commission (2021, pp.39ff).

<sup>65</sup> This subsection is based on internal country fiches of the European Commission (DG DEVCO) about EU Development Cooperation with Comoros (31.01.2020), Madagascar (03.02.2020), Mauritius, Seychelles and Zimbabwe (21.0.2020 respectively). More details can be found there. We also consulted the 2019 and 2020 Annual Information Sheet in the Implementation of the Interim EPA between the EU and ESA States respectively as well as European Commission (2020).



**programmes.** Within RISM, Madagascar was encouraged to reduce tariffs and non-tariff measures (NTMs). It has received funds within thematic budget lines, among them the Sugar Protocol (4.5 million EUR), environment (3 million EUR), climate change (8 million EUR), the European Instrument for Democracy and Human Rights (EIDHR). It receives 10 million EUR for EPA implementation in 2020 within PADEIR, and additional 12 million EUR in support of its trade capacity: 7 million EUR for Business Climate Programme and 5 million EUR for supporting young entrepreneurs. In addition, the European Investment Bank (EIB) is engaged in multiple projects. Although member states are active in Madagascar, no JP takes place.

**Mauritius was assigned 76.6 million EUR within the 10<sup>th</sup> EDF in form of general budget support (51.6 million EUR), support to non-state actors (NSA, 10.6 million EUR) and TCF (2 million EUR).** In addition, 12.4 million EUR were assigned to the B-envelope. In the 11<sup>th</sup> EDF, Mauritius has received 7.9 million EUR for health budget support (as a response to Covid 19) and 2 million EUR for TCF. It has met its commitment under the NIP in 2018. Mauritius receives 10 million EUR for EPA implementation in 2020. Moreover, Mauritius is eligible for support under regional programmes and receives support from the Africa Infrastructure Trust Fund (AITF), e.g. for the extension of the container terminal of the Mauritius Port Authority, for the restructuring of Cargo Handling Corporation Ltd. and for the extension of the airport of Rodrigues (loan plus grants of 20.2 million EUR in total). Thematic budget lines support among others migration policy, climate policy, restructuring of the sugar cane sector (278 million EUR between 2006 and 2013), funds for civil society organizations (CSO), with the aim of empowering of women, and research in agriculture. The EIB is active in a number of infrastructure projects, no JP takes place.

**The EU supported Seychelles with 20.6 million EUR within the 10<sup>th</sup> EDF, of which 7.5 million EUR were dedicated to general budget support, 3 million EUR to education, 0.9 million EUR to governance and 9 million to the B-envelope.** In the 11<sup>th</sup> EDF, the EU assigned 2.2 million EUR to support measures. An NIP was signed for both programmes, JP is not planned. In addition to the EDFs, the EU supports Seychelles in regional programmes including Smartfish as well as programmes for maritime security and ISLANDS Thematic budget lines included climate change (3 million EUR) and social and human rights support of about 0.4 million EUR. The EIB is participating in several infrastructure projects, including submarine cables and the renovation of Port Victoria.

**The support for Zimbabwe is barely trade-related, but focused on health, agriculture, social aspects and the B-envelope. Within the 10<sup>th</sup> EDF, the EU committed to 158.3 million EUR for the B-envelope.** The NIP for the 11<sup>th</sup> EDF was difficult to agree upon. The EU granted 126 million EUR for health, 103 million EUR for agriculture, 45 million EUR for governance, 6 million EUR for the civil society as well as 7 million EUR for budget support. Additional ad-hoc payments in the B-envelope summed up to 30.5 million EUR. Zimbabwe receives 10 million EUR for EPA implementation in 2020, but no further regional funds, mainly directed at smoother customs clearance and improvement of SMEs' competitiveness and export capacities. Thematic budget lines concentrated on social and human rights aspects as well as wildlife conservation. Member countries are interested in JP; the EIB has not been present in Zimbabwe for 20 years.

## 9.3 Impact assessment of EU Development Assistance for ESA5: An overview

### 9.3.1 A general assessment of the 11<sup>th</sup> EDF

First, we offer an overview about the programmes' impact.<sup>66</sup> The European Commission (2017) judges that the EDF programming was **relevant**, as it responded to the recipient countries' needs. Poverty reduction, attaining the SDGs and aid effectiveness were key objectives. Herrero et al. (2015) see the concentration on low-income countries (LICs) and least developed countries (LDCs) as positive and add that the so-called policy-to-practice gap has been reduced under the changes governance of the 11<sup>th</sup> EDF. With respect to **effectiveness**, Herrero et al. (2015) assess the sector concentration policy as successful. The European

<sup>66</sup> Moreover, added value, complementarity and leverage are assessed. In addition, private sector development (e.g. fisheries and agriculture), infrastructure and investment are considered. In 2015, the European Center for Development Policy management carried out an independent analysis of the programming within the 11<sup>th</sup> EDF (Herrero et al. 2015). This evaluation concentrates on the process and less on outcomes; it would probably have been too early in 2015 for the latter. Two years later, the European Commission, represented by the Evaluation Unit of the Directorate-General for International Cooperation and Development, commissioned an external interim evaluation of the 11<sup>th</sup> EDF (European Commission 2017). Together with the ODI Background Note of November 2012 (Gavas 2012) and the Ex-post evaluation of the EPA between the EU and its Member States and the CARIFORUM Member States (European Commission 2021), these studies provide a reliable overview and a helpful framework for the task at hand. We will follow the criteria used by the European Commission (2017) for our assessment of the individual programmes' impact on ESA5 countries.



Commission (2017) argues that effectiveness is principally high, and the goals are mostly achieved. However, this depends on the ACP countries' willingness and ability to pursue institutional reforms. In addition, Herrero et al. (2015) argue that effectiveness is potentially reduced by a long programming process, the top-down approach of the EDFs in principle, and a relative low connection between joint programming and EU bilateral programmes. This aspect is directly connected to a central theme of EU ESA5 partnership, namely **governance**. The European Commission (2017) sees potential for institutional reform. **Efficiency** of development assistance is very difficult to measure. Neither of the studies uses an econometric model to test for the efficiency. The European Commission sees improvements as compared to elder EDFs, but identifies a weakness related to the position of the NAOs as well as a potential problem related to what is labelled as a "one-size-fits-all"-approach of the EDFs.<sup>67</sup> It cannot be said clearly whether this problem is relevant for the EU-ESA5 partnership.<sup>68</sup>

### 9.3.2 Impact assessment for the direct support of the EU for ESA5 countries

The European Commission (through DG DEVCO) selectively and regularly conducts so-called Result Oriented Monitoring (ROM) for individual projects with the EDFs for individual countries and additionally commissioned evaluation tasks for the programmes such as Smartfish; IOC (2016) assesses this programme in general as relevant and effective. The ROM are not systematically assessing the development efforts, in addition they do not concentrate on trade-related issues. In Annexes XI and XII respectively, the available results of more concrete studies are presented in some detail.

**In general, the fact that ESA5 countries requested to negotiate an extended EPA is suggesting a positive impact of the EU efforts.** As for **Comoros**, DG DEVCO concludes that the support is relevant and effective. There are, however, positive effects generated through Smartfish, namely the construction of two fish landing stations (IOC 2018, p.23). For **Madagascar**, two ROMs show a similar institutional shortcoming as well as reluctance to reform its trade regime. Smartfish was effective also in Madagascar, raising awareness for technical issues (IOC 2018, p.23). The European support for **Mauritius** was successful in that the country was able to reform its business licensing regulation including an e-licensing platform, which improved Mauritius' rank to 13<sup>th</sup> in the World Bank Doing Business Report. It benefitted from Smartfish. In addition, the Intellectual Property Law was modernised with EU help. **Seychelles** benefitted from infrastructure support under the bilateral Sustainable Fisheries Partnership Agreement (SFPA) as well as further support under Smartfish (IOC, 2018, p.23). However, efforts are hampered by governance shortcomings in Seychelles. For **Zimbabwe** no results have been reported.

### 9.3.3 Some general concerns

Despite the generally positive assessment, it is impossible to reject the counter-hypothesis, namely that development aid is crowding out domestic activities of the recipient countries; in other words: Would the port be renovated without EU funding or not? A second concern is about ownership. The latter concern has been emphasised in the stakeholder consultations. While they did not focus on single projects, the stakeholders made some general observations, which can be utilised to assess the EU's development assistance for ESA5 and to increase its impact.<sup>69</sup>

**The main concern of CSOs is that the agenda is driven too much by the EU.** Governments emphasize the beneficial effects of EU assistance; e.g. Mauritius praised the e-licensing platform. However, they also argue that the technical and physical capacities of the ESA5 countries still are major obstacles to implement all elements of the agreement and that project-based assistance may be rather complex to implement. The three groups presenting the private sectors had three concerns: their own limited readiness for the interim and comprehensive EPA, their own governments ability to implement the EPA and the problem that EU assistance is not well target to increase the export potential of the enterprises.

<sup>67</sup> This critique resonates also with the general discussion about aid effectiveness; see e.g. Easterly (2007).

<sup>68</sup> The European Parliament has long argued for an inclusion of the EDF's budget into the general EU-budget. Consequently, the EPRS (2014) argues that the double structure has high efficiency costs of 800million EUR per annum. This figure is not substantiated with a model. We will not pick up this discussion in the assessment.

<sup>69</sup> The detailed results of the stakeholder consultations can be found in Annex IV. The Team has interviewed 60 stakeholders in the ESA5-countries from five groups: CSOs, governments, business associations or national chambers of commerce, private sector economic operators and SMEs. These interviews did not directly cover single projects of development cooperation such as introduced in this Chapter and its Annexes, but rather sought to find out the general perception of the interim EPA and the negotiations of the comprehensive EPA.

## 9.4 Key findings

Although it is not trivial to exactly judge the overall impact of the EU's development assistance to ESA5 countries in the process of implementation of the EU-ESA5 interim EPA, it can generally be assessed as positive. The different projects and programmes have increased the ability of ESA5 countries to make sense of the interim EPA; at least they contribute to the two main objectives, namely enhanced competitiveness of ESA economies as well as their structural adjustment. Problems are the lack of ownership in the ESA5 countries and deficits in the targeting of the measures on the EU's side and governance weaknesses on the side of the ESA5 governments, albeit to a different extent. Mauritius seems to be an exception that made very good use of the support. In sum, the EU assistance to ESA5 countries is coherent with the general objectives of the interim EPA between the European Union and the five Eastern and Southern African partners.

## 10. Conclusions

The objective of the conclusions is to synthesise the information collected in Phase I and Phase II of the project to form the ex-post in order to draw interim conclusions on a set of questions.

### 10.1 To what extent have the objectives of the existing interim EPA been achieved?

According to the Official Journal of the European Union<sup>70</sup>, the interim EPA aims at general objectives (Chapter I, Article 2), more specific formal objectives (Chapter I, Article 3) and a number of specific trade related (Chapter II, Article 5), developmental (Chapter IV) as well as fishery related (Chapter III) objectives. These objectives overlap. The general objectives of the interim EPAs are the following, and we will answer the evaluation question set out above for each of them in turn:

**Objective a: contributing to the reduction and eventual eradication of poverty through the establishment of a strengthened and strategic trade and development partnership consistent with the objective of sustainable development, the Millennium Development Goals and the Cotonou Agreement;**

- 1) In principle according to the economic modelling performed, ESA4 countries benefit from the EPA with the EU in terms higher trade volumes. Beside the static effects, increased specialisation and improvements in the international division of labour cause a reallocation of domestic productive resources (labour and capital) to more productive uses. Domestic production in ESA4 countries rises, reflected by increases in these countries' real GDP (with EU GDP remaining largely unchanged).
- 2) Although poverty appears to have fallen slightly in Madagascar and Zimbabwe between 2012 and 2019, a direct link to the interim EPA cannot be established.
- 3) The ESA4 countries have also made a range of policy and institutional reforms: while progress and actions have varied, there thus have been improvements in governance. The EU has provided support in a number of areas through its development cooperation.
- 4) Nevertheless, strong links between national reforms, EU development cooperation, the Agreement itself and environmental, social and human rights conditions were not found. Modelling results suggest that the interim EPA brought positive results, such a decrease in CO<sub>2</sub> emissions and small improvements in employment and wages, compared to a scenario without the Agreement.
- 5) Moreover, there is no strong link between the introduction of the interim EPA and changes in the organisation of business, though EU development cooperation has sought to strengthen governance. These concerns nonetheless indicate key areas where further policy action is needed.
- 6) The review of major exporting sectors has identified important ongoing environmental, social, gender and human rights concerns. These include concerns over social conditions in agricultural sectors with major exports to the EU. While reductions in employment, low salaries and instances of child labour are not specifically a direct result of trade with the EU, these issues are a concern for sectors exporting to the EU.
- 7) Concerns over labour conditions have been raised in manufacturing sectors, in which women appear to be more adversely affected. Increased production in agriculture can also increase water consumption and water pollution. There are strong social, human rights and environmental concerns linked to mining in Madagascar and Zimbabwe.

**Objective b: promoting regional integration, economic cooperation and good governance in the ESA region;**

- 1) The EU ESA4 EPA has led to a development of export concentration ratios and increased specialisation in commodities in which ESA4 countries have international competitive advantage and which can also be observed for goods exports to regional trade blocs such as notably SADC and COMESA. As such the interim EPA contributes to deepening regional and intra-African trade integration. Furthermore, the agreement also contributes to overall continental integration in Africa as it increased the preparedness of ESA4 countries for implementing the African Continental Free Trade Area (AfCFTA).

<sup>70</sup> COUNCIL DECISION of 13 July 2009 on the signing and provisional application of the Interim Agreement establishing a framework for an Economic Partnership Agreement between the Eastern and Southern Africa States, on the one part, and the European Community and its Member States, on the other part (2012/196/EC)

- 2) In addition, the interim EPA has led to new trade opportunities for outermost regions and overseas countries and territories, especially those in proximity to ESA4 countries, in different ways. As concerns trade diversion at the expense of LDCs, their goods and services exports to the EU are hardly affected by the EPA.

**Objective c: promoting the gradual integration of the ESA region into the world economy, in conformity with its political choices and development priorities;**

As all ESA5 EPA countries are expected to finalise their tariff reduction schedules in 2022, one can expect that the degree of competition will increase in ESA5 countries by then. This would – everything else equal – encourage direct investment and increase the integration of the ESA5 economies into the world economy. Since this process takes time, we have not witnessed deepening as of December 2020.

**Objective d: fostering the structural adjustment of the ESA economies and diversification including value addition;**

The interim EPA has mildly contributed to this objective. However, the concentration ratio of ESA4 exports has rather increased due to specialisation of African businesses in line with the liberalisation process.

**Objective e: improving the ESA region's capacity in trade policy and trade related issues;**

The EPA and the according development assistance helped the ESA5 countries to build trade facilities; here it is exemplified using the example of Smartfish.

- 1) As for **Comoros**, DG DEVCO sees governance problems as well as positive effects generated through programmes such as Smartfish.
- 2) For **Madagascar**, two ROMs show a similar institutional shortcoming as well as reluctance to reform its trade regime. Smartfish was effective also in Madagascar, raising awareness for technical issues.
- 3) The European support for **Mauritius** was successful reforming its business licensing regulation including an e-licensing platform. It benefitted from Smartfish. In addition, the Intellectual Property Law was modernised with EU help.
- 4) **Seychelles** benefitted from infrastructure support under the bilateral Sustainable Fisheries Partnership Agreement as well as further support under Smartfish (IOC, 2018, p.23). However, efforts are hampered by governance shortcomings in Seychelles.
- 5) For **Zimbabwe** no positive results have been reported for trade related measures.

**Objective f: establishing and implementing an effective, predictable and transparent regional regulatory framework for trade and investment in the ESA region, thus supporting the conditions for increasing investment and private sector initiative and enhancing supply capacity, competitiveness and economic growth; and**

The interim EPA created an overall framework governing rules of origin. A revision of the rules of origin that would allow the ESA5 countries to take advantage of the global value chains it could have competitive advantages in, which could include simplification and modernization of the rules of origin such as a change in value addition criteria and changes in the rules concerning cumulation. The ESA4 countries made significant use of the EPA preferences made available to them by the EU. The deepened EPA will cover more issues and increase the complexity further. **Objective g: strengthening the existing relations between the Parties on the basis of solidarity and mutual interest. To this end, consistent with WTO obligations, the Agreement shall enhance commercial and economic relations, support a new trading dynamic between the Parties by means of the progressive, asymmetrical liberalisation of trade between them and reinforce, broaden and deepen cooperation in all areas relevant to trade and investment.**

In sum the relations between the EU and ESA5 countries have improved, as also can be seen in the Minutes of the annual EPA Committee Meetings. In addition, both trade and FDI flows have increased. This is enhanced by reciprocal treatment, meaning that the EU gets duty-free, quota-free market access into the EPA signatory countries on substantially all trade and in line with Article XXIV of GATT. The EPA countries are phasing in this preferential market access and will also maintain a list of sensitive products until 2022.

## 10.2 Which sectors, activities, groups or countries in ESA4 have benefited most as a result of the EPA and which ones have incurred losses due to the EPA?

The review of the evidence gathered so far indicates that the interim EPA overall has not had major impacts on environmental, social conditions, gender and human rights conditions in ESA countries. **Concerning environmental impacts related to the interim EPA, these mainly appear linked to the scale of EU exports.**

**As concerns domestic sector output (overall production by domestic industries) in the EU and ESA countries, the impacts of the EPA are estimated to be relatively low, often negligible for most sectors of the economy.** Nevertheless, the CGE and PE model employed by DG Trade respectively show some significant effects.

- 1) Mauritius' sugar products production is estimated to increase by 52.1% due to the EPA with the EU, Mauritius' fishery and seafood sector is estimated to gain 10.2%, and Mauritius' textiles sector is estimated to expand by 6.3% ("Textiles") and 5.7% ("Wearing apparel") due to the EPA.
- 2) Madagascar's "Non-ferrous metals" sector is estimated to rise by 5.2% due to the EPA. Major structural effects linked to a diversification of exports have not been identified.
- 3) ESA4 countries' total services exports to the EU generally increased from 2012 to 2018, amounting to 322 million EUR for Madagascar in 2018, 2 billion EUR for Mauritius, 567 million EUR for the Seychelles, and 207 million EUR for Zimbabwe.
- 4) For Mauritius and the Seychelles, services exports to the EU are significantly higher than goods exports, driven by these countries' strong tourism services exports.

In absence of the EPA, EU total exports to Madagascar are estimated to be 30% lower, the EU's manufacturing sectors are estimated to benefit most from tariff reductions on the side of ESA countries, with "Manufactures n.e.c." (which includes a wide array of high and less knowledge-intensive products), "Machinery and equipment" and "Other metal products" taking the lead. It should be noted that EU exports of "Wearing apparel" to Madagascar and Mauritius show high percentage increases.

## 10.3 Has the EPA with ESA4 given rise to unintended consequences?<sup>71</sup>

The Team has interviewed 60 stakeholders in the ESA5-countries from five groups: CSOs, governments, business associations or national chambers of commerce, private sector economic operators and SMEs. These interviews generated some general observations, which can be utilised to improve the EU's development assistance for ESA5 and to increase its impact.

- 1) The main concern of CSOs is that the agenda is driven too much by the EU. This is a general problem of development cooperation and not easy to be solved.
- 2) Governments argue that the technical and physical capacities of the ESA5 countries still are major obstacles to implement all elements of the agreement and that project-based assistance may be rather complex to implement.
- 3) The three groups presenting the private sectors had three concerns: their own limited readiness for the interim and comprehensive EPA, their own governments ability to implement the EPA and the problem that EU assistance is not well target to increase the export potential of the enterprises.

## 10.4 What are the shortcomings of the existing EPA that need to be addressed in the deepening negotiations?

- 1) The first shortcoming is that the interim EPA lacks specific provisions to help achieve objective a (see above).
- 2) The focus of the interim EPA has been on the trade dimension and less emphasis has been placed on the development dimension of the EPAs. The EPA development agenda would better be based on a self-assessment of needs by the ESA5 countries themselves and take a demand side approach (meaning that

<sup>71</sup> We follow the order suggested in the ToR but would like to make the point that the unintended consequences and shortcomings are very closely related. In fact, all problems mentioned in 9.3 and 9.4 appear relevant for both.

the ESA5 countries outline their needs) rather than a supply side approach (meaning that the EU specifies the funding available and how that funding can be utilised).

- 3) Concerns are raised about the comprehensive nature of the EPA; it is argued to form a challenge for the ESA5 countries. In addition, the ESA5 private sector companies, including SMEs, find it difficult to take advantage of the EPA. This is an important lessons for the complex negotiations about issues such as government procurement, competition or trade in services to come.
- 4) A number of challenges remain to be addressed for rules of origin to be improved further and for the benefit of the majority of stakeholders: closer alignment of the development and trade components of the EPA; involve the private sector and potential new investors in trade negotiations, to the extent possible; and ensure mitigation of negative aspects of the EPAs.

### **10.5 What are good practices and lessons learned on EPA implementation on both the ESA4 and the EU side?**

- 1) A review has shown that relevant development projects and programmes implemented since 2012, both at regional scale and for individual countries, have sought to strengthen aspects of governance and improve key areas of the business environment in the five ESA countries. Thus, EU action is clearly linked to outputs in the areas of governance and the business environment, and it is likely that it also has had an influence in terms of outcomes within the countries.
- 2) Governments emphasize the beneficial effects of EU assistance; e.g. Mauritius praised the e-licensing platform.
- 3) For most stakeholder we interviewed, information from the print and digital media, academic writing, capacity building programmes, including meetings, have helped them learn more about EPAs and the processes involved.
- 4) Trade facilitation support has had a positive impact. Although it cannot be quantified, this avenue promises further success.
- 5) Governance is important as the positive example of Mauritius teaches; think of the e-licensing system. This suggests that further development cooperation on governance is valuable.



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## Annex I. List of Tasks from Terms of Reference

- Task 1: Develop a factual introduction to the study
- Task 2: Analyse existing studies and reports
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## Annex II. Overview of ESA5 and Liberalisation Schedules

Table 7: Overview of EU-ESA trade liberalisation schedule and exclusions

| Country           | Liberalisation of EU imports  | Timeframe   | Main exclusions from liberalisation  |
|-------------------|---|---|--|
| <b>Madagascar</b> | 89% of liberalisation in terms of tariff lines, 81% of liberalisation in terms of volume of trade   | Start of effective liberalisation: 2015<br>End: 2022              | Meat, milk and cheese, fisheries, vegetables, cereals, oils and fats, edible preparations, sugar, cocoa, beverages, tobacco, chemicals, plastic and paper articles, textiles, metal articles, furniture        |
| <b>Mauritius</b>  | 96% of liberalisation in terms of tariff lines, 96% of liberalisation in terms of volume of trade   | Start of effective liberalisation: 2013<br>End: 2022              | Live animals and meat, edible products of animal origin, fats, edible preparations and beverages, chemicals, plastics and rubber articles of leather and fur skins, iron & steel and consumer electronic goods |
| <b>Seychelles</b> | 98% of liberalisation in terms of tariff lines, 97% of liberalisation in terms of volume of trade   | Start of effective liberalisation: 2013<br>End: 2022              | Meat, fisheries, beverages, tobacco, leather articles, glass and ceramic products and vehicles   |
| <b>Zimbabwe</b>   | 86% of liberalisation in terms of tariff lines, 80% of liberalisation in terms of volume of trade   | Start of effective liberalisation: 2017<br>End: 2022              | Products of animal origin, cereals, beverages paper, plastics and rubber, textiles and clothing, footwear, glass and ceramics, consumer electronic and vehicles  |
| <b>Comoros</b>    | 95.7% of liberalisation in terms of tariff lines, 81% of liberalisation in terms of volume of trade | Start of effective liberalisation: 2022 <sup>72</sup><br>End: n/a | Products of animal origin, fish, beverages, chemicals and vehicles.  |

Source: Elaboration from DG TRADE publications<sup>73</sup>

Table 8: ESA: Cultural, Political, Economic, and Regulatory Indicators and Infrastructure

| Country                                    | Comoros     | Madagascar  | Mauritius   | Seychelles  | Zimbabwe   | Source        |
|--|-------------|-------------|-------------|-------------|------------|---------------|
| <b>Population, Culture, Social Aspects</b> |             |             |             |             |            |               |
| Population                                 | 846,000     | 26,955,000  | 1,379,000   | 96,000      | 14,546,000 | CIA           |
| Urbanisation (%)                           | 29.4        | 38.5        | 40.8        | 57.5        | 32.2       | CIA           |
| Ethnic diversity                           | n/a         | 0.861       | 0.632       | n/a         | 0.366      | Fearon (2003) |
| Median age (years)                         | 20.9        | 20.3        | 36.3        | 36.8        | 20.5       | CIA           |
| Literacy in % of population                | 58.8        | 74.8        | 91.3        | 95.9        | 86.5       | CIA           |
| Population below poverty line (latest) %   | 13.5 (2004) | 81.8 (2010) | 0.5 (2012)  | 0.4 (2006)  | n/a        | AU 2019       |
| Life expectancy at birth (years)           | 65.7        | 67.3        | 76.5        | 75.6        | 62.3       | CIA           |
| Gini (latest)                              | 55.9 (2004) | 40.6 (2010) | 35.8 (2012) | 46.8 (2013) | n/a        | AU 2019       |

<sup>72</sup> Based on a personal conversation with DG Trade; official dates could not be found.

<sup>73</sup> Terms of References, DG Trade publications, see [https://trade.ec.europa.eu/doclib/docs/2012/march/tradoc\\_149213.pdf](https://trade.ec.europa.eu/doclib/docs/2012/march/tradoc_149213.pdf) and [https://ec.europa.eu/commission/presscorner/detail/en/MEMO\\_08\\_15](https://ec.europa.eu/commission/presscorner/detail/en/MEMO_08_15)

|  |            |            |           |            |             |                          |
|--|------------|------------|-----------|------------|-------------|--------------------------|
| HDI (2018)   | 0.538      | 0.521      | 0.796     | 0.8        | 0.553       | UN                       |
| <b>Political Liberties, Institutions</b>                           |            |            |           |            |             |                          |
| Civil liberties (2018)   | 4          | 3          | 2         | 3          | 5           | FH                       |
| Political rights (2018)  | 4          | 3          | 1         | 3          | 5           | FH                       |
| Press Freedom, score and rank (of 180 countries, 2018)             | 29.77 (75) | 27.68 (54) | 28 (56)   | 28.66 (63) | 40.95 (126) | RSF                      |
| CPI score and rank (of 180 countries, 2018)                        | 25 (153)   | 24 (158)   | 52 (56)   | n/a        | 24 (158)    | TI                       |
| <b>Economic Aspects</b>  |            |            |           |            |             |                          |
| Unemployment (2019)  | 3.7        | 1.7        | 6.9       | 3.0        | 4.9         | Trading Economics, WEO   |
| Inflation (2019)   | 3.2        | 6.7        | 0.9       | 2.0        | 160         |                          |
| Diversification of exports (2018)                                  | 0.734      | 0.761      | 0.708     | 0.808      | 0.826       | UNCTAD                   |
| Doing Business: score and rank (out of 190 countries, 2019)        | 160 (47.9) | 161 (47.7) | 13 (81.5) | 100 (61.7) | 140 (54.5)  | World Bank               |
| • Getting Credit (rank)  | 132        | 132        | 67        | 65         | 67          | World Bank               |
| • Trading across borders (rank)                                    | 120        | 140        | 72        | 98         | 159         | World Bank               |
| Africa regional integration index score and rank (out of 54, 2019) | 0.35 (20)  | 0.296 (37) | 0.424 (5) | 0.393 (11) | 0.387 (12)  | AU, ADB and UNECA (2020) |
| IPAs signed  | n/a        | 7          | 11        | n/a        | 4           | UNECA                    |
| Economic freedom score and rank (of 161 countries), 2019           | n/a.       | 6.14 (126) | 8.07 (9)  | 7.16 (63)  | 5.69 (145)  | Fraser Institute         |
| Landmass (sq. km)  | 2,235      | 581,540    | 2,030     | 455        | 386,847     | CIA                      |
| Territorial sea/ exclusive economic zone (nautical miles)          | 12/200     | 12/200     | 12/200    | 12/200     | n/a         | CIA                      |
| Potential agricultural land (%)                                    | 84.4       | 71.1.      | 43.8      | 6.5        | 42.5        | CIA                      |
| <b>Communication, Infrastructure</b>                               |            |            |           |            |             |                          |
| Internet access/Capita   | 7.9        | 4.7        | 53.2      | 56.5       | 23.1        | CIA                      |

|  |         |                |           |        |               |     |
|--|---------|----------------|-----------|--------|---------------|-----|
| Mobile telephony contracts/Capita                                    | 61      | 41             | 141       | 189    | 92            | CIA |
| Liner shipping connectivity, score and rank (of 104 countries), 2016 | n/a     | 10.7 (74)      | 28.6 (53) | n/a    | n/a           |     |
| Paved/unpaved roads (km)   | 673/207 | 31,640 (total) | 2,379/49  | 514/12 | 18,481/78,786 | CIA |
| Railways (km)  | 0       | 836            | 0         | 0      | 3,247         | CIA |
| Airports (with paved runways)  | 4       | 26             | 3         | 2      | 17            | CIA |

**Explanation:** We have always used the latest available dates, which means in single case that we have rather old information. It also implies that we do not always know the exact year. Most of the institutional indices presented in the Table are based on experts' assessments. Description of indices:

- 1) The World Bank Doing Business measure consists of 12 sub-indices covering the following areas: Starting a business, Dealing with construction permits, Getting electricity, Registering properties, Getting credit, Protecting minority investors, Paying taxes, trading across borders, Enforcing contracts, Resolving insolvency, Employing workers, contracting with the government. It is a dimensionless index normed between 0 and 100 based on the simple average of the 12 sub-indices. A higher value signals easier business conditions.
- 2) The diversification of exports is calculated by UNCTAD (2020) as concentration index, based on the Herfindahl-Hirschmann Index (here: Product HHI), with values between 0 and 1. An index value closer to 1 (to 0) is as sign that a country's exports or imports are highly (lowly) concentrated on a few products.
- 3) The Fraser Institute's index of Economic Freedom consists of 26 indicators within five groups (size of government, legal system and property rights, sound money, freedom to trade internationally, regulation) and is an unweighted average ranging from 0 to 10. A higher value signals higher economic freedom.
- 4) The Freedom House indices of civil liberties and political freedom range between 1 and 7; a higher value shows lower rights and liberties respectively.
- 5) The corruption perception index (CPI) is calculated based on between 10 and 16 questionnaires (depending on availability). If a country is including in three, it is covered. The measure is normed between 0 and 100. A lower score indicates higher corruption.
- 6) Ethnic diversity is calculated as a fractionalization index:  $F = 1 - \sum_{i=1}^n p_i^2$ , with n denoting the number of ethnic groups and  $p_i$  denoting the share of the  $i^{th}$  ethnic group. A lower value indicates lower fractionalization.
- 7) Press Freedom is calculated by *Reporters without Borders* based on a questionnaire with more than 80 questions. The outcome is transformed into an index between 0 and 100, with lower values indicating higher press freedom.
- 8) The Liner Shipping Connectivity Index, assesses a country's connectivity to global shipping networks. The index uses an open scale, with the benchmark score of 100 corresponding to the highest value (<http://reports.weforum.org/global-enabling-trade-report-2016/>).

## Annex II. Research Methods and Analytical Model

### Approach to the ex-post evaluation

#### *Scope of the evaluation*

The scope of the evaluation identifies what is evaluated, over what period and for which geographical area. The thematic scope of the mini ex-post evaluation under this assignment includes all areas of the interim EPA, while the geographic scope covers both the EU and its Member States and the ESA5. The assessment begins at the start of the provisional applications with each partner country (2012 for ESA4 countries), with recognition of the limitations of Comoros having joined in 2019 only.

#### *Baseline scenario*

The evaluation questions were answered by comparing the changes observed with the situation before or without the policy intervention and by assessing whether the changes observed can be attributed to the policy intervention, at least to some extent (the causality link). The situation depicted with the ex-post evaluation will provide the baseline for the SIA.

The definition of the baseline scenario takes into account regulations and trade provisions with the EU that were implemented before the interim EPA's provisional application or that would have been applied in the absence of the EPA.

#### *Intervention Logic (IL)*

The intervention logic for the mini ex-post evaluation was presented above. It depicts the main objectives, components and expected results of the policy intervention, and the expected causality links and assumptions which will need to be verified during the evaluation.

#### *Evaluation Matrix (EM)*

The ToR for this evaluation defines the main evaluation questions to be answered (see above), which guide the evaluation component of the assignment. The evaluation questions have been grouped under four evaluation criteria (effectiveness, efficiency, coherence and relevance). In addition, the EM presents judgement criteria for each evaluation question, specific indicators and sources to support the assessment.

### Approach to economic impacts

The economic analysis in the ex-post component of this SIA makes use of the CGE economic modelling (including a partial equilibrium analysis for Seychelles) undertaken by DG Trade. The analysis will also include a discussion of the robustness of the results and outline limitations of the modelling, e.g. different degrees of preference utilisation and the potential misrepresentation of dynamic impacts from innovation and FDI.

Based on this analysis, an assessment of the impact of dismantling barriers with a focus on the ESA5 countries will be conducted, for each country individually, and as a group. This economic impact assessment focuses in particular on investment flows (and also services). The analysis also takes into account possible effects on governance as well as the business and investment environment; also, effects on regional integration efforts and on third parties will be analysed.

The table provides an overview of relevant data sources for evaluations that go beyond the results of the economic modelling undertaken by DG TRADE, e.g. progress in the elimination of import tariffs, the development of actual trade and investment volumes, the assessment of patterns in regional economic integration (trade and investment), the development of primary, secondary and tertiary sectors, the development of sector regulations, and progress with regard to regulatory cooperation. The relevant data for the analysis will be primarily taken from international databases outlined in the table below. Our analysis has also focused on identifying potential gaps in information availability. Gaps in international databases mentioned in **Table 9** may affect the economic analysis for individual countries in particular on foreign direct investment, services trade and international public procurement. Gaps might occur when data availability differs between countries covered in international sources or when data for latest years are not yet available for some countries. International sources often rely on information provided by individual countries and weak reporting of such information might result in data gaps. Where applicable due to limited data availability in the international

sources outlined in **Table 9**, the team will consult and collect data from relevant national bodies and statistical agencies in these countries.

**Table 9: Economic analysis– themes, methods and data sources**

| Theme   | Methods/Indicators  | Data sources   |
|---|---|--|
| Customs and trade facilitation, technical barriers to trade | <ul style="list-style-type: none"> <li>▪ Literature review</li> <li>▪ Analysis of relevant legal framework</li> <li>▪ Data collection from industry players as well as relevant national institutions and international organisations</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>▪ WTO WITS database (non-tariff measures (NTM) data).</li> <li>▪ Stakeholder consultation</li> </ul> |
| Economic performance  | <ul style="list-style-type: none"> <li>▪ GDP; exports (as contribution to GDP)</li> <li>▪ Export performance, international demand, alternative markets and competitive markets, directory of importing and exporting companies</li> </ul>  | <ul style="list-style-type: none"> <li>• Eurostat</li> <li>• WTO WITS database (international merchandise trade)</li> <li>• ITC Trade Map</li> </ul>   |
| Trade in goods and market access                            | <ul style="list-style-type: none"> <li>▪ Export; import; turnover (imports/exports)</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Eurostat (trade in goods statistics; COMEXT database) WTO WITS database (international merchandise trade)</li> <li>▪ ITC Trade Map</li> </ul>   |
| Trade in services   | <ul style="list-style-type: none"> <li>▪ Import/export trade flows for services</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Eurostat (trade in services statistics)</li> <li>▪ World Bank</li> <li>▪ UNCTAD</li> <li>▪ Central Banks?</li> </ul>  |
| Regional economic integration                               | <ul style="list-style-type: none"> <li>▪ Value-added content in exports, participation in global value chains, contribution of services and digital trade, where relevant, to the value-added content of exports.</li> <li>▪ Trade in intermediate goods and services)</li> <li>▪ Business process analyses on the value chains of the various sub-sectors of the industry to identify where the challenges are in the value chains and devise possible solutions.</li> </ul> | <ul style="list-style-type: none"> <li>▪ OECD-WTO Trade in Value Added (TIVA) database</li> <li>▪ Resources provided by the African Union, relevant national institutions and WTO</li> <li>▪ Stakeholder consultation</li> </ul>                                       |
| Export diversification                                      | <ul style="list-style-type: none"> <li>▪ Import/export trade flows in goods and services</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Eurostat (trade in goods statistics; trade in services statistics)</li> </ul>   |
| Trade competitiveness                                       | <ul style="list-style-type: none"> <li>▪ Revealed comparative advantage (RCA, Balassa index);</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Eurostat (trade in goods statistics; trade in services statistics)</li> </ul>   |
| Consumer welfare  | <ul style="list-style-type: none"> <li>▪ Consumer prices (rents, imports), product quality, consumer choice (import as proxy for increased product variety)</li> </ul>  | <ul style="list-style-type: none"> <li>• FAO</li> <li>• Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>• Stakeholder consultation</li> </ul>   |
| Small and medium-sized businesses (SMEs)                    | <ul style="list-style-type: none"> <li>▪ Number of SMEs by sector</li> <li>▪ Number of SMEs that engage in cross-border trade</li> <li>▪ Regulatory burden for SMEs</li> </ul>  | <ul style="list-style-type: none"> <li>• Trade by enterprise characteristics database (for EU)</li> <li>• Resources provided by national administration</li> </ul>   |

|  |  |   |
|--|--|---|
|  |  | <ul style="list-style-type: none"> <li>Stakeholder consultation</li> </ul>  |
| Competition policy   | <ul style="list-style-type: none"> <li>Intensive literature review</li> <li>Analysis of relevant legal framework</li> <li>Import or export related (quasi) monopolies;</li> <li>Main subsidy schemes in place; existing transparency arrangements</li> <li>Biggest SOEs and sectors with SOE predominance</li> <li>Special conditions or privileges given to SOEs</li> <li>Other practices such as targeted subsidies</li> </ul> | <ul style="list-style-type: none"> <li>Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>Stakeholder consultation</li> </ul>   |
| Investment and private sector development, market attractiveness | <ul style="list-style-type: none"> <li>FDI stock; FDI flow; business environment; localised production</li> <li>Description of legal framework and legislative requirements governing liberalisation</li> <li>Opportunities and challenges for EU SMEs</li> </ul>  | <ul style="list-style-type: none"> <li>UNCTAD bilateral FDI data</li> <li>OECD bilateral FDI data</li> <li>Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>Stakeholder consultation</li> </ul> |
| Intellectual property rights                                     | <ul style="list-style-type: none"> <li>Border enforcement of intellectual property rights (IPR), including GIs</li> <li>Description of legal framework</li> </ul>  | <ul style="list-style-type: none"> <li>Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>Stakeholder consultation</li> </ul>   |
| Public procurement   | <ul style="list-style-type: none"> <li>Data on public imports</li> <li>Description of legal framework and legislative requirements governing liberalisation</li> <li>Opportunities and challenges for EU SMEs</li> <li>Contract award notices published in OJ (available on TED)</li> </ul>  | <ul style="list-style-type: none"> <li>World Input Output Database (WIOD)</li> <li>Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>Stakeholder consultation</li> </ul>                         |
| Agriculture  | <ul style="list-style-type: none"> <li>Food and agriculture statistics</li> <li>Global development data</li> <li>Trade and output data</li> </ul>  | <ul style="list-style-type: none"> <li>FAO</li> <li>World Bank</li> <li>Eurostat</li> <li>WTO WITS database</li> </ul>  |
| Development issues   | <ul style="list-style-type: none"> <li>Intensive literature review</li> <li>Internationally comparable sets of data for trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development</li> <li>Data collection from industry players as well as relevant national institutions and international organisations</li> </ul>  | <ul style="list-style-type: none"> <li>UNCTAD</li> <li>Resources provided by the African Union, relevant national institutions and WTO (reports, statistics, treaties)</li> <li>Stakeholder consultation</li> </ul>   |

In stage II (assessment of potential impacts of deepening process), depending on data availability, the team will refer to the modelling results to identify countries and sectors which gain from imports and exports. We will also refer to changes in domestic output (production) on a country and sector basis.<sup>74</sup> The team will also discuss the robustness of the results and explain the time horizon for the effects to materialise. CGE models

<sup>74</sup> Relevant examples are given, for instance, in the impact assessment of the EU-Japan FTA. For an overview of outputs see, e.g., tables 4.5 and 4.6. Available at [https://trade.ec.europa.eu/doclib/docs/2018/july/tradoc\\_157115.pdf](https://trade.ec.europa.eu/doclib/docs/2018/july/tradoc_157115.pdf).



are suitable to estimate medium- to long-term effects, i.e. changes in the economy after a period of several years that allow economic agents to adjust to new regulatory frameworks, e.g. reduced tariffs or less discriminatory rules for trade. While economies generally benefit from trade liberalisation in the medium- to long-term (more output, more trade, higher standards of living), in the short-term, increased competition causes some groups to lose from trade liberalisation. Our team will discuss the “vulnerable” groups, the implications for structural economic change, and point to measures that help mitigating/compensating the negative effects on these groups' incomes.

#### *CGE analysis with MIRAGE (for Madagascar, Mauritius and Zimbabwe)*

The CGE analysis is based on the MIRAGE model, which was developed and is maintained at the Centre d'Études Prospectives et d'Informations Internationales (CEPII) in France. A detailed description is given in Decreux and Valin (2007)<sup>75</sup> and in Bchir et al. (2002).<sup>76</sup> The analysis is based on the GTAP database version 9.2 with the base year 2011. To account for recent changes in economic developments, key variables, specifically GDP, population, labour force, the current account balance, the savings rate (for all regions) and sectoral bilateral trade flows (for the partners) were updated to reflect 2019 data.<sup>77</sup> Furthermore, the tariff preferences from the EPA, reflecting the state of implementation in 2019 have been incorporated as the database pre-dates the implementation of the EPA.<sup>78</sup>

The counterfactual scenario is implemented by re-introducing tariffs and comparing the current situation to one where the EPA would not be in place, i.e. a situation in which tariffs would have been left unchanged. Implementation happens by removing applicable preferential margins. For the partner countries, the source of these are the tariff schedules for 2019. For the EU, the sources are TRAINS<sup>79</sup> data via the World Bank's WITS<sup>80</sup> facility complemented by the CDC<sup>81</sup> database managed by DG TAXUD.

In addition, the following assumptions apply:

- The model is run under perfect competition and in a static set-up.<sup>82</sup>
- Neoclassical closure, in which unemployment is assumed not to be affected by trade policy.
- The EU is modelled in a 27 member state (MS) post-Brexit configuration.<sup>83</sup>

As concerns tariff eliminations and reductions, the EU would not enjoy any preferential market access to the ESA partners in case of no EPA, as would Mauritius on the EU market being an upper-middle income country. Zimbabwe would be eligible for preferences under the EU's GSP. Market access for Madagascar to the EU would essentially not change as in absence of the EPA, the country would still be eligible for duty-free, quota-free market access under EBA.

As concerns the modelling, the applicable preferential margin is added to tariffs in the database. This way, biases from erroneous protection data in the GTAP database were minimised.<sup>84</sup> It should be noted that reductions of NTBs were not simulated. The modelling results include estimates for changes in real GDP, bilateral trade by sector (for all goods), industry output by sector, consumer prices, wages by skill category and CO<sub>2</sub> emissions. For the interpretation of the results, the following aspects should be taken into consideration:

- GDP and trade volumes are expressed in real 2011 USD. These are converted into 2019 EUR in the excel file by using exchange rates for 2011 and the US GDP deflator as per the IMF WEO from October 2019.

<sup>75</sup> Decreux, Y. and Valin, H. (2007) "MIRAGE, Updated Version of the Model for Trade Policy Analysis with a Focus on Agriculture and Dynamics", CEPII Working Paper 2007-15.

<sup>76</sup> Bchir, M.-H., Y. Decreux, J.-L. Guérin and S. Jean (2002) "MIRAGE, A CGE Model for Trade Policy Analysis", CEPII Working Paper 2002-17.

<sup>77</sup> IMF World Economic Outlook (WEO) 10/2019 data for GDP and UN COMTRADE data for bilateral trade. The remainder from CEPII projections.

<sup>78</sup> This has happened only where preferences actually changed to those applied unilaterally before, i.e. essentially only for the ESA partner country tariffs upon imports from the EU-27 and the UK.

<sup>79</sup> UNCTAD Trade Analysis Information System.

<sup>80</sup> World Integrated Trade Solution

<sup>81</sup> Customs duty calculator

<sup>82</sup> A dynamic ex-post analysis, while theoretically feasible, would involve a number of methodological and data problems.

<sup>83</sup> It should be noted that the UK, which is simulated as an individual country is copying EU-27 trade policies, which, as this is a simulation of the past, should be a rather uncontroversial modelling choice.

<sup>84</sup> Tariffs were not re-introduced by imposing final rates in the model. If this were done, the preferential margins could be severely over- or underestimated in case of errors in the GTAP database, which are known to occur.

- Output by sector is an indicator that can be used to capture which sectors turn out to have benefitted and which seem to have come under pressure. The absolute values should not be interpreted, as in the model they are expressed in base period real prices, which are no longer representative, not least due to the agreements themselves. The sum or the weighted average of output effects is not identical to the GDP effect. This is mainly because output contains intermediate products, which would be double (and triple..., etc.) counted if output was simply added over sectors.
- Regarding the effects on consumers, the Fisher-CPI (consumer price index) has been calculated and the EPA's estimated impact on consumer prices both in the EU27 as well as in ESA4 countries is below the perception threshold.<sup>85</sup>
- CO2 emissions are given by country. These are expressed in tons but based on input-output-coefficients from 2011, which might be quite outdated. Therefore, using absolute figures should be avoided and the relative changes should be communicated. The figures do not contain non-carbon greenhouse gases (GHG). This needs to be taken into consideration in the environmental impact assessment.

The model's underlying database, which comprises of 57 sectors and 140 countries, was aggregated to 17 sectors and 11 regions. This aggregation was chosen such as to reflect sectors of key export interest to the ESA partner countries and countries which are assumed to be relatively strongly affected by the EPA, in particular other regions benefitting from EPAs, as well as Turkey and the group of Least Developed countries. The regional and sector aggregation chosen for this analysis are presented in Table 10 and Table 11.

**Table 10: Regional disaggregation of the CGE model**

| Model region acronym | Description                 |
|----------------------|-----------------------------|
| EU27                 |                             |
| MDG                  | Madagascar                  |
| MUS                  | Mauritius                   |
| ZWE                  | Zimbabwe                    |
| SSA                  | Rest of Sub-Sahara Africa   |
| LDC                  | Least Developed Countries   |
| CAR                  | CARIFORUM                   |
| UK                   |                             |
| TUR                  | Turkey                      |
| HIC                  | Other High-Income countries |
| ROW                  | Rest of the world           |

Source: DG Trade, GTAP database.

**Table 11: Sectoral disaggregation of the CGE model**

| Model sector acronym  | Description                  |
|-----------------------|------------------------------|
| v_f                   | Fruit, vegetables, buts      |
| SUGAR                 | Sugar and sugar crops        |
| ocr <sup>86</sup>     | Other crops                  |
| oap                   | Other animal products        |
| SEAFOOD <sup>87</sup> | Fisheries and processed fish |

<sup>85</sup> The Fisher Price Index, also called the Fisher's Ideal Price Index, is a consumer price index (CPI) used to measure the price level of goods and services over a given period. The Fisher Price Index is a geometric average of the Laspeyres Price Index and the Paasche Price Index.

<sup>86</sup> Includes vanilla and tobacco, which are important export commodities for MDG and, respectively, ZWE.

<sup>87</sup> Made up of the fisheries (fsh) and the "other food" (ofd) sectors in the GTAP database. The latter covers a large and diverse array of processed food products ranging from fruit juices to bakery products (no animal products, though). However, where ESA exports are concerned, the label seafood is a rather accurate description.

|                 |   |
|-----------------|---|
| <b>AGRIFOOD</b> | Agri-food sectors n.e.c. (cereals, dairy, meat, fibres, vegetables oil), forestry   |
| <b>PRIM</b>     | Fossil fuels  |
| <b>omn</b>      | Mining  |
| <b>tex</b>      | Textiles  |
| <b>wap</b>      | Wearing apparel   |
| <b>i_s</b>      | Iron and steel  |
| <b>nfm</b>      | Non-ferrous metals  |
| <b>ome</b>      | Other (than electric) machinery   |
| <b>omf</b>      | Other manufactures  |
| <b>MANUF</b>    | Manufactures n.e.c. (transport equipment, chemicals, electrical machinery, petrochemicals, leather products, lumber, paper) |
| <b>TRNS</b>     | Transport services: air, water, other   |
| <b>SERV</b>     | Services other than transport and utilities   |

Source: Source: DG Trade, GTAP database. Sectors in the original GTAP database are written in lowercase letters. Sectors which have been aggregated are written in UPPERCASE letters.

#### PE analysis (for the Seychelles)

The PE model applied for the impacts assessment for the Seychelles is based on Balistreri and Rutherford (2013). The model was run in a perfect-competition set-up and populated with data for the EU27, the UK, the Seychelles and the rest of the world. The model is specified with trade and tariff data only, i.e. domestic (feedback) effects can only be analysed implicitly.

It should be noted that PE models are generally limited as concerns the output and interaction of economic variables. Accordingly, the model applied for the Seychelles does not account for macroeconomic effects, i.e. the impact of the EPA on GDP, factor markets, aggregate price level, etc. Potential effects of these variables and their interaction with individual product markets were not taken into consideration respectively. Furthermore, no cross-price effects were taken into account. Despite being partial, the model closes the world market for each product under analysis by including a rest-of-the-world aggregate.

using a General Algebraic Modeling System (GAMS) with UN COMTRADE ,The model was run for goods only the impact of the EPA was analysed by re-introducing tariffs to the ,As in the CGE analysis <sup>88</sup>.data for 2018 The counterfactual for both EU imports from and EU exports to the Seychelles are the .counterfactual levels the UK followed EU trade policies in the period under ,As a member of the EU .respective MFN tariffs investigation and does so in the simulations.. The PE model is providing a snapshot of the situation in 2018 by comparing the observed trade flows under the EPA with a situation in which MFN tariffs would be levied by .both sides

#### Modelling results

Below we enclose some of the key modelling results we refer to in Chapter 5.

**Table 12: Projected changes in industry output**

| Changes in industry output                        | EU27  | Madagascar | Mauritius | Zimbabwe |
|---|-------|------------|-----------|----------|
| Agri-food, forestry                               | 0.0%  | -0.1%      | -1.3%     | 0.0%     |
| Fruit, vegetables, nuts                           | 0.0%  | 0.0%       | 2.1%      | 2.4%     |
| Sugar and sugar crops                             | -0.4% | 0.0%       | 52.1%     | 1.4%     |
| Other crops (e.g. vanilla in MDG, tobacco in ZWE) | 0.0%  | 0.1%       | -1.0%     | 0.7%     |

<sup>88</sup> 2019 data are not yet available at a comprehensive level.

|  |      |       |       |       |
|--|------|-------|-------|-------|
| Other animal products (mainly live pigs and poultry) | 0.0% | -0.1% | -0.3% | 0.1%  |
| Fisheries and processed fish                         | 0.0% | 0.1%  | 10.2% | 0.1%  |
| Fossil fuels   | 0.0% | 0.1%  | n.a.  | 0.0%  |
| Mining   | 0.0% | 0.1%  | -2.8% | -0.1% |
| Textiles   | 0.0% | 1.1%  | 6.3%  | -0.1% |
| Wearing apparel                                      | 0.0% | 2.7%  | 5.7%  | 0.1%  |
| Manufactures n.e.c.                                  | 0.0% | -0.9% | -3.0% | -0.1% |
| Iron and steel                                       | 0.0% | 2.0%  | -1.7% | -0.1% |
| Non-ferrous metals                                   | 0.0% | 5.2%  | -3.0% | -0.2% |
| Machinery and equipment                              | 0.0% | 1.8%  | -5.6% | -0.4% |
| Other manufacturing                                  | 0.0% | -0.4% | -0.4% | 0.0%  |
| Services other than transport                        | 0.0% | 0.0%  | -0.6% | 0.0%  |
| Transport services                                   | 0.0% | 0.2%  | -0.8% | 0.0%  |

Source: DG Trade estimations.

**Table 13: Projected changes in bilateral EU exports due to the EPA**

| Bilateral EU exports to                              | Madagascar | Mauritius | Zimbabwe |
|--|------------|-----------|----------|
| Agri-food, forestry                                  | 9%         | 30%       | 4%       |
| Fruit, vegetables, nuts                              | -1%        | 6%        | 6%       |
| Sugar and sugar crops                                | 5%         | 39%       | 1%       |
| Other crops (e.g. vanilla in MDG, tobacco in ZWE)    | 0%         | 0%        | 2%       |
| Other animal products (mainly live pigs and poultry) | 0%         | 2%        | 0%       |
| Fisheries and processed fish <sup>89</sup>           | 0%         | 18%       | 5%       |
| Mining   | 0%         | 13%       | 0%       |
| Textiles   | 31%        | 105%      | 33%      |
| Wearing apparel                                      | 111%       | 141%      | 7%       |
| Manufactures n.e.c.                                  | 47%        | 34%       | 15%      |
| Iron and steel                                       | 26%        | 38%       | 44%      |
| Non-ferrous metals                                   | 34%        | 98%       | 15%      |
| Machinery and equipment                              | 10%        | 29%       | 1%       |
| Other manufacturing                                  | 44%        | 81%       | 19%      |
| Services other than transport                        | -1%        | 2%        | 0%       |
| Transport services                                   | -1%        | 1%        | 0%       |

Source: DG Trade estimations.

**Table 14: Bilateral EU imports from**

| Bilateral EU imports from | Madagascar | Mauritius | Zimbabwe | LDCs |
|---------------------------|------------|-----------|----------|------|
| Agri-food, forestry       | 1%         | 75%       | 49%      | 0%   |

<sup>89</sup> In the modelling, this sector contains also a lot of other processed food products, but where the ESA partner countries are concerned, there is little more than seafood in that sector.

|   |    |       |      |     |
|---|----|-------|------|-----|
| Fruit, vegetables, nuts                                       | 0% | 11%   | 21%  | 0%  |
| Sugar and sugar crops   | 0% | 1354% | 845% | -5% |
| Other crops (e.g. vanilla in Madagascar, tobacco in Zimbabwe) | 1% | 29%   | 27%  | 0%  |
| Other animal products (mainly live pigs and poultry)          | 0% | -1%   | 0%   | 0%  |
| Fisheries and processed fish <sup>90</sup>                    | 0% | 109%  | 40%  | 0%  |
| Fossil fuels  | 0% | n.a.  | n.a. | 0%  |
| Mining  | 0% | 0%    | 0%   | 0%  |
| Textiles  | 3% | 103%  | 38%  | 0%  |
| Wearing apparel   | 3% | 101%  | 85%  | 0%  |
| Manufactures n.e.c.   | 2% | 16%   | 1%   | 0%  |
| Iron and steel  | 2% | 7%    | 1%   | 0%  |
| Non-ferrous metals  | 5% | 17%   | 0%   | 0%  |
| Machinery and equipment                                       | 3% | 8%    | -1%  | 0%  |
| Other manufacturing   | 2% | 15%   | 0%   | 0%  |
| Services other than transport                                 | 1% | -2%   | 0%   | 0%  |
| Transport services  | 1% | -1%   | 0%   | 0%  |

Source: DG Trade estimations.

**Table 15: Top 20 EU27 exports to Seychelles, by post-EPA export value**

| Description  | Tariff line | EU27 Exports to Seychelles, in 1,000 EUR | Share in total exports | Estimated growth |
|--|-------------|--|------------------------|------------------|
| Frozen tunas of the genus "Thunnus" (excl. Thunnus alalunga, Thunnus albacares, Thunnus obesus, Thunnus thynnus, Thunnus orientalis and Thunnus maccoyii)  | 30349       | 119,826                                  | 47%                    | 0%               |
| Vessels for pleasure or sports; rowing boats (excl. motor boats and motor yachts powered other than by outboard motors, sailboats and yachts with or without auxiliary motor and inflatable boats) | 890399      | 14,444                                   | 6%                     | 197%             |
| Sailboats and yachts, with or without auxiliary motor, for pleasure or sports  | 890391      | 8,817                                    | 3%                     | 56%              |
| Base metal stoppers, caps and lids (o/than crown corks), threaded bungs, bung covers, seals, other packing accessories and parts   | 830990      | 6,953                                    | 3%                     | 27%              |
| Cans of iron or steel, of a capacity of < 50 l, which are to be closed by soldering or   | 731021      | 3,888                                    | 2%                     | 0%               |

<sup>90</sup> In the modelling, this sector contains also a lot of other processed food products, but where the ESA partner countries are concerned, there is little more than seafood in that sector.

| Description   | Tariff line | EU27 Exports to Seychelles, in 1,000 EUR | Share in total exports | Estimated growth |
|---|-------------|--|------------------------|------------------|
| crimping (excl. containers for compressed or liquefied gas)   |             |  |                        |                  |
| Iron/nonalloy steel products  | 721090      | 2,950                                    | 1%                     | 51%              |
| Sunflower-seed or safflower oil and their fractions, whether or not refined, but not chemically modified (excl. crude)                          | 151219      | 2,219                                    | 1%                     | 55%              |
| Iron/nonalloy steel products  | 721070      | 2,064                                    | 1%                     | 34%              |
| Tinplate, articles nesoi  | 732690      | 1,979                                    | 1%                     | 367%             |
| Boards, panels, consoles, desks, cabinets and other bases, equipped with apparatus for electric control   | 853720      | 1,963                                    | 1%                     | 226%             |
| Edam and gouda cheese   | 40690       | 1,862                                    | 1%                     | 257%             |
| Parts of airplanes and helicopters, nesoi   | 880330      | 1,375                                    | 1%                     | 0%               |
| Frozen meat of swine (excl. carcasses and half-carcasses, and hams, shoulders and cuts thereof, with bone in)                                   | 20329       | 1,340                                    | 1%                     | 0%               |
| Yogurt products   | 40310       | 1,331                                    | 1%                     | 163%             |
| Medical equipment   | 901890      | 1,269                                    | 0%                     | 0%               |
| Nursing equipment   | 392690      | 1,224                                    | 0%                     | 329%             |
| Dishwashing equipment   | 842290      | 1,123                                    | 0%                     | 30%              |
| Parts suitable for use solely or principally with compression-ignition internal combustion piston engine "diesel or semi-diesel engine", n.e.s. | 840999      | 1,031                                    | 0%                     | 0%               |
| Medicaments   | 300490      | 986                                      | 0%                     | 329%             |
| Butter products   | 40510       | 982                                      | 0%                     | 251%             |
| <b>Total EU exports to Seychelles, post-EPA</b>   |             | <b>254,151</b>                           | <b>70%</b>             | <b>26%</b>       |

Table 16: Top 20 Seychelles exports to EU27, by post-EPA export value

| Description  | Tariff line | Seychelles exports to EU27, post-EPA, in 1,000 EUR | Share in total exports | Estimated growth |
|--|-------------|--|------------------------|------------------|
| Prepared or preserved tunas, skipjack and Atlantic bonito, whole or in pieces (excl. minced) | 160414      | 165,541  | 71%                    | 32710548%        |
| Frozen yellowfin tunas "Thunnus albacares"   | 30342       | 23,010   | 10%                    | 119%             |
| Frozen skipjack or stripe-bellied bonito "Euthynnus -Katsuwonus- pelamis"                    | 30343       | 14,843   | 6%                     | 109%             |



| Description  | Tariff line | Seychelles exports to EU27, post-EPA, in 1,000 EUR | Share in total exports | Estimated growth |
|--|-------------|--|------------------------|------------------|
| Light oils and preparations, of petroleum or bituminous minerals which $\geq 90\%$ by volume "incl. losses" distil at $210^{\circ}\text{C}$ "ASTM D 86 method" (excl. containing biodiesel)  | 271012      | 7,513  | 3%                     | 38%              |
| Frozen bigeye tunas "Thunnus obesus"   | 30344       | 6,726  | 3%                     | 112%             |
| Products containing meat of crustaceans, molluscs or other aquatic invertebrates, prepared meals   | 160420      | 3,100  | 1%                     | 603403%          |
| Fresh or chilled yellowfin tunas "Thunnus albacares"   | 30232       | 2,824  | 1%                     | 121%             |
| Mirrors and reflectors used in medical, surgical, dental or veterinary sciences, and parts and accessories thereof   | 901890      | 2,363  | 1%                     | 0%               |
| Fresh or chilled fillets of fish, n.e.s.   | 30449       | 1,203  | 1%                     | 3814023%         |
| Printed circuits, without elements (other than connecting elements) fitted thereon   | 853400      | 948  | 0%                     | 0%               |
| Cod oil and its fractions, other than liver oil  | 150420      | 898  | 0%                     | 74%              |
| Copper spent anodes; copper waste & scrap containing less than 94% by weight of copper   | 740400      | 472  | 0%                     | 0%               |
| Air conditioning machines incorporating a refrigerating unit and a valve for reversal of the cooling-heat cycle "reversible heat pumps" (excl. of a kind used for persons in motor vehicles and self-contained or "split-system" window or wall air conditioning machines) | 841581      | 430  | 0%                     | 14%              |
| NA   | 99SSS9      | 342  | 0%                     | 0%               |
| Fresh or chilled fillets of swordfish "Xiphias gladius"  | 30445       | 283  | 0%                     | 9853853%         |
| Fresh or chilled bigeye tunas "Thunnus obesus"   | 30234       | 247  | 0%                     | 119%             |
| Parts of seats nesoi, for seats of a kind used for motor vehicles  | 940190      | 213  | 0%                     | 20%              |
| Salt & pure sodium chloride, whether or not in aqueous solution or cont. added anticaking or free-flowing agents; sea water  | 250100      | 194  | 0%                     | 20%              |
| Frozen fillets of tuna "of the genus Thunnus", skipjack or stripe-bellied bonito "Euthynnus [Katsuwonus] pelamis"  | 30487       | 186  | 0%                     | 274%             |
| Fresh or chilled fish, n.e.s.  | 30289       | 164  | 0%                     | 131%             |
| <b>Total Seychelles exports to EU27, post-EPA</b>  |             | <b>233,760</b>                                     | <b>99%</b>             | <b>573%</b>      |

## Data gaps

For ESA4 trade with the EU27, we provide Eurostat trade statistics denominated in EUR. For the sake of comparability with respect to trade with non-EU jurisdictions, we also provide to UN Comtrade data for trade in goods. This allows us to analyse the relative performance of goods trade between ESA4 countries and the EU and the performance of goods trade between ESA4 countries and other jurisdictions, i.e. the rest of the world (excluding the EU27), the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). It should be noted that import and exports statistics for ESA4 countries are patchy. Both UN Comtrade and Eurostat data are fragmentary for HS 2 and HS 4 product codes and subject to inconsistencies between product-specific and overall goods trade volumes. Note also that investment data available, both for investment stocks as well as investment flows between the EU and ESA4 countries, is scarce.

## Approach to social, human rights and environmental impacts

These three areas of assessment – social, human rights and environment – are closely linked, and are also closely linked to the assessment of economic impacts. For all three, the assessment follows the Commission's SIA Guidelines, the guidelines for the human rights impacts in SIAs and the Better Regulation Toolbox. Indications for each of these three areas presented in the following sub-sections. The three areas of impacts are assessed in both the brief ex-post evaluation (Task 9) and the SIA (Tasks 13 to 15). The approach for all three follows a common sequence: A. Screening and scoping; B. Detailed assessment; C. Conclusions and recommendations.

*Screening and scoping* builds on the preliminary screening. The screening reviews initial results in that work concerning the trade measures that are likely to have the largest social, human rights and environmental impacts, drawing on further literature to build more detailed causal analysis. The scoping work in turn looks at the details of specific trade measures, building on the preliminary analysis. This work reviews the identification of key economic sectors for attention, as well as the most important social, human rights and environmental issues for analysis.

The *detailed assessment* draws on the study's information gathering work, including literature and data gathering, economic modelling, consultation results and case studies. The assessment identifies impacts compared to the baseline: for the SIA, this baseline is developed based on the results of the ex-post evaluation, which develop the understanding of existing social, human rights and environmental conditions.

The *conclusions and recommendations* for the SIA are presented in the report on Trade and Sustainable Development. Results will also be presented in the six different thematic reports. For a proportionate analysis, we expect to provide a more in-depth analysis for the thematic reports on 1) Trade in Goods, and 2) Trade in Services, Digital Trade and Investment (in addition to the report on Trade and Sustainable Development).

### Social impacts

In line with the Commission's SIA guidelines, the social analysis is based on broadly two pillars: first, an analysis of impacts of trade and economic chapters on key areas related to the social SDGs; second, an analysis of the social provisions of the TSD chapter, in particular concerning implementation of ILO Conventions and of other international policy tools, such as internationally agreed principles and guidelines on corporate social responsibility (CSR) and on responsible business conduct (RBC), such as the UN Guiding Principles on Business and Human Rights.

The detailed assessment draws on stakeholder views on the relevance of the different areas of social development as well as on the magnitude of potential impacts. To the extent possible, modelling results are used to identify potential impacts. Data is gathered and assessed for indicators related to employment (job creation or losses), working conditions (wages, working standards, OSH, social dialogue), equality and non-discrimination, vocational training/re-training/lifelong learning and distribution of income and social protection, in line with the SIA guidelines. To the extent possible, the assessment sought to identify impacts by key groups (such as women and children), and to identify winners and losers. As far as possible, the indicators were chosen from the UN's SDG indicator framework<sup>91</sup>, especially for SDGs 1,2,5,8 and 10. If available, data is

<sup>91</sup> UN General Assembly (2017). Resolution adopted by the General Assembly on 6 July 2017. 71/313. Work of the Statistical Commission pertaining to the 2030 Agenda for Sustainable Development. A/RES/71/313.

presented by sector, skill level and gender. Additionally, we look more closely at the implementation of labour policy (e.g. adoption/revision of labour laws, labour inspections, institutional aspects), in particular, the cases identified in the NORMLEX database (see section 5 and Annex XIII, which provides an example of this type of analysis).

#### *Human rights impacts*

The further screening and scoping builds on the preliminary results (see section 5) to help further understand: a) which rights are more directly trade related and likely to be directly affected by the trade measures b) which are the major vs. minor impacts of the selected measures; c) which measures have a beneficial or negative impact on human rights; d) which segments of the population (women, indigenous people and ethnic groups, etc.) are more likely to be impacted. In doing so, both the Fundamental Rights Checklist in Tool No. 28 of the Better Regulation Box and the SIA human rights guidelines are used. The detailed assessment draws on a range of information. The stakeholder consultation together with the case study results are expected to be key sources.

#### *Environmental impacts*

The analysis of environmental impacts, as per the SIA Handbook<sup>92</sup>, considers several key dimensions: *scale* and *structural* effects; and *technology* effects (alongside which we propose to add *environmental management* effects); plus *governance* effects, also added to the dimensions set out in the Handbook.

The assessment of *scale* and *structural* effects draws on the economic analysis, in particular the identification of key sectors that could be affected by the deepening of the EPA. The SIA handbook refers to *technology* effects as ‘those affecting the processes or production methods’. We understand these to include access to process equipment as well as *environmental management* techniques. New equipment and methods could be more efficient, economically, and new methods may be introduced to improve access to higher value EU markets, such as those for organic agriculture and food products. EU investment can be a driver for technology and management effects, and EU development cooperation could also play a role. We sought information on possible technology effects via the literature review and in particular draw on the consultation results for information on the extent to which agreements with the EU, ongoing trade with the EU and FDI from EU-based enterprises are improving the environmental efficiency of production in ESA countries.

The analysis of *governance* effects considers two areas. First, for multilateral environmental agreements (MEAs), the preliminary screening (see section 5 and Annex XIV) shows that the five ESA countries have ratified many of the main MEAs commonly set out in EU trade and partnership agreements.

## **Annex III. Intervention Logic and Evaluation Matrix**

The European Commission has developed a preliminary intervention logic for the EPA in the Terms of Reference for this assignment, which we have revised based on the kick-off meeting and consultations with EU officials (such as the EU Delegations in the ESA5 countries). To represent this evolution visually, the cells in grey represent elements in force already under the current agreement (and therefore subject to the ex-post evaluation), while cells in light blue represent new elements, part of the deepening process (and therefore subject to the SIA), while cells in green represent elements in place already under the current agreement, but to be reinforced under the deepening process.

<sup>92</sup> European Commission, *Handbook for trade sustainability impact assessment (second edition)*, April 2016

Figure 13: Intervention logic

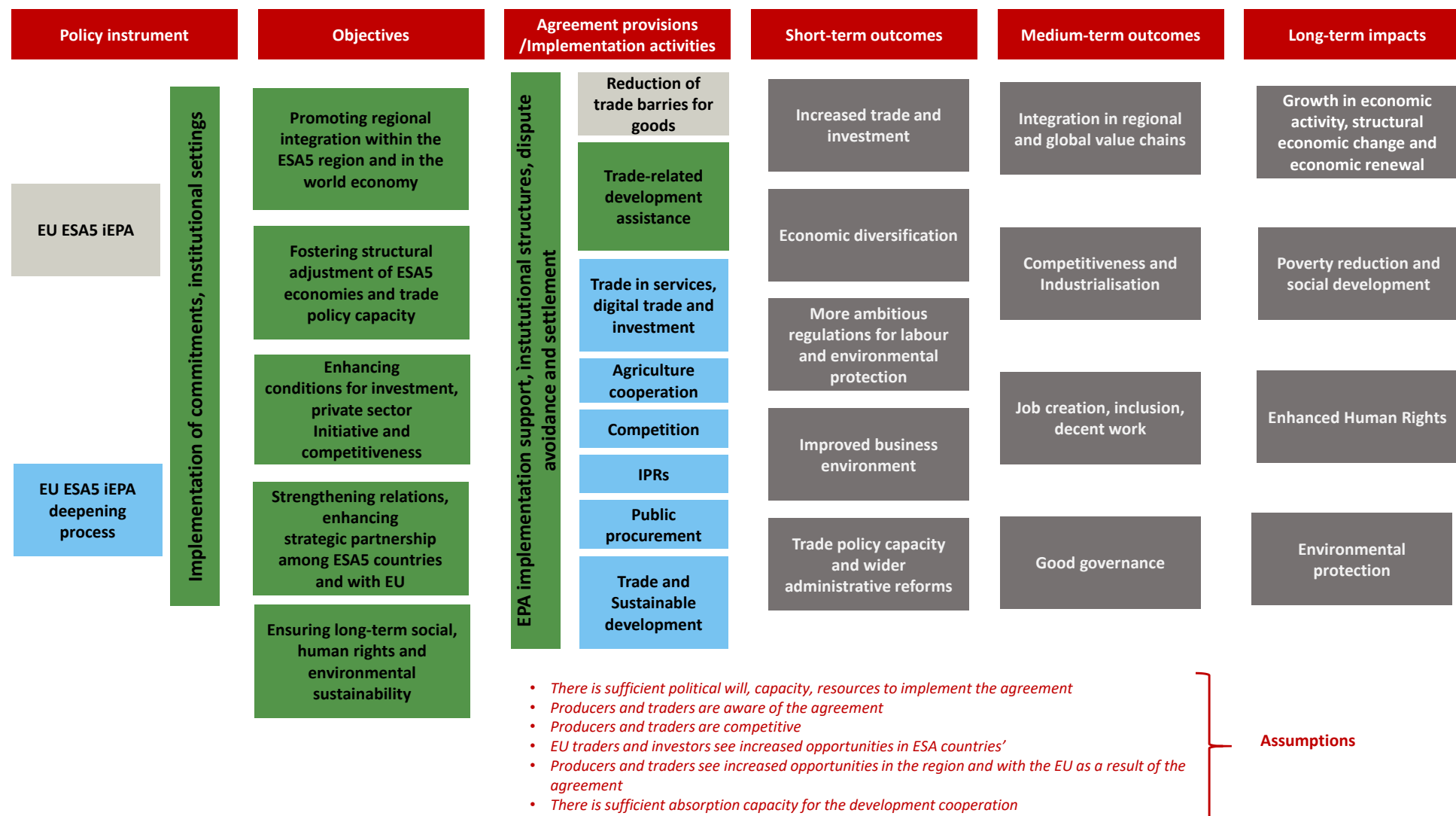


Table 17: Evaluation Matrix

| Evaluation questions  | Judgement criteria   | Indicators  | Sources  |
|---|--|---|--|
| <b>Effectiveness</b>  |  |   |  |
| To what extent have the objectives of the existing interim EPA been achieved? | <p><u>Economic impacts</u></p> <ul style="list-style-type: none"> <li>Extent to which bilateral trade has developed between the EU and ESA countries;</li> <li>Extent to which overall trade has developed between the EU and ESA countries</li> <li>Extent to which economic growth and diversification have developed as a result of the interim EPA;</li> <li>Extent to which poverty has reduced as a result of the interim EPA</li> <li>Extent to which foreign investments have increased as an effect of the interim EPA;</li> <li>Extent of fiscal improvements as an effect of the interim EPA;</li> <li>Extent to which <u>governance and business environment</u> have improved as an effect of the interim EPA (especially for SMEs)</li> <li>Extent to which <u>consumer</u> prices and safety have improved in ESA countries as an effect of the interim EPA;</li> <li>Extent to which product variety and quality have improved as an effect of the interim EPA;</li> <li>Effects on <u>regional integration</u> and third parties: effects on regional integration in the ESA region, under e.g. COMESA, SADC or AfCFTA, effects on EU's outermost regions and on Least Developed Countries (LDC).</li> </ul> <p><u>Social impacts</u></p> <ul style="list-style-type: none"> <li>Extent to which employment, jobs and wages have improved as an effect of the interim EPA (per gender per socio-</li> </ul> | <p><u>Economic impacts:</u> Results of the analysis for the following tasks:</p> <ul style="list-style-type: none"> <li>Analysis of the level of tariff liberalisation, utilisation of market access tariffs, analysis of trade barriers (from task 6)</li> <li>Evolution of application of Rules of Origin (from task 7)</li> <li>Evolution of trade in goods overall and for the ESA 5 countries individually (from task 8)</li> <li>Overall economic impacts: key macroeconomic and sectoral variables (from task 9)</li> <li>Evolution of FDI between EU and ESA5 countries (from task 9)</li> <li>Impact on diversification of bilateral trade (from task 8)</li> <li>Impact on Consumer (consumers' quality and protection, product variety and quality) (from task 10)</li> <li>Impact on budget and fiscal of the EU and of partner countries: budgetary effects, reduction of dependence on tariff revenues and revenue diversification (from task 10);</li> <li>Impacts on regional integration (from tasks 8, 9 and 10)</li> </ul> <p><u>Social impacts:</u> Results of the analysis of the following tasks</p> <ul style="list-style-type: none"> <li>Assessment of trade-related development assistance to ESA5 countries (from task 10)</li> <li>Institutional structure established by or resulting from the interim EPA (from task 10)</li> </ul> | <p><u>Sources:</u></p> <ul style="list-style-type: none"> <li>Interviews</li> <li>Desk research</li> <li>Stakeholders consultations</li> <li>Results from CGE model</li> </ul> |

| Evaluation questions   | Judgement criteria   | Indicators  | Sources  |
|--|--|---|--|
|  | <p>demographic group, including vulnerable groups, when available);</p> <ul style="list-style-type: none"> <li>▪ Extent to which inequality and poverty have reduced as an effect of the interim EPA (per gender per socio-demographic group, including vulnerable groups, when available);</li> <li>▪ Extent to which labour rights, labour standards and working conditions have improved as an effect of the interim EPA (per gender per socio-demographic group, including vulnerable groups, when available);</li> <li>▪ Extent to which respect of human rights has improved as an effect of the interim EPA (per gender per socio-demographic group, including vulnerable groups, when available);</li> <li>▪ Extent to which women's conditions have improved as an effect of the interim EPA.</li> </ul> <p><u>Impacts on environment and climate</u></p> <ul style="list-style-type: none"> <li>▪ Extent to which respect of environmental standards has improved as an effect of the interim EPA</li> </ul> | <ul style="list-style-type: none"> <li>▪ Develop an analysis of the effects on poverty in ESA5 countries (from tasks 9 and 10)</li> <li>▪ Impacts on Informal Economy and Informal Employment (from tasks 9 and 10)</li> <li>▪ Impact on gender inequality (from task 9)</li> <li>▪ Identify and assess measures that have enhanced or impaired enjoyment of specific human rights (from tasks 9 and 10)</li> <li>▪ Identify individuals or specific groups mostly affected by the effects of the interim EPA implementation (from tasks 9 and 10)</li> </ul> <p>Environmental impacts on EU and ESA5 countries; Results of the analysis of the following tasks (from tasks 9 and 10), including:</p> <ul style="list-style-type: none"> <li>▪ exports and investments in sectors such as agriculture, mining and forestry</li> <li>▪ natural resources and biodiversity</li> <li>▪ key environmental parameters (soil, water, forestry, air, etc.)</li> <li>▪ climate, in particular GHG and air pollution changes (carbon footprint)</li> <li>▪ better implementation and enforcement of environmental policy and legislation</li> <li>▪ resource efficiency, greening and decarbonisation</li> </ul> |  |
| Has the EPA with ESA4 given rise to unintended consequences? ( <i>related to task 11</i> ) | <ul style="list-style-type: none"> <li>▪ What social, human rights, environmental and/or economic impacts have resulted from the interim EPA which were not intended by the agreement?</li> <li>▪ Have there been any positive unintended effects?</li> <li>▪ Have there been any negative unintended effects?</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Identification of effects of the interim EPA on environment, labour or human rights;</li> <li>▪ Identification of positive/negative side effects of the Agreement in the EU, ESA5 countries and third countries;</li> <li>▪ Results from tasks 6-11, and in particular:</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Interviews</li> <li>▪ Desk research</li> <li>▪ Stakeholders consultations</li> <li>▪ Results of tasks 6-10</li> </ul> |



| Evaluation questions  | Judgement criteria   | Indicators  | Sources   |
|---|--|---|---|
|   |  | <ul style="list-style-type: none"> <li>○ Assess whether and to what extent impacts identified in the preparatory phase of the interim EPA have taken place;</li> <li>○ Evaluation of awareness of the interim EPA, and obstacles to the implementation of the interim EPA (from task 6)</li> <li>○ Impact on gender inequality;</li> <li>○ Identification of stakeholder groups that have been affected by the Agreement in an unintended manner</li> </ul>   |   |
| Which sectors, activities, groups or countries in ESA4 have benefited most as a result of the EPA and which ones have incurred losses due to the EPA? <i>(related to task 11)</i> | <ul style="list-style-type: none"> <li>▪ Extent to which some sectors, activities or groups in ESA4 countries have benefited most from the interim EPA?</li> <li>▪ Extent to which some sectors, activities or groups in ESA4 countries have benefited less from the interim EPA?</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Identification and comparison of transfers and net effects of the interim EPA on specific sectors, activities or groups (from tasks 9 and 10)</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Desk research'</li> <li>▪ Interviews</li> <li>▪ Stakeholders consultation</li> <li>▪ Results of tasks 6-10</li> </ul>  |
| What good practices and lessons learned on EPA implementation on both the ESA and the EU side?  | <ul style="list-style-type: none"> <li>▪ Provisions and/or implementation measures that have proved most effective/efficient/relevant in the EU and in the ESA5 countries'</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Identification and analysis of provisions and/or implementation measures that have proved most effective/efficient/relevant in the EU and in the ESA5 countries</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Interviews</li> <li>▪ Desk research</li> <li>▪ Stakeholders consultations</li> <li>▪ Results of tasks 6-10</li> <li>▪ Results of evaluation questions for efficiency, relevance and coherence</li> </ul> |
| <b>Efficiency</b>   |  |   |   |
| To what extent has the interim EPA been efficient with respect to achieving its objectives?   | <ul style="list-style-type: none"> <li>▪ What costs have been involved in the implementation of the interim EPA (e.g. forgone tariff revenue, costs of committees/working groups)?</li> <li>▪ How do these costs compare to the benefits, e.g. in terms of GDP increases, increases in employment and salaries?</li> <li>▪ Extent to which the costs and benefits associated with Agreement are shared proportionately among the different stakeholders' groups and interests</li> </ul> | <ul style="list-style-type: none"> <li>▪ Identification of input and cost types related to the implementation of the interim EPA</li> <li>▪ Calculation of economic impact of the implementation of the interim EPA</li> <li>▪ Analysis of the tariff preference utilisation rate</li> <li>▪ Estimation of overall budgetary consequences of the agreement by considering effects of GDP, forgone tariff revenues due to tariff reductions, and changes in trade volumes with other trade partners</li> </ul> | <p><u>Sources:</u></p> <ul style="list-style-type: none"> <li>▪ Interviews</li> <li>▪ Desk research</li> <li>▪ Stakeholders consultations</li> </ul>  |

| Evaluation questions  | Judgement criteria   | Indicators   | Sources  |
|---|--|--|--|
|   |  | <ul style="list-style-type: none"> <li>Results of the analysis of the following tasks: <ul style="list-style-type: none"> <li>Overall economic impacts: key macroeconomic and sectoral variables</li> <li>Evolution of trade in goods and FDI between EU and ESA5 countries;</li> <li>Impact on diversification of bilateral trade</li> <li>Impact on budget of the EU and of partner countries</li> </ul> </li> <li>Identification of the costs associated with the Agreement;</li> <li>Identification of the costs and benefits related to the Agreement assumed by the different stakeholders' groups</li> <li>Results of the analysis of the following tasks (and sub-tasks): <ul style="list-style-type: none"> <li>Task 10 Impact on Consumers</li> <li>Task 10 on social impacts</li> </ul> </li> </ul> |  |
| Are there unnecessary regulatory costs (including administrative burden)?   | Extent to which the interim EPA has not brought additional/unnecessary costs, including administrative burden, or reduced administrative and regulatory costs                                      | <ul style="list-style-type: none"> <li>Results of the analysis of the following task: <ul style="list-style-type: none"> <li>Evaluation of awareness of the interim EPA, and obstacles to the implementation of the interim EPA (from task 6)</li> <li>impact of customs and trade facilitation-related provisions on simplification for producers, exporters, forwarders and customs administration (tasks 6 and 7)</li> </ul> </li> </ul>  | <p><u>Sources:</u></p> <ul style="list-style-type: none"> <li>Interviews</li> <li>Desk research</li> <li>Stakeholders consultations</li> </ul> |
| <b>Relevance</b>  |  |  |  |
| To what extent do the provisions of the interim EPA are relevant in order to address the current trade needs and issues of the EU and ESA5 countries? | <ul style="list-style-type: none"> <li>What are the current trade issues faced by the EU and ESA5 countries?</li> <li>Extent to which the Agreement can be used to address these issues</li> </ul> | <ul style="list-style-type: none"> <li>Identification of key trade issues and barriers not arising from non-implementation currently faced by the EU, and ESA5 countries, by sector and type of barrier</li> </ul>   | <ul style="list-style-type: none"> <li>Interviews</li> <li>Desk research</li> <li>Stakeholders consultations</li> </ul>                        |

| Evaluation questions   | Judgement criteria   | Indicators  | Sources  |
|--|--|---|--|
|  | <ul style="list-style-type: none"> <li>Number and importance of issues which are unlikely to be addressed by the Agreement</li> <li>Extent to which development cooperation can be used to address current trade and development issues.</li> </ul>  | <ul style="list-style-type: none"> <li>Stakeholders' opinions concerning the possibility of the interim EPA to address the current issues</li> <li>Stakeholders' opinions on issues which may not be resolved through the interim EPA, and their importance</li> <li>Evaluation of awareness of the interim EPA, and obstacles to the implementation of the interim EPA (from task 6)</li> </ul>  |  |
| What are the shortcomings of the existing EPA that need to be addressed in the deepening negotiations?                               | <ul style="list-style-type: none"> <li>Extent to which the current interim EPA leaves some needs of EU and/or ESA5 countries unmet</li> <li>Extent to which the current interim EPA does not cover relevant sectors or activities</li> </ul>   | <ul style="list-style-type: none"> <li>Identification of key trade issues and barriers not arising from non-implementation currently faced by the EU, and ESA5 countries, by sector and type of barrier</li> </ul>  | <ul style="list-style-type: none"> <li>Interviews</li> <li>Desk research</li> <li>Stakeholders consultations</li> <li>Results of tasks 6-10</li> </ul> |
| <b>Coherence</b>   |  |   |  |
| To what extent has the interim EPA been coherent with other policy instruments of the EU affecting the ESA region and other partners | <ul style="list-style-type: none"> <li>Extent to which objectives of the interim EPA align with the principles of current EU trade policy (e.g., with regard to GSP countries)</li> <li>Extent to which objectives of the interim EPA align with the principles of current EU trade policy in the ESA region;</li> <li>Extent to which there are contradictions between the interim EPA and other EU policy instruments in the ESA region (e.g. development cooperation policies) ;</li> </ul> | <ul style="list-style-type: none"> <li>Reviewing provisions of the interim EPA;</li> <li>Identification of areas of (lack of) coherence between the interim EPA and EU trade and development policies <ul style="list-style-type: none"> <li>Number and type (and possibly extent) of contradictions;</li> <li>Number and type (and possibly extent) of synergies.</li> </ul> </li> <li>Identification of areas of (lack of) coherence between the interim EPA and EU trade and development policies in the ESA region <ul style="list-style-type: none"> <li>Number and type (and possibly extent) of contradictions;</li> <li>Number and type (and possibly extent) of synergies</li> </ul> </li> </ul> | <u>Sources</u> <ul style="list-style-type: none"> <li>Interviews</li> <li>Desk research</li> <li>Stakeholders consultations</li> </ul>                 |