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Towards inclusive European CSR policy

Analysing the impacts of the
EU corporate sustainability
directive on LDC trade

**Ministry for Foreign
Affairs of Finland**

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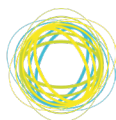
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Towards inclusive European CSR legislation Analysing the impacts of the EU corporate sustainability directive on LDC trade

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Abstract

In 2022, the European Commission adopted the proposal for the corporate sustainability due diligence directive to advance the green transition and protect human rights in the EU and beyond. The proposed new directive would compel EU companies of substantial size and economic power, as well as companies in identified high-impact sectors that operate in the EU to identify, prevent and mitigate the adverse impacts of their activities on human rights and the environment. This study draws from the literature on corporate social responsibility in global value chains, non-tariff measures, and inclusive trade, as well as insights from the Ethiopian garments industry and the Tanzanian coffee sector to analyse the potential impacts of this directive on least developed countries' value chains and trade with the EU. Although the directive only directly applies to larger companies operating in the EU, this study highlights the likelihood of the directive's far-reaching impacts on small-scale suppliers, small-holder farmers, workers, and communities in the least developed countries. The study offers recommendations to address the shortcomings of the directive as well as the accompanying measures to European governments to minimise unintended impacts and promote inclusive trade between the EU and least developed countries.

Provision

This report is commissioned as part of UniPID Development Policy Studies (UniPID DPS), funded by the Ministry for Foreign Affairs of Finland (MFA) and managed by the Finnish University Partnership for International Development (UniPID). UniPID is a network of Finnish universities established to strengthen universities' global responsibility and collaboration with partners from the Global South, in support of sustainable development. The UniPID DPS instrument strengthens knowledge-based development policy by identifying the most suitable available researchers to respond to the timely knowledge needs of the MFA and by facilitating a framework for dialogue between researchers and ministry officials. The content of this report does not reflect the official opinion of the Ministry for Foreign Affairs of Finland. The responsibility for the information and views expressed in the report lies entirely with the authors.

Keywords

Corporate sustainability, due diligence, Corporate social responsibility (CSR), global value chains, human rights, inclusive trade, least developed countries, Tanzania, Ethiopia, Coffee, Garments industry

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Kohti inklusiivista eurooppalaista yritysvastuupolitiikkaa Analyysi EU:n yritysvastuudirektiivin vaikutuksista vähiten kehittyneiden maiden kauppaan

Ulkoministeriön julkaisuja 2023:5

Julkaisija Ulkoministeriö

Tekijä/t Neema Komba, Linda Annala Tesfaye, Eva Nilsson, Nikodemus Solitander, Silke Trommer, Boris Verbrugge & Greta Andersson

Kieli Englanti

Sivumäärä

104

Tiivistelmä

Euroopan komissio julkaisi vuonna 2022 direktiiviehdotuksen yritysten kestäväää toimintaa koskevasta huolellisuusvelvoitteesta. Ehdotuksen tavoitteena on edistää vihreää siirtymää ja suojella ihmisoikeuksia sekä EU:ssa että globaalilla tasolla. Uusi esitetty direktiivi velvoittaa suuria EU-alueella perustettuja ja toimivia yrityksiä sekä korkeilla riskisektoreilla liiketoimintaa harjoittavia yrityksiä tunnistamaan, ehkäisemään sekä lieventämään toiminnastaan aiheutuvia haitallisia ihmisoikeus- ja ympäristövaikutuksia. Tämä tutkimus perustuu yritysten sosiaalista vastuuta globaaleissa arvoketjuissa käsittelevään tutkimukseen sekä tullien ulkopuolisen kauppasääntelyn ja inklusiivisen kaupan kirjallisuuteen. Analyysiä direktiivin mahdollisista vaikutuksista vähiten kehittyvien maiden arvoketjuihin sekä EU-kauppaan täydennettiin empiirisillä kartoituksilla Etiopian vaate- ja tekstiiliteollisuudesta sekä Tansanian kahvisektorilta. Vaikka direktiivi koskee ainoastaan suurimpia EU:n alueella toimivia yrityksiä, tämä tutkimus korostaa direktiivin todennäköisiä laajamittaisia vaikutuksia pieniin toimittajiin, pienviljelijöihin, työntekijöihin sekä yhteisöihin vähiten kehittyneissä maissa. Raportissa listataan suosituksia direktiivin puutteiden korjaamiseksi sekä liitännäistoimenpiteitä Euroopan valtioille tahattomien haittojen minimoimiseksi sekä EU:n ja vähiten kehittyneiden maiden inklusiivisen kaupan edistämiseksi.

Klausuuli

Tämä raportti on osa ulkoministeriön rahoittamia ja UniPID-verkoston hallinnoimia kehityspoliittisia selvityksiä (UniPID Development Policy Studies). Finnish University Partnership for International Development, UniPID, on suomalaisten yliopistojen verkosto, joka edistää yliopistojen globaalivastuuta ja yhteistyötä globaalien etelän kumppanien kanssa kestävään kehityksen saralla. Kehityspoliittinen selvitysyhteistyö vahvistaa kehityspolitiikan tietoperustaisuutta. UniPID identifioi sopivia tutkijoita vastaamaan ulkoministeriön ajankohtaisiin tiedontarpeisiin ja fasilitoi puitteet tutkijoiden ja ministeriön virkahenkilöiden väliselle dialogille. Tämän raportin sisältö ei vastaa ulkoministeriön virallista kantaa. Vastuu raportissa esitetyistä tiedoista ja näkökulmista on raportin laatijoilla.

Asiasanat

kestävä liiketoiminta, huolellisuusvelvoite, yritysvastuu, globaalit arvoketjut, ihmisoikeudet, inklusiivinen kauppa, vähiten kehittyneet maat, Tansania, Etiopia, kahvi, vaateala

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Mot en inkluderande europeisk företagsansvarspolitik

Analys av effekterna av EUs direktiv om tillbörlig aktsamhet på de minst utvecklade ländernas handel

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Utgivare Utrikesministeriet

Författare Neema Komba, Linda Annala Tesfaye, Eva Nilsson, Nikodemus Solitander, Silke Trommer, Boris Verbrugge & Greta Andersson

Språk Engelska

Sidantal

104

Referat

Under året 2022 antog Europeiska kommissionen ett förslag till direktiv om tillbörlig aktsamhet för företag i fråga om hållbarhet. Direktivet antogs för att möjliggöra grön omställning samt skydda mänskliga rättigheter, såväl i Europa som globalt. Det föreslagna direktivet kräver europeiska företag av betydande storlek och med stor ekonomisk påverkan, samt företag inom specifika riskindustrier verksamma inom EU, att identifiera, motverka, samt mildra negativa effekter som deras verksamhet förorsakar på miljön och mänskliga rättigheter. Baserat på forskningslitteratur kring företagsansvar i globala värdekedjor, icke-tariffära åtgärder, inkluderande handel, samt empiriska insikter från konfektionsindustrin i Etiopien och kaffeindustrin i Tanzania, analyserar denna studie direktivets möjliga inverkan på värdekedjor i minst utvecklade länder (MUL), samt på MUL-EU handel. Även om direktivet har en direkt inverkan endast på storföretag verksamma inom EU, visar denna studie hur dess implementering genom storföretagens värdekedjor troligen kommer att ha långtgående konsekvenser för mindre leverantörer, småbrukare, arbetstagare, samt lokalsamhällen i minst utvecklade länder. Studien presenterar rekommendationer för hur direktivets identifierade brister borde hanteras, samt hur europeiska regeringar kunde minimera oönskade följder och främja inkluderande handel mellan EU och minst utvecklade länder.

Klausul

Denna rapport är beställd som en del av UniPID Development Policy Studies (UniPID DPS), finansierad av Finlands Utrikesministerium (MFA), och hanterad av Finnish University Partnership for International Development (UniPID). UniPID är ett nätverk av finska universitet som etablerats för att stärka universitetens globala ansvar och samarbete med partner från det södra halvklotet, till stöd för en hållbar utveckling. UniPID DPS-verktyget stärker en kunskapsbaserad utvecklingspolicy genom att identifiera de mest lämpliga, tillgängliga forskarna för att svara på utrikesministeriets kunskapsbehov i rätt tid och att underlätta ett ramverk för en dialog mellan forskare och departementstjänstemän. Innehållet i denna rapport återspeglar inte Finlands utrikesministeriums officiella uppfattning. Ansvaret för informationen och åsikterna i rapporten ligger helt på författarna.

Nyckelord

hållbar affärsverksamhet, tillbörlig aktsamhet, företagsansvar, globala värdekedjor, mänskliga rättigheter, inkluderande handel, minst utvecklade länder, Tanzania, Etiopien, kaffe, konfektionsindustri

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FOREWORD

The Ministry for Foreign Affairs has worked with responsible business conduct for over a decade. During the past years, the Ministry has closely collaborated with the Ministry of Economic Affairs and Employment, business, and civil society to elaborate, what due diligence – an ongoing process where businesses identify, prevent, mitigate, and cease adverse impacts caused by their own operations or business partners and provide remedy, when appropriate – means in different sectors, supply chains, or operating environments.

Since 2019, guided by the Programme of Prime Minister Sanna Marin's Government, the focus has been on how due diligence could be translated into legally binding obligation. The Ministry of Economic Affairs and Employment published an assessment memorandum on national due diligence obligation, where it was noted that the country of operation plays a role in how the objects of due diligence legislation – respect of human rights, environmental protection – can be met.¹ In February 2022, the European Commission published its proposal for a Directive on Corporate Sustainability Due Diligence. This would place a due diligence obligation on human rights and the environment to large companies and smaller, certain risk sector companies operating in the EU.

Both the national assessment memorandum and the draft directive include assessments on impacts to human rights, the environment, and EU companies, but very little assessment on how the directive would impact developing countries, their companies and trade. As such a legislation is quite new, we as legislators have little experience on its practical application or impacts. The unknown impacts have been a specific concern to our sustainable trade unit, as we work with both responsible business conduct and encouraging business in least developed countries (LDCs) to part take in EU value chains.

1 Piiro, Linda and Teräväinen, Sami (Ministry of Economic Affairs and Employment, Helsinki 2022): Memorandum on the due diligence obligation: Review of the national corporate social responsibility act, <http://urn.fi/URN:ISBN:978-952-327-795-3>. Retrieved 8 March 2023.

This is why our unit requested studies to:

- i. Assess impact of the proposed legislation on the ability of particularly LDCs to participate in EU supply chains and the impact on their economies (e.g. jobs).
- ii. Identify key bottlenecks that prevent LDCs from participating in EU supply chains as well as measures that mitigate negative impact.
- iii. Propose options for Finland to support LDCs in meeting requirements of the proposed legislation.

Furthermore, we requested the studies to approach the research topic by focusing on two developing countries, preferably LDCs, relevant to Finland's development cooperation. The studies should also focus on supply chains both in primary production and in manufacturing. We have identified these as key "unknowns" on which we need to know more about in order to a) fulfil the objectives of the due diligence legislation and b) support developing countries and their companies to be a part of EU value chains in the future too.

We are fortunate to have received two excellent research proposals that examine the topic from two different perspectives. The report at hand prepared by an international research team lead by the Hanken School of Economics analyses the implications of the proposed legislation on trade between Europe and developing countries. It considers particularly the textiles and garment manufacturing value chain in Ethiopia and the coffee production value chain in Tanzania, offering insights into the economic and social implications of the proposed legislation. The report offers recommendations to improve the proposed legislation and proposes accompanying measures to support LDC suppliers to cope with the regulatory changes.

The second report titled [The proposed EU Corporate Sustainability Due Diligence Directive and its impact on LDCs: A legal Analysis](#) and prepared by an international research team lead by the University of Vaasa, provides a rich analysis of the proposed legislation particularly from a legal point of view, complementing the analysis of the first report. It offers insights into its implications of the proposed legislation for developing countries by considers the cases of Tanzania and the Democratic Republic of Congo.)

The two reports provide independent assessments by the researcher teams of the proposed EU legislation on corporate sustainability due diligence and its implication for developing countries. We are confident that the findings of these reports will contribute significantly to discussions concerning the proposed legislation and will support in

identifying measures to assist companies operating in developing countries to meet requirements of the proposed legislation. We would also like to thank both research teams for their excellent work and giving their expertise to these studies.

We are greatly indebted to the UniPID network of Finnish Universities for facilitating the two research reports starting from the call for proposals, to managing contracts and ensuring the successful publication of the reports. We would in particular like to thank Kelly Brito for her professional support throughout the process.

Commercial Counsellor Linda Piirto and Commercial Counsellor Antti Piispanen,
Sustainable Trade Department for International Trade, Ministry for Foreign Affairs

1 Executive Summary

This study analyses the implications of the proposed EU directive on corporate sustainability due diligence (EU CSDDD) on trade between Europe and developing countries with a particular focus on Least Developed Countries (LDCs). It brings together academic literatures that have remained separate until now, namely those of Corporate Social Responsibility compliance in global value chains, non-tariff measures (NTMs) and inclusive trade to estimate the impacts of the directive on LDCs. To assess the directive's potential impacts, the report analyses two case value chains affected by the EU CSDDD: the textiles and garment manufacturing value chain in Ethiopia and the coffee production value chain in Tanzania. Both Tanzania and Ethiopia are Finland's long-term development cooperation partners in Africa. In this report, impacts have been analysed through the lens of the above-mentioned academic literatures as well as Finland's cross-cutting development policy objectives (gender equality, non-discrimination, climate resilience and low-emission development).

The EU is one of the most important trade partners for LDCs, and the EU CSDDD will likely further burden and limit the already marginalised LDCs' engagements in global value chains. Although the directive only directly targets large corporations operating in the EU and does not intend to be discriminatory, our findings indicate that it will have far-reaching impacts on value chains, suppliers and local actors from LDCs. Extant research shows that mandatory due diligence legislation tends to encourage risk-averse behaviour within companies, resulting in disengagement from certain suppliers or value chains particularly from LDCs. Similarly, the EU CSDDD does not provide incentives for meaningful engagement between EU companies, and companies and stakeholders in the LDCs. The directive explicitly promotes 'contractual cascading' to business partners that often goes hand in hand with the cascading of costs and responsibilities towards suppliers in LDCs. Furthermore, industry schemes, multi-stakeholder initiatives, and associated third-party verification mechanisms are both explicitly and implicitly promoted, raising concerns about the replication of their known shortcomings.

LDCs' ability to comply with new standards and, on a broader level, support the upgrading of value chains would determine whether they are able to maintain their trade levels with the EU. However, the stringent requirements of the directive raise the question of whether the EU would maintain or expand its relations with LDC producers and suppliers. Although the EU has often had relatively more stringent requirements compared to other markets,

the extent to which the new directive would impact trade depends on the importance (and competitiveness) of the EU as a market for different products. The attractiveness of the EU market would also determine, to a certain extent, the LDCs' will to invest in closing the regulatory gap or building their capacities to meet new requirements. However, local companies and producers from LDCs may not have the resources or technical capacity to close the gap on their own. In such situations, technology and knowledge transfer as well as technical assistance may be a standard remedy to ensure that local companies and producers can continue to participate in the value chain.

Different factors such as commodity dependence, limited market diversity, regulatory gaps and constrained resources on the part of LDCs would increase a particular LDC's sensitivity to the impact of new regulations like the EU CSDDD. Through our case reports of the garment sector in Ethiopia and the coffee sector in Tanzania, we suggest country- and sector-specific sensitivity assessment to be more useful than a macro-level approach assessing the impacts of the EU CSDDD. Furthermore, an inclusive trade lens in our analysis recognises that trade in global supply chains affects social inequalities (along the lines of gender, race, indigeneity, ableism, etc.), labour relations, environmental conditions, and good governance principles, such as transparency and inclusion. As such, the broader impact of trade must take stock of the conditions in which people affected by it live and work, as we have tried to do in the analysis. Our analysis of the inclusiveness of the EU CSDDD itself found shortcomings in its capacity, transparency and engagement dimensions, because the directive does not take into account, nor does it work to address the capacity constraints and vulnerabilities that local communities in LDCs face. Should abuses continue despite the due diligence approach prescribed in the directive, it is unlikely that this information would become known to governments, unless implementation of the directive engages in capacity building with grassroots.

In this report, we offer recommendations to policy makers that address shortcomings of the EU CSDDD as well as the accompanying measures to support LDC suppliers to cope with the regulatory changes and to enable effective access to complaints procedures for affected communities in LDCs. The recommendations for the EU CSDDD include:

1. Promoting responsible supplier engagement and discouraging irresponsible cascading in the directive.
2. Integrating fair purchasing practices into the due diligence legislation that encourage the engagement of diverse and local stakeholders on an equal footing.
3. Making the EU CSDDD more coherent with the broader EU trade for all strategy which prioritises inclusive trade.

The recommendations for accompanying measures that EU member states could implement include:

1. Providing targeted support for initiatives that encourage inclusive due diligence through the engagement of diverse and local actors, and that address the needs of economically marginalised communities.
2. Monitoring the implementation of the EU CSDDD and supporting Civil Society Organisations (CSOs) and labour unions that can keep value chain actors accountable.
3. Raising awareness to LDC governments and CSOs and supporting their efforts to adjust to the directive.
4. Leading by example in implementing inclusive due diligence measures to the operations of state-owned companies, DFIs, and public procurement.
5. Increasing transparency in value chains and improving public accessibility of due diligence instruments.
6. Creating greater convergence between different (often competing) private sustainability standards and certification schemes.

2 Introduction

In order to meet the UN Sustainable Development Goals and the European Green Deal, as well as to ensure alignment with guiding frameworks such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs), the European Union has proposed¹ a new Corporate Sustainability Due Diligence Directive (CSDDD). The CSDDD will require firms active in the European single market to meet human rights and environmental standards in their global value chains (see highlighted overview below). In addition to the fulfilment and alignment with international agreements, the directive is indicative of a growing demand from European consumers for more sustainable products across industries (Tigan et al., 2021; Vătămănescu et al., 2021). The timing of the directive is urgent, since a vast body of literature, including recent studies (Nolan & Frishling, 2020; Tran-Nguyen et al., 2021), suggests that human rights due diligence (HRDD) is not implemented systematically among large companies. Moreover, the public availability regarding information on due diligence processes and assessment information is poor, despite it being almost a decade since the publication of the UNGPs.

1 In this report, the authors have used the text within the 'Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937; COM(2022)71, Brussels, 23.2.2022 as the main source – thus, if not explicitly mentioned it does not include e.g. the negotiating position ('general approach') of the European Council published on November 30th, 2022. For the case studies selected, however, the amendments put forward by the Council do not affect the sample or the analysis.

Overview of the EU CSDDD (source: European Commission, 2022a)

- Specified due diligence obligations of firms: Annually updated due diligence policy; Identification of adverse human rights and environmental impacts arising from own operations in extended supply chains; Prevention and mitigation of adverse human right and environmental impacts; Establishment of grievance mechanism; Monitoring the effectiveness of CSDD measures; Annual, public communication of CSDD measures/results
- Scope: 500+ employees & > €150 million turnover²; OECD risk sectors: 250+ employees & > €40 million turnover²; While SMEs are excluded they will be indirectly affected through supplier relations in global value chains
- Enforcement mechanisms: Government supervision (national authority to impose sanctions, exert control; establishment of European Network of Supervisory Authorities); Civil liability (through provisions of national law of EU member states)

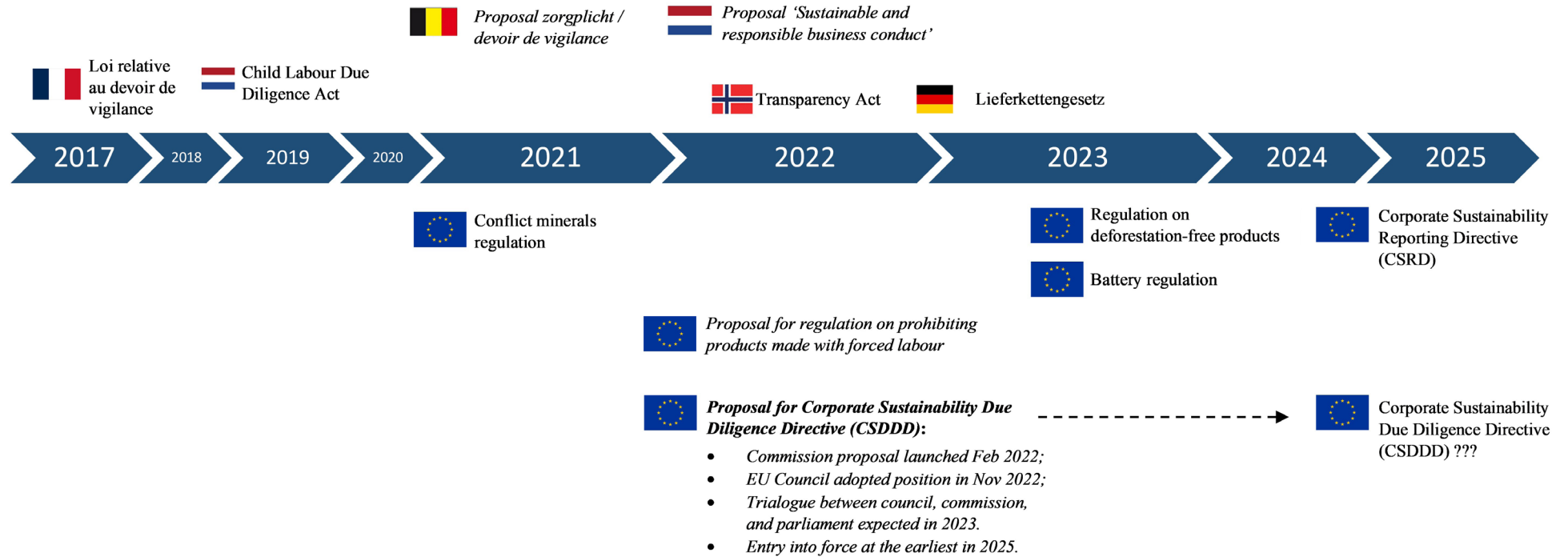
The CSDDD indicates a shift away from a purely voluntary and proactive logic of private governance systems as the most effective way of achieving sustainable development. The shift designates opting for a 'smart mix' of voluntary action and complementary regulation (Camoletto et al., 2022; Scherer et al., 2016). With its focus on due diligence, the directive moves beyond reporting requirements and can thus be seen to expand the EU's Corporate Sustainability Reporting Directive, which focused primarily on reporting and transparency obligations. The CSDDD adopts an understanding on due diligence drawing from the OECD Due Diligence Guidance for Responsible Business Conduct (European Commission, 2022a, p. 32), which includes "measures for companies to identify and address adverse human rights and environmental impacts... [encompassing] the following steps: (1) integrating due diligence into policies and management systems, (2) identifying and assessing adverse human rights and environmental impacts, (3) preventing, ceasing or minimising actual and potential adverse human rights, and environmental impacts, (4) assessing the effectiveness of measures, (5) communicating, (6) providing remediation."

2 Worldwide turnover for EU companies; EU-wide turnover for non-EU companies

This is characterised as a risk-based approach, since the directive requires firms to actively identify, manage and mitigate identified risks, through both operational and technical voluntary ethical codes and principles (Camoletto et al., 2022; Villiers, 2021).

The directive resembles other second-generation due diligence legislation, such as the French Devoir de Vigilance law, the German Lieferkettengesetz, the Norwegian Supply Chain Transparency Act, and the Dutch Child Labour Due Diligence Act (Bright, 2021; Smit et al., 2020). In addition, the directive's due diligence requirements are integrated into existing regulatory frameworks, such as the EU Timber Regulation and EU Conflict Minerals Regulation, as well as proposed sector specific regulations on deforestation and forced labour in the EU. While both the German law and the proposed CSDDD explicitly recognise that private governance initiatives such as certification and multi-stakeholder initiatives can form part of due diligence processes, there is broad agreement that private governance initiatives are insufficient for meeting legal requirements (LeBaron, 2020; LeBaron et al., 2022; LeBaron & Lister, 2021; Nolan & Frishling, 2020).

Figure 1. Timeline of second generation due diligence legislation. Source: Verbrugge 2022.



The CSDDD will affect both EU and third-country firms. The scope of affected firms (what is referred to in the CSDDD as the 'personal scope') is determined for EU domiciled firms by their number of employees as well as their net global turnover, whereas for non-EU firms the criterion is related to the net turnover generated in the EU. The EU Commission is using turnover as a proxy for the social and environmental effects that the activities of those firms could have on the internal market³ (European Commission, 2022a). In addition, personal scope differentiates between firms that operate in high impact and high-risk sectors identified by the OECD's sectoral guidance⁴, namely: the extractive sector, mineral supply chains, agricultural supply chains, garment supply chains, and the financial sector⁵ (European Commission, 2022a). The Commission estimates that the CSDDD will directly cover around 13,000 EU companies and 4,000 third-country firms (European Commission, 2022a). 99% of firms in the EU are thus excluded as small and medium sized enterprises (SMEs), including micro companies. Yet the directive is anticipated to affect a large number of suppliers and other corporate actors in the affected firms' global value chains, many of which are geographically located in the Global South. It has been estimated that close to 80% of global trade is linked to the global value chains of large multinational firms, either through intra-firm (between parent companies and their affiliates or among the affiliates) or as inter-firm trade (between unrelated companies) (Lee, 2016)

When it comes to trade with Least Developed Countries (LDCs), the EU is the second biggest export destination for LDCs' trade in the world, after China (WTO, 2021). Nevertheless, much of the impact assessment of the directive is concerned with the impact of the directive on European companies rather than global supply chains and production networks (Camoletto et al., 2022; Patz, 2022). While it is anticipated that this directive will have a significant effect on global supply chains (Camoletto et al., 2022), and even more so on developing countries (Bose, 2021), there is very limited research on how the directive will impact trade with developing countries, especially least developed countries (LDCs). While the EU CSDDD ensures accountability is owed to the EU and its members states, there is still a question as to whether it gives influential voice to stakeholders from the Global South (Schilling-Vacaflor & Lenschow, 2021).

3 Calculation of turnover follows the standard methods for calculating net turnover as laid out in Directive 2013/34/EU, which also follow international accounting standards, but as no such international accounting standard exist for the calculation of number of employees the CSDDD uses number of employees only for EU companies (as the methods of calculation follow EU law)

4 OECD Due Diligence Guidance for Responsible Business Conduct, Sectoral guidance, available at:<http://mneguidelines.oecd.org/sectors/>.

5 Noting here that the negotiating position of the European Council (2022/0051(COD)) includes limitations on what is included within the scope of the financial sector

2.1 Objective of study

The main objective of this study is to increase understanding of the impact of the EU CSDD on actors in LDCs to the extent that their activities are part of the global value chains of firms covered by the directive, and by extension, to analyse the potential impact of the CSDDD on EU–LDC trade.

The main objective of this policy study is divided into three research questions:

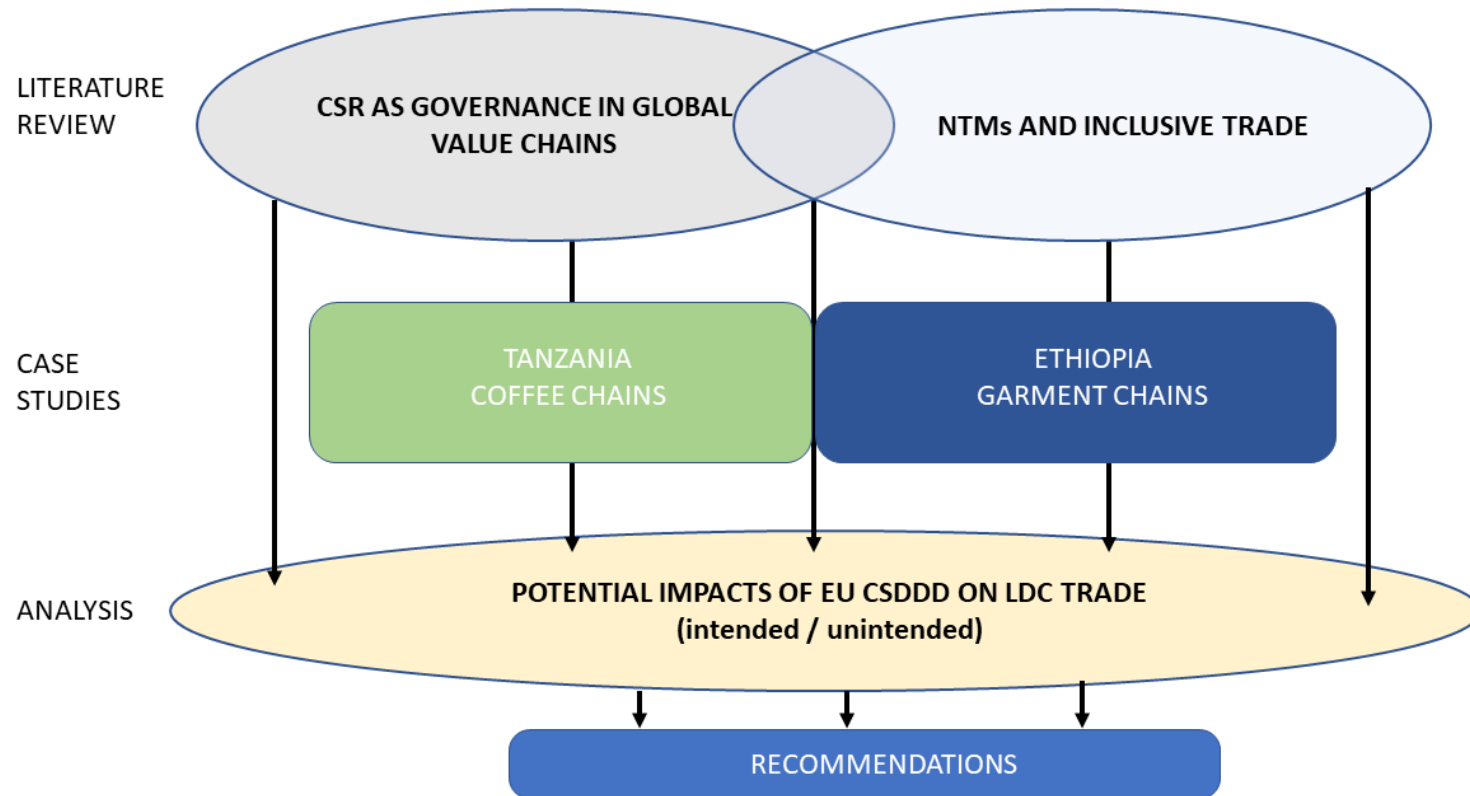
1. What is the impact of the proposed CSDDD on the ability of LDC-based actors to participate in the value chains of firms covered by the directive, and how does the directive impact EU–LDC trade?
2. What are key bottlenecks that prevent LDC suppliers from participating in value chains of firms covered by the directive, and what measures to address the bottlenecks can be identified?
3. What policy and other capacity building options exist for EU governments, and particularly the Finnish government to support LDCs, including firms, in meeting the requirements of the proposed CSDDD?

Because the CSDDD is still a work in progress and its final form is uncertain at the time of writing (winter 2022/23), this report cannot give final, conclusive answers to these questions. However, our analysis based on existing literature and original empirical research highlights key known and anticipated issues that are relevant to these questions and allows setting out a number of recommendations for policy-makers to consider when moving forward.

The report analyses two selected global value chains in more detail: the garment manufacturing value chain in Ethiopia, and the coffee production value chain in Tanzania. The selected cases illustrate value chains from two high-risk sectors, as defined by the OECD's sectoral guidance. Ethiopia and Tanzania are Finland's long-term development cooperation partners in Africa and the EU is an important trading partner to both. In the analysis of this report, the impact on Finland's cross-cutting development policy objectives – namely gender equality, non-discrimination, climate resilience and low-emission development – has been considered.

The report is structured as follows:

Figure 2. Structure of the report.



3 Corporate Social Responsibility Compliance in Global Value Chains

This section reviews the literature on voluntary and mandatory CSR compliance in global value chains, particularly where the production activity context is LDCs, a body of literature here labelled as “CSR Compliance in Global Value Chains”. In general, the literature on Global Value Chains (GVCs) captures and acknowledges the power differentials between different actors – particularly between lead firms in the Global North and suppliers in the Global South (Alagmgir & Banerjee, 2019; Grabs & Ponte, 2019; Krauss & Krishnan, 2022). The GVC literature has also traditionally focused on questions such as the role of voluntary standards and certifications in the governance of GVCs (Grabs & Ponte, 2019; Riisgaard et al., 2020; Tampe, 2018; Van Der Ven, 2018), which dominate governance approaches to compliance in GVCs, including in the proposed CSDDD. This is because while the directive does not mandate particular compliance mechanisms, it acknowledges the central role of voluntary compliance regimes, such as ‘codes of conduct’, ‘suitable industry initiatives’ and ‘third-party verification’ regimes in its successful implementation.

The first part (3.1) of our literature review of CSR compliance in GVCs covers the impact of private CSR governance regimes in LDCs, and the second part (3.2) summarises the available findings on the impacts of mandatory CSDD on LDCs.

3.1 Governing global value chains through private compliance regimes

The CSR governance of the geographically dispersed global value chains of large multinational firms has traditionally been organised through self-regulatory and horizontal configurations (Fougère & Solitander, 2020). These configurations often follow the logic of market relations whereby multiple stakeholders negotiate and compete over deployment of various instruments of authority in the form of codes, guidelines, labels, and standards, which most often lack the coercive backing of state regulation (Fougère & Solitander, 2020; Shamir, 2011). While there exists considerable variation between these private governance initiatives in terms of their scope and governance (for an overview see LeBaron, 2020; Locke, 2013; Marx & Wouters, 2015), they invariably rely on the voluntary

efforts of companies, revolve around some sort of voluntary sustainability standard to which companies or products must adhere, and are often coupled with a mechanism for monitoring compliance, usually in the form of audits.

Within GVC literature there have been several studies that point to different effects and effectiveness of these voluntary mechanisms. In general, on the one hand, one part of the literature has pointed out how voluntary mechanisms can create **upgrading** opportunities for 'lower-tier' suppliers in LDCs, which succeed in integrating social and environmental standards (Chiputwa et al., 2015; DeFries et al., 2017; Ruben & Zuniga, 2011).

For this study it is important to acknowledge that the CSDDD is trying to address different forms of upgrading, namely a combination of economic, social, and environmental upgrading. **Economic upgrading** is defined as "a move to higher value activities in production, to improved technology, knowledge and skills, and to increased benefits or profits deriving from participation in GVCs" (Gereffi & Lee, 2016, p. 29). **Social upgrading** is defined as "the process of improvement in the rights and entitlements of workers as social actors and the enhancement of the quality of their employment" (Barrantes et al. in Gereffi & Lee, 2016, p. 29) and is anchored in the ILO's Decent Work framework. Social upgrading goes beyond access to better work resulting from economic upgrading, by including the enhancement of existing working conditions and enabling rights, thus improving the overall well-being of workers and local communities. **Environmental upgrading** is defined as "the process of improving the environmental impact of value chain operations – including production, processing, transport, consumption, and waste disposal or recycling" (Poulsen et al., 2018, p. 84), including firm capacities to meet international environmental standards and certifications. Environmental/social upgrading expands the scope of company-led CS(R) initiatives by also including non-corporate measures initiated by governments, unions and/or civil society organisations (Gereffi & Lee, 2016). Table 1 summarises the processes and outcomes attached to upgrading.

Table 1. Processes and outcomes of GVC upgrading. Source: Authors' summary.

	Examples of processes of upgrading	Examples of outcomes of upgrading	Previous research of upgrading
Economic upgrading	Reorganisation of production; introduction of new technologies, increased collaboration; increased higher-quality product lines	Move to higher value activities; improved technology, knowledge and/or skills; increased economic. benefits/ profits, increased productivity, increased quality	Bernhard & Pollak (2016); Gereffi & Lee (2016); Barrientos et al. (2011)
Social upgrading	Living wages, labour bargaining power, collective bargaining, social movement mobilisation/pressure, economic upgrading, rising demand for skilled workers; process quality standards	Improved working conditions, improved labour rights, improved gender equitable opportunities, improved bargaining power, increased skill training, increased worker health/safety, increased wages/income	Lee (2016); Bernhard & Pollak (2016); Barrientos et al. (2011)
Environmental upgrading	Transfer of good environmental practices, skills development, technology transfer, asset specific investments (e.g. soil testing, irrigation systems), multicropping, etc.	Improved quality/ volume of natural resources; increased soil conservation efforts; decreased energy consumption, decreased water consumption; incr. biodiversity; decreased CO2 emissions	Krishnan et al. (2022); De Marchi & De Maria (2019); Achabou et al. (2017); Khattak & Pinto (2018).

On the other hand, there is a body of GVC literature that shows how the voluntary standards can contribute to **downgrading**, for example through rent accumulation by lead firms, unproductive ‘rituals of verification’, or through the exclusion and livelihood precarity for lower-tier actors especially in LDCs (Alagmgir & Banerjee, 2019; Ponte, 2007). Table 2 summarises the processes and outcomes attached to downgrading of GVCs.

Table 2. Processes and outcomes of GVC downgrading. Source: Authors’ summary.

	Examples of processes of downgrading	Examples of outcomes of downgrading	Previous research
Economic downgrading	Value chain exclusion, pricing, rising input and labour requirements and costs, shortage of skilled labour; increased interest rates	Loss of competitiveness, decreased exports, move to lower value activities	Bernhardt, & Pollak, (2016); Barrientos et al. (2016)
Social downgrading	Power asymmetries; pressure to lower prices/cost reductions; pressures on quality/flexibility; state crackdowns on labour movements	Decrease of real wages, wage discrimination, job insecurity, poor worker health, decreased employee benefits, inadequate skill training, weak bargaining power	Lee (2016); Bernhard & Pollak (2016); Barrientos et al. (2016); Marslev et al. (2022); Godfrey (2015)
Environmental downgrading	Pressure to lower prices/cost reductions; pressures on quality/flexibility; lack of basic entitlements to land; mono-cropping; large scale industrialisation	Decreased quality/volume of natural resources; decreased soil conservation efforts; increased energy consumption, increased water consumption/ degradation; decreased biodiversity; increased CO2 emissions	Krishnan et al. (2022); De Marchi & De Maria (2019); Achabou et al. (2017); Khattak & Pinto (2018).

Of particular interest for this report (c.f. case studies in chapter 5) are impacts on smallholder producers (in agro-food chains), other small LDC-suppliers, and their (often low-wage) workers – all of whom share a dependence on large buyers. In terms of impacts of certification on smallholder producers in LDCs, several studies show how

socio-economic outcomes of certification for smallholders (Barrientos et al., 2016; Oya et al., 2018) and ordinary factory workers (Bartley & Egels-Zandén, 2015; Narula 2019) remain uncertain at best.

Suppliers are often expected to carry the costs for CSR audits and other forms of data collection, and to invest in more sustainable production practices in order to comply with tightening CSR standards (Neilson & Pritchard, 2010; Ponte, 2019). Together, these pressures can create significant barriers to entry into sustainable value chains, notably for small suppliers. A shift towards remote and digital supply chain monitoring has further increased these costs (Narula, 2019). Previous studies also show how upgrading and downgrading might occur simultaneously in particular firms (Godfrey, 2015; Mulubiran & Karlsen, 2023; Rossi 2013). Relatedly, previous studies also underline how voluntary sustainability mechanisms are heterogeneous in their requirements and enforcement, while their benefits and costs may be non-linear across actors in the GVCs, with trade-offs across economic, social and environmental dimensions of upgrading (Kraus & Krishnan, 2022). A large systematic literature review by Oya et al. (2018) shows that, in the agriculture sector, private governance schemes generally have positive effects on prices and incomes of farmers, while neither wages nor overall household income are generally affected. And where there are significant upgrading effects, the institutional context matters substantially.

Meanwhile, large and vertically integrated firms, whose relative importance varies across sectors, are often more equipped to deal with the costs and requirements associated with CSR compliance. In this way, the regime of private governance can increasingly be seen as serving the interests of a narrow set of lead firms, such as large retailers and brands. These lead firms do not only define the terms of sustainability but can also push the hidden costs of compliance further up the value chain, towards suppliers of raw materials and semi-finished goods. In this way, they can entrench or even strengthen their dominant position (De Neve, 2014; Nolan & Frishling, 2020; Raj-Reichert, 2020).

The strategic response to CSR compliance among firms in LDCs can be seen to follow certain patterns:

1. A widespread strategy has been referred to as **CSR decoupling**. This form of decoupling takes place when companies adopt formal policies (e.g. codes of conduct) to demonstrate compliance with standards, while continuing with 'business as usual' (Jamali et al., 2017; Khan & Lockhart, 2022). This type of decoupling can be complete or partial, as decoupling in some areas (e.g. environmental policies) may co-exist with 'loose coupling' or 'tight coupling' in other areas (e.g. overtime) (Graafland & Smid, 2019; Jamali et al., 2017). A second form of decoupling, **means-ends decoupling**, occurs when

companies do implement certain practices, but a gap emerges between these practices and their outcomes. In other words, a CSR practice may not succeed in addressing the adverse impacts it is supposed to confront. This second form of decoupling can have serious unintended consequences, which are complex and difficult to understand or even perceive (Bromley & Powell, 2012). Means-end decoupling is more likely to take place in highly non-transparent sectors where compliance requirements are rigid and thus preventing the flexibility that is required for achieving the actual ends (Wijen, 2014). Both forms of decoupling can be strategic or spontaneous, and incentives and opportunities for decoupling can vary across supply chains.

2. **Disengaging from more demanding buyers.** This is a viable strategy only if the competitive landscape and supplier–buyer power relationships allow for buyer selection. For example, the increased presence of Chinese buyers in many LDCs might alter the buyer selection landscape.
3. **Cost reductions.** Suppliers may also try to cut costs for labour, health and safety, or may increase their reliance on subcontractors, temporary workers, or informal workers, in an attempt to further reduce costs and to evade responsibility (Soundararajan et al., 2018).
4. **Increase pressures on lower tier suppliers,** who may in turn increase pressures on their workers and suppliers (De Neve, 2014; LeBaron, 2020; Nolan & Frishling, 2020; Raj-Reichert, 2020).
5. **Recoupling,** which indicates “the process through which policy and practice that once were decoupled become coupled again” (Egels-Zanden, 2014, p. 61). For example, Dietz et al.’s (2021) large-scale study of the coffee GVC in Honduras found that the most consistent determinants of the recoupling of standards and practices was the use of significant price premiums, which provided farmers with the financial capacity to comply with the requirements of the private standards and certification schemes. Similarly in manufacturing, a longitudinal study by Egels-Zanden (2014) showed how in the long run, while suppliers initially responded with symbolic action, they showed substantial improvement in terms of environmental and social upgrading at least partly due to increased external code of conduct pressure and changed demands emphasising transparency. The study showed how a number of mechanisms increase recoupling: (1) increased external demands and surveillance, (2) changes in the type of external demands (particularly stringent auditing), (3) internalised external demands (e.g. recruiting for positions that over time drive change internally), and particularly (4) establishing more trust-based relationships between the suppliers and the stakeholder exerting pressure.

The variety of results of different studies also points to certain weaknesses, namely, the propensity to treat these mechanisms as relatively homogenous instruments with linear assumptions about either creating upgrading or downgrading outcomes, while many studies recognise that both upgrading and downgrading can occur simultaneously [e.g., modest or negative production effects can occur in tandem with positive changes in living standards and less absolute poverty]. One reason for this is the nature of the global value chains and the power relations between actors. For instance, some products certified as organic or fairtrade may be able to pass on the costs to consumers through higher prices [e.g., “premium coffee” (Chiputwa et al., 2015; Giovannucci & Ponte, 2005)], while others [e.g., certified timber and paper (Eden, 2010; Morris & Dunne, 2004), and textiles (Alamgir & Banerjee, 2019; Godfrey, 2015; Munir et al., 2018)] cannot, and the cost is therefore transferred onto the suppliers.

In terms of social upgrading, many studies also point to how other than (multinational) firm–labour relations, state–labour or state–local firm relations act as the most central drivers for upgrading (Marslev et al., 2022).

3.2 Mandatory due diligence legislation

A large part of available research on the impact of due diligence legislation has looked at the extent to which companies comply with legal requirements. Most of this evidence looks at ‘first generation’ reporting legislation (c.f. the UK Modern slavery Act; California Supply Chains Transparency Act; Dodd-Frank Act), but evidence for 2nd generation legislation is starting to emerge from France, where the *Devoir de Vigilance* law has been in force since 2017.

Research on first generation legislation (Flynn & Walker, 2020; Koekkoek et al., 2017; Voss et al., 2021) shows that a portion of the companies that fall within the scope of legislation have increased reporting practices. Yet compliance with reporting requirements remains patchy, and companies continue to fall short of the requirements set by international norms and guidelines. Emerging evidence from France confirms such observations (Chambers & Vastardis, 2020; Schilling-Vacaflor & Lenschow, 2021).

To the extent that companies undertake efforts to comply with legislation, they mostly do so to avoid reputational and, in second order, legal risks (Dean & Marshall, 2020; McCorquodale et al., 2017; Smit et al., 2020; Trautrimis et al., 2021). Moreover, not all firms react in the same way. Larger and consumer-facing firms tend to have clearer incentives to comply with legislation. While compliance is often superficial and remains mostly confined to the sphere of reporting and formal policies, in some cases it can also act as a catalyst for wider organisational changes (Flynn & Walker, 2020; Sarfaty, 2015).

The actual implementation of due diligence, meanwhile, is subject to a number of patterns:

1. A focus on avoiding (legal, reputational, commercial) risks for the company itself, rather than the respective third parties (Barraud de Lagerie et al., 2021), notably rights holders. Existing research seems to give further credence to the fear that due diligence could amount to little more than a box-ticking exercise (Martin-Ortega, 2017; Nolan & Frishling, 2020).
2. DD processes rarely include external stakeholders that could challenge corporate power (notably trade unions, the state and certain CSOs) in a meaningful way (Maher et al., 2021; Monciardini et al., 2021).
3. Companies continue to revert primarily to the private governance initiatives that they already know, and notably to codes of conduct, audits, and certification (Smit et al., 2020; Trautrimis et al., 2021; Voss et al., 2021; Tran-Nguyen et al., 2021).
4. Companies will often try to outsource responsibilities, and associated costs to suppliers (Monciardini et al., 2021; Nelson et al., 2020; Harline, 2014), through auditing requirements or other forms of contractual requirements but without adjusting the purchasing practices that create pressure on suppliers in the first place.

The third and fourth points above are particularly central when contextualising the potential effects of CSDDD on LDCs. The ‘cascading’ of due diligence requirements occupies a central place in the proposed EU Directive, which would require companies to seek contractual assurances from business partners that they will comply with the company’s code of conduct (European Commission, 2022a, p. 55). While the proposed Directive would explicitly forbid the cascading of costs for audits to suppliers, it is not clear how this could be avoided, especially in light of previous research on the effects of mandatory human rights and environmental due diligence.

Whereas cascading could also potentially result in a ‘trickle-down’ of social and environmental standards in global value chains, there is a risk that rising costs and responsibilities could disproportionately affect smaller suppliers in LDCs with limited capacity and influence. For instance, analyses of the EU Timber Regulation have shown that it exacerbates rather than diminishes existing inequalities between small and large producers in LDCs (Acheampong & Maryudi, 2020; Maryudi et al., 2020). Moreover, the idea is that it will also create opportunities for companies seeking to adopt these standards, as they would obtain easier access to European markets.

Companies that fall within the scope of due diligence legislation, meanwhile, may become even more risk-averse, and may be tempted to rely on a strategy of disengagement, by avoiding 'risky' suppliers (Nelson et al., 2020). From a corporate perspective, to the extent that disengagement is commercially viable, it is often perceived as 'the easier, cheaper and less risky option' (Nelson et al., 2020). This is also why the enactment of Dodd Frank (conflict minerals) in the United States led to wide-spread disengagement on the part of companies, who refrained from sourcing from conflict-affected regions (and notably the DRC) altogether. The negative impacts (increased poverty, violence, and human rights abuse) on artisanal and small-scale miners in these regions has been widely documented (Harline, 2014; Türkelli, 2020).

Ultimately, the move towards due diligence may contribute to broader trends like supply chain shortening, supplier consolidation, and a rooting out of intermediaries (e.g. traders), smallholders, and those in the informal economy (Nolan, 2018). Typically, these are the types of activities that the most vulnerable segments of society rely on for their economic survival. In sum, the risk with CSDD legislation is incentivising 'decoupling', as companies focus on formal policies rather than actual practices, or implement practices that are mostly ineffective.

3.3 Potential impact of EU CSDDD on value chains

Based on the review of previous research, the key takeaways in terms of expectations of how EU CSDDD will impact the way business between EU and LDCs are as follows:

- Using private governance mechanisms to control social and environmental impacts in the GVCs is likely to simultaneously create (competing) economic, social and environmental upgrading and downgrading effects
- The strategic response of respectively decoupling and/or recoupling CS policies and practice is a central determining factor for the social and environmental upgrading or downgrading effects
- Incentives for meaningful supplier and stakeholder engagement (a key factor for successful recoupling) remain thin. Instead, risk-averse behaviour on the part of EU companies could lead to disengagement from (suppliers in) LDCs.
- Contractual cascading' to business partners is explicitly promoted. Often, contractual cascading goes hand in hand with the cascading of costs and responsibilities.
- Industry schemes, multi-stakeholder initiatives, and associated third-party verification mechanisms (audits) are implicitly and explicitly promoted. This raises concerns about the replication of their shortcomings, which have been exposed in earlier research.

4 EU–LDCs trade

This section addresses the current status of trade between the EU and LDCs, highlighting especially I) non-tariff measures (NTM), which might inhibit LDCs from benefits (such as economic, social and environmental upgrading) of trade with the EU and II) socio-economic structures that are increasingly understood to inhibit gendered, racialised and other minority groups from reaping trade benefits.

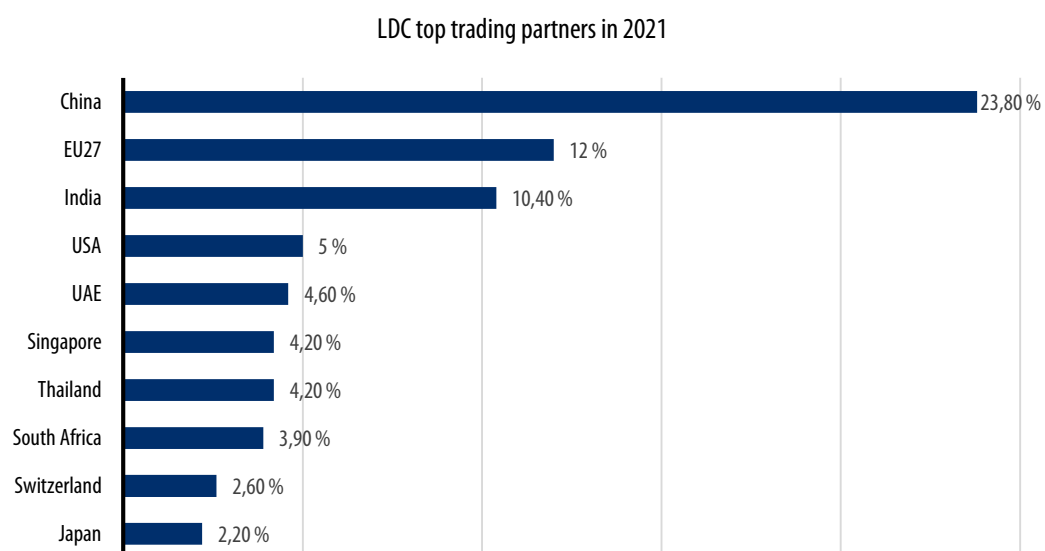
The first part (4.1) sets out the state of EU–LDCs trade using statistics from UNCTAD, the European Commission and other international bodies. The second part (4.2) discusses EU–LDCs trade imbalance and draws attention to commodity dependence and non-tariff measures (NTM) on the one hand and to the growing significance of the ‘inclusive trade’ perspective on the other hand, which relates to Finland’s broader development policy priorities. The third part (4.3) summarises available findings on the impacts of NTMs and gender inequality on LDCs trade and analyses the EU CSDDD in light of inclusive trade principles.

4.1 EU–LDCs trade imbalance

The ability of LDCs to participate in global value chains remains constrained, despite numerous free trade agreements and LDC-specific Special and Differential Treatment provisions at the World Trade Organization (WTO). The LDCs share in global trade is less than 1%. Between 2010 and 2019, total exports in goods and services from LDCs increased by 35%, driven mostly by 100% increase in services exports. Merchandise exports declined by 25% in the same period (UN-OHRLLS, 2021).

In 2021, 12% of total LDCs’ trade was done with the EU, with 14.4% of all LDC exports going to the EU, making the EU the most important trade partner of LDCs after China. Meanwhile, LDCs make up only 1.5% of total EU trade, with imports from LDCs accounting for 1.7% of all its imports and exports amounting to 1.3% of all EU exports. The EU trades the most with China (16.2%), the United States of America (14.7%), the UK (10%), and Switzerland (6.5%). (European Commission, 2021).

Figure 3. LDCs top trading partners in 2021. Source: European Commission, 2021.



Although dependence on EU trade fluctuates heavily within the LDC group (see table 4), about 41% of LDCs have the EU as a key market taking at least 10% of its exports.

Table 3. LDCs with EU exports above 10% of its total exports. Source: European Commission (2021),

* Ratio of Sao Tome and Principe's exports to the EU from UNCTAD (2021a).

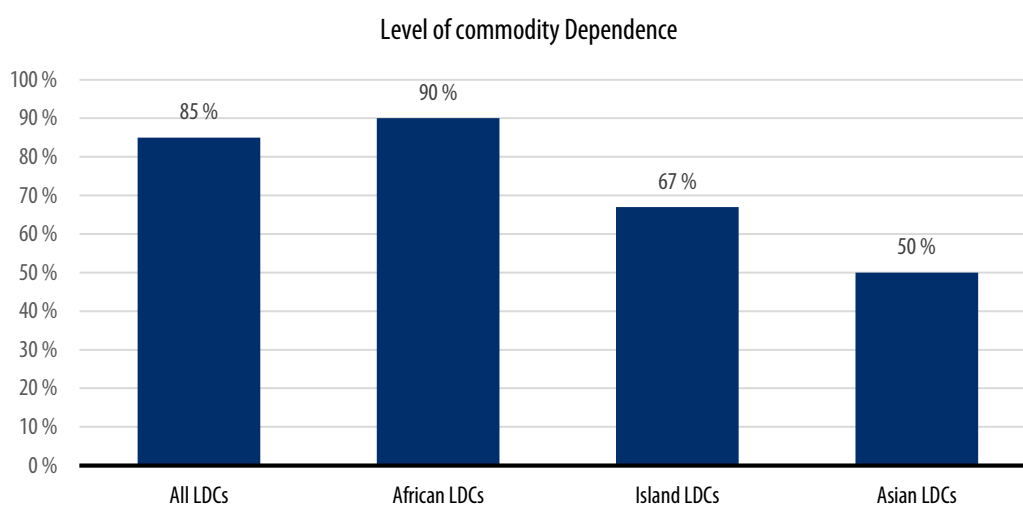
LDC country	Share of its exports to the EU
Chad	67.8%
Comoros	43.2%
Bangladesh	38.3%
Malawi	35.2%
CAR	33.6%
Equatorial Guinea	31.7%
Madagascar	31.0%
Lesotho	28.9%
Mozambique	22.5%
Liberia	20.5%
Sierra Leone	18.1%
Mauritania	17.5%
Cambodia	17.4%
South Sudan	17.1%
Uganda	16.5%
Myanmar	15.3%
Ethiopia	12.6%
Senegal	11.5%
Sao Tome and Principe*	96.4%

4.1.1 Commodity dependence

85% of LDCs are heavily dependent on one or few products, mainly commodities such as fuel, minerals, and agricultural products, for exports (UN-OHRLLS, 2021). According to UNCTAD, countries are dependent on commodities when at least 60% of the total

merchandise export value comes from primary commodities. In 2021, 65% of goods imported to the EU from Africa were primary goods (food and drink, raw materials and energy). However, crude commodities exports fetch relatively lower value compared to manufactured goods. Although manufacturing exports from LDCs have increased steadily from just over 20% in 2011 to about 37% of total exports in 2019, the increase has not been sufficient to reduce their commodity dependence. Moreover, the exporting sectors are dominated by labour and resource-intensive, low-technology, and low-skill processing such as textiles and garments. The percentage is even higher for the EU market, where over 60% of all exports from LDCs were in low-tech manufactured goods. Still, the LDC share of world manufacturing exports is relatively low at 0.54%, compared to 52.8% in developed countries (UNCTAD, 2022a). The growth in manufacturing exports remains the key driver for economic growth, employment and poverty reduction that leads to integration into GVCs and graduation from LDC status (UN-OHRLS, 2021).

Figure 4. Level of commodity dependence in LDCs. Source: UNCTAD (2021a).



Due to their dependence on commodities and undiversified markets, LDCs' value chains are particularly vulnerable to shocks. Due to the COVID-19 pandemic, LDC merchandise exports declined by 12% in 2020 (compared to -7% global average), with fuel and mining products being the most affected, while services exports from LDCs declined by 31% (compared to -21% global average) attributed to the decrease in tourism due to the pandemic (WTO, 2022).

4.1.2 Non-Tariff Measures

Non-tariff measures (NTMs) are as defined by UNCTAD “policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both”. Policy measures may be restrictive even when they are not put in place to restrict trade. At the same time, “many of these measures are not meant to be import barriers and [...] do not place the imported good at a disadvantage” (Goode 2007, p. 309). It is therefore important to consider if and how trade policy measures have been adopted with restrictive intent and/or are deployed in discriminatory fashion.

NTMs of particular interest for this study are mandatory requirements, rules and regulations aimed at protecting the environment, as well as humans, animals, or the planet. Some of the most prominent NTMs include Sanitary and Phytosanitary Standards (SPS), and Technical Barriers to Trade (TBT). SPS measures are all trade rules that restrict trade in the interest of human, animal or plant life or health. TBTs are all trade rules that make specifications about production and product standards. Both SPS and TBTs are regulated at the WTO and in Free Trade Agreements (FTAs). According to the World Bank WITS database (2022a), the most common NTMs imposed by the EU on its imports include: labelling requirements (covering 73% of imports), inspection requirements (60% coverage), product quality or performance requirements (58% coverage), certification requirements (55% coverage), registration for TBT reasons (51% coverage), prohibition for TBT reasons (43% coverage), authorisation requirement for TBT reasons (38% coverage), testing requirements (37% coverage), packaging requirements (34% coverage) and restricted use of certain substances (31% coverage).

Although NTMs can have a corrective impact and reduce negative externalities to people and societies (Santeramo & Lamonaca, 2019), they can also be more restrictive to trade than tariffs, especially for small and medium enterprises particularly in LDCs. UNCTAD estimates that between 2008 and 2012, NTMs facing agricultural imports from low-income countries were approximately equivalent to a 27% tariff, which is 5.4 times higher than tariffs. According to UNCTAD and the World Bank (2018), developed countries impose twice as many NTMs on import products than developing countries, and four times more than LDCs, while the intensity of regulation for imports in developed countries is almost three times higher than that of LDCs.

The regulatory distance between LDCs and developed countries can make it particularly difficult for LDCs to fully participate in certain markets. A recent study on the impacts of NTMs and tariffs found that the negative impact of NTMs is more significant than the negative impact of tariffs (Korwatanasakul & Baek, 2021). This is particularly true for

backward participation as the disharmony of NTMs might negatively affect backward participation in GVCs, while positively affecting forward participation in GVCs, regardless of sector (Kim, 2021).

The EU tends to have more stringent NTMs compared to the rest of the world. 94.31% of EU import trade, and 93.88% of products imported to the EU are subject to one or more NTMs compared to the world average of 71.98% of trade subject to NTMs and 43.04% of products subject to NTMs. The EU is also more stringent than other developed economies, where on average, 80% of trade is subject to NTMs (Cipollina & Dimaria, 2020). Only 40% of imports to LDCs are subject to NTMs (UNCTAD & World Bank, 2018). NTMs vary across sectors, with the agri-food sector and textiles being the most regulated sectors in all economies, having the most NTMs, as shown in Figure 5 below.

Figure 5. Prevalence of NTMs in imports to the EU. Source: World Bank WITS database, accessed December 15, 2022.

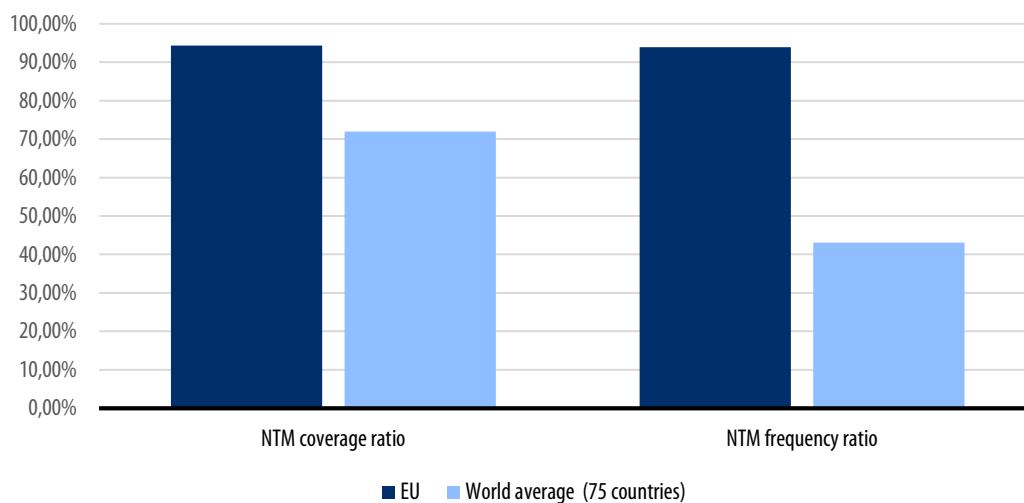
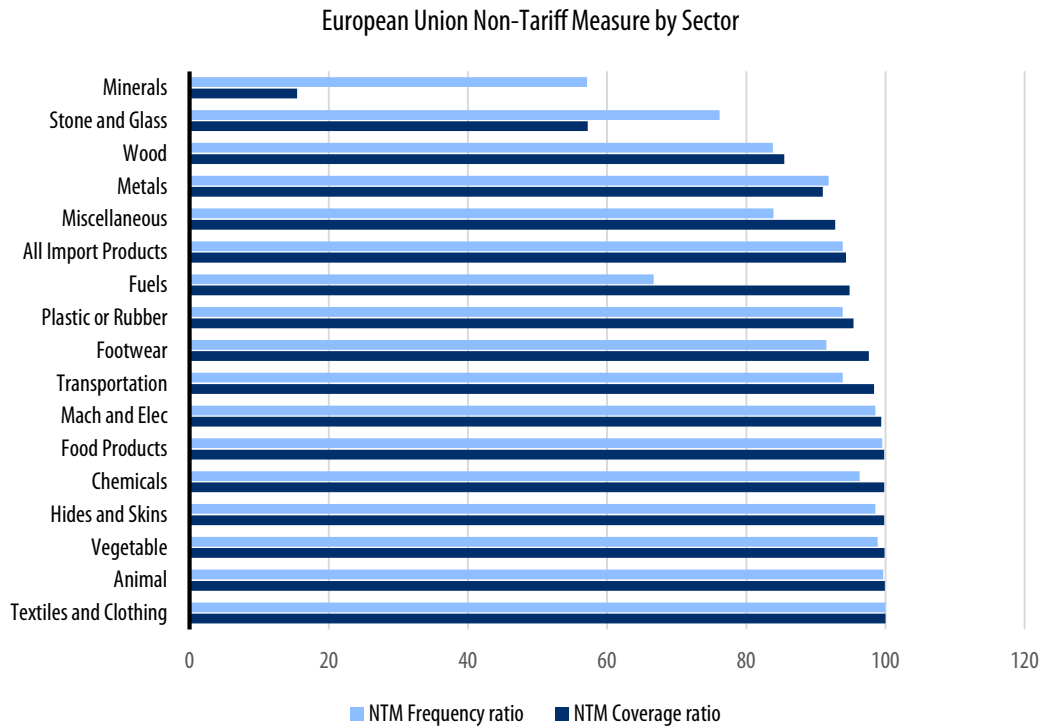
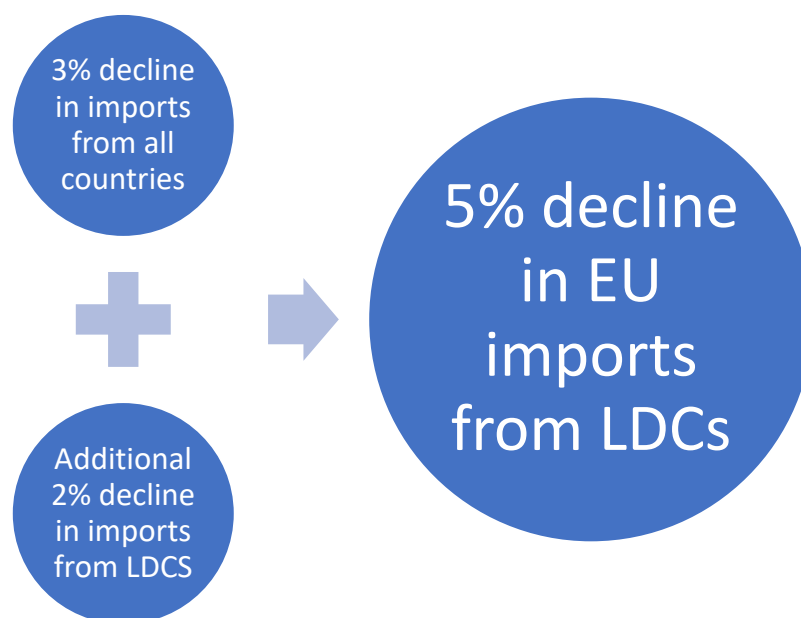


Figure 6. EU NTMs by sector. Source: World Bank WITS database, accessed December 15, 2022.



A study by UNCTAD (Rial, 2014), analysed the impact of NTMs on European imports of agriproducts from across the world. The study found that each additional requirement in the EU reduced imports by 3%. However, the reduction of imports from LDCs was 5%, with African LDCs being highly affected by these measures. See Figure 7 below.

Figure 7. The decline of agrifood imports from LDCs to the EU due to increase in NTMs. Source: Rial (2014).



The lack of quality and compliance infrastructure to meet international trade standards has been affecting LDCs' international trade competitiveness, leading to substantial import rejections, in particular markets and commodities (UNCTAD, 2022a). For LDCs to unlock their export potential, they must develop the capacities of the private sector to comply with international trade standards, as well as the countries' capacities to provide proof of said compliance easily, and affordably (UNCTAD, 2022a). For example, the EU biofuels regulation has been shown to inhibit export-related investments in Africa (Schuenemann & Kerr, 2019). Particularly, the absence of infrastructure for compliance makes it challenging for producers to provide proof of compliance in areas such as measuring land use change impacts due to biofuel production.

Nevertheless, for countries that invest in capacity development, the impact of NTMs may be positive. For example, Indian textile and garments exports to the EU increased overtime despite having more stringent regulations to safeguard health and the environment (Chattopadhyay, 2019). The ability to meet the requirements increased textile and garment imports even to countries such as Germany that had stronger standards than the EU. Furthermore, bilateral trade agreements often reduce the cost of NTMs, and may therefore reduce their impact on trade (Cadot & Gourdon, 2016).

4.1.3 Inclusive Trade

In terms of wider societal access to trade benefits, recent research highlights how distinct social groups are generally disadvantaged in such access due to their generally disadvantaged positions in society. Women, LGBTQ people, people of colour, indigenous people, persons with disabilities, are examples of such, but also small-scale economic actors such as SMEs have been shown to disproportionately shoulder the costs of trade adjustment and to benefit less from the gains of trade (Busse & Spielmann, 2006; Siddiqui, 2009; van Staveren et al., 2007). Consequently, in recent years, global trade governance institutions have adopted what is generally called an “inclusive trade agenda”. Inclusive trade aims to “create better outcomes for more people as a result of trade, and in the process ideally ensure that the benefits of trade are widely shared” (Goff, 2021, p. 273). While policy practices vary, there are three common features that characterise inclusive trade initiatives (ibid.), which also reflect some of the stated goals of the proposed Directive: (1) a concern for social groups that are typically marginalised in global trade, including women, indigenous peoples, and Small and Medium Sized Enterprises (SMEs); (2) a concern for sensitive topics, including Investor–State Dispute Settlement, labour rights and the environment; (3) and a concern about process, including a desire for trade policy-making to be more transparent, inclusive and democratic.

The EU participates in the global inclusive trade agenda via its Trade for All Strategy (European Commission, 2015; Goff 2021), which aims to provide a progressive trade policy and sits together with the Reflection Paper on Harnessing Globalisation (European Commission, 2017) and the communication on A Balanced and Progressive Trade Policy to Harness Globalisation (European Commission, 2018). These policy papers highlight the need to ensure trade policies are made in order to enable strong consumer, environmental, social and labour protections; the promotion of human rights, public health and sustainable development; the right of the state to regulate in the public interest; and the importance of transparency and inclusion in trade policymaking (Young, 2019).

As gender equality is also a key priority for Finnish development cooperation, the gendered aspects of LDC trade are of particular importance here. In general, trade can be seen to be gendered in at least two ways: (1) different genders are attributed different social standing as well as roles and responsibilities, gender characteristics have an impact on the ability of individuals to engage with markets and the productive economy more generally, (2) different economic sectors have different gender profiles, whereby certain sectors have a predominantly feminine or masculine workforce or can be segregated along gender lines according to ranks and responsibilities (Hannah et al., 2018). Gender stereotypes can be actively perpetuated and fostered in development, for example when women are seen as ideally suited for assembly line work due to their alleged more docile nature and ‘nimble fingers’ (Elson & Pearson, 1981). Trade adjustments can also impact

gender relations in country, for example when transition from subsistence farming to commercialisation and agricultural exports is associated with men taking over female-intensive crops (UNCTAD, 2014).

Generally speaking, women in LDCs tend to be constrained in the agricultural sector by their lesser access to land, credit, tools and technology, mobility, as well as by the double-burden imposed by childcare and household responsibilities (UNCTAD, 2022b). They also disproportionately carry out unpaid farm work and suffer gender-based violence and sexual harassment (UNCTAD, 2022b). In export-facing manufacturing in LDCs, women workers are concentrated in low-pay jobs and poor-working conditions and health and safety standards are common, although less so in Export Processing Zones (EPZs). Women are often exposed to sexual and verbal abuse both in the workplace and on the way to work. Childcare facilities are often limited, and breaches of women's sexual and reproductive rights have been reported where factory managers interfere with women's family planning (UNCTAD, 2022b).

While this suggests that the relationship between trade and gender is complex, it cannot be neglected where trade is considered a policy tool for development. Instead, it is important to actively incorporate a gender lens in the analysis of trade performance, and to bear in mind gendered impacts in the formulation of trade and development policies and strategies.

4.2 The impact of the EU CSDDD on EU–LDCs trade

Based on the literature presented in this section, it is likely that the EU CSDDD will impact the extent of EU–LDCs trade. The CSDDD constitutes an NTM in its own right that will prompt regulatory changes that might further inhibit LDCs trade participation. In light of the EU's commitment to inclusive trade, it is important to consider whether the CSDDD also remove significant trade barriers and lead to environmental and social upgrading, which is the goal of the directive.

The significance of NTMs on trade and whether trade is inclusive or not can only be determined on a case-by-case basis, depending on specific countries, products, and standards. As such, generalisation of impact is neither feasible nor useful (Santeramo & Lamonaca, 2019). At the same time, NTMs disproportionately affect LDCs. NTMs affect sectors differently, e.g., agriculture is likely more vulnerable than manufacturing or extractive sectors (UNCTAD & World Bank, 2018).

4.2.1 Sensitivity assessment

In this section, we propose a sensitivity approach to assessing the potential trade impact of the directive. Although comprehensive sensitivity analyses are generally more complex, we have, based on existing literature, identified a number of key factors that provide an indication for the impact of the directive on the extent of trade between LDCs and the EU. In order to estimate the number of technical and reporting requirements that will increase due to the CSDDD, as well as an LDC's capacity to comply with new trade standards due to this directive, the following actions are suggested:

- Identify the number of reporting requirements at EU-level and member country level that will increase due to the CSDDD (Santeramo & Lamonaca, 2019; UNCTAD, 2022a)
- Assess the ability of LDCs, and their specific sectors to comply with new sustainability standards. This would include an assessment of both the regulatory regime as well as implementation capacity. This will have an implication on the cost of conformity and provision of proof, which has a bearing on whether suppliers from this country can meet sustainability standards, and therefore continue to trade with the EU. (Schuenemann & Kerr, 2019; UNCTAD & World Bank, 2018)
- Assess the ability of local industries in LDCs, and specific companies to comply with new sustainability standards. This requires an assessment of both the regulatory regime as well as implementation capacity. This will have an implication for their ability to successfully participate in global value chains and upgrading. (Cadot & Gourdon, 2016, Cadot et al., 2018, Chattopadhyay, 2019)
- Assess the importance of the EU as a market (UNCTAD, 2022a). This would predict whether LDCs should put more effort into accessing the EU markets and developing capacities of its private sector in meeting the requirements. Various indicators for trade are available from UNCTAD and the World Bank which shows trade between the EU and individual countries, as well as with LDCs. The table A4 attached in the annex summarises the state of trade between the EU and LDCs.

As such, certain sectors and countries would be more sensitive to this new regulation than others. Certain indicators such as export market concentration indices and export product diversification indices produced by the World Bank may be useful to predict the sensitivity of countries, or products to the new regulation. Several factors can increase developing countries' sensitivity to the impact of this directive. This sensitivity assessment would be more useful if done at a sectoral level to predict changes in trade, although to some extent, it can be done at a macro-level.

4.2.2 Social and environmental impact assessment of trade regulation

Many nations and trade governance institutions conduct impact assessments in order to ascertain the likely impact of trade policy changes on e.g. human rights, environmental protection, gender. The European Commission uses its trade sustainability impact assessment process for trade negotiations, however, impact assessment techniques can be deployed to assess any type of trade policy change.

Impact assessments are usually conducted using a mix of CGE modelling and consultative procedures with stakeholders. Across the literature on trade impact assessments, there is broad consensus that more and better data is needed in order to get a better picture of the wider societal and environmental implications of trade policy changes and there are ongoing debates regarding appropriate methodologies (Hannah et al., 2018; Fontana & Wood, 2000).

One useful tool is the improved gender-based impact assessment framework developed by Hannah et al. (2018), which can be adapted to assess the impacts of trade on human rights and environmental regimes more broadly. The three-step assessment process consists of:

1. **Assessing the Context**, this requires engaging in a broad, case-specific survey of the economic context in question which sets out to determine the gendered, human-rights and environmental context within which the sector in the LDC under investigation operates. It also entails determining relevant stakeholders as well as their capacities to meaningfully engage in the impact assessment and eventual addressing of asymmetrical capacities.
2. **Modelling**, this step involves applying existing gender-based, human rights or environmental CGE modelling.
3. **Additional Forms of Data Collection**, which entails explicitly reflecting on data limitations and developing alternative methodologies for assessing gender-based, human rights or environmental goals. This may entail consultation and exchange with local groups affected by the trade policy change, who, particularly in LDC contexts, are likely to retain information that is not available elsewhere.

In section five of the report, we illustrate how to apply steps 1 and 3 of the suggested social and environmental impact. In the absence of a large sample size and full econometric modelling, it is nonetheless possible to assess the inclusiveness of the EU CSDDD itself as a new trade regulation, as we outline in the following section.

4.2.3 Assessing the inclusiveness of the EU CSDDD

Kuhlmann (2021) develops seven dimensions against which the inclusiveness of a piece of trade regulation can be assessed, addressing systemic and stakeholder vulnerabilities and advance sustainable development through trade. The principles, as well as their rationales and required actions by governments are set out in Table 4.

Table 4. Inclusive Trade Principles. Adopted from Kuhlmann (2021).

Inclusive Trade Principles	Rationale	Actions
Special & Differential Treatment	Countries have different levels of development, needs and resources.	Recognise levels of development in legal texts and integrate capacity building.
Flexibility	Periods of uncertainty or crisis require flexible trade rules, particularly in poorly resourced contexts.	Include legal provisions in trade law that allow responding quickly to needs of stakeholders. Include “review & revise” provisions.
Sustainable Development	Trade and growth need to support development via linking to the SDGs.	Incorporate ways to address environment, health, labour, gender equality, climate, poverty eradication and other considerations in trade law.
Equity	Economically marginalised groups disproportionately shoulder trade costs and have unequal access to the benefits of trade.	Tailor the design and implementation of trade law to the needs of economically marginalised communities, racial and ethnic minorities, small farmers, SMEs, women, people with disabilities, and indigenous groups.
Legal & Regulatory Gateways	Lack of knowledge about legal and regulatory frameworks.	Map legal and regulatory gateways that track common trade measures.
Inclusiveness, Engagement & Transparency	Lack of knowledge about laws and regulations among affected communities. Lack of knowledge about impact on the ground of trade laws and regulations among policy-makers.	Engage in capacity building to improve knowledge about laws and regulations among affected communities. Institutionalise stakeholder participation, consultation and engagement. Include transparency provisions.

Inclusive Trade Principles	Rationale	Actions
Implementation & Impact	Discrepancy between intended and real outcomes.	Assess implementation, impact and equitable distribution of trade law and regulation. Assess how well trade laws and regulations measure up to stated or shared goals.

When assessing the EU CSDDD against the seven inclusive trade principles set out in Table 4, it is clear that the directive is firm-focused and does not refer to Special and Differential Treatment as the first inclusive trade criterion per se. Nonetheless, as has been previously presented in this report, it is clear the negative social and environmental effects that the directive addresses, disproportionately occur in developing countries. Therefore, the integration of capacity building in countries where the effects of the directive are to be expected should be central. This is not currently integrated into the legal text but may constitute an important aspect of implementation.

Flexibility, the second inclusive trade criterion, is in principle provided by the directive where it allows the regulation to be reviewed on a seven-year basis, however there is a lack of legal clarity on how governments respond quickly to stakeholders' needs if they should arise in the interim. Despite grievance procedures and the possibility to refer to supervisory authorities, the directive is not prescriptive as regards any obligations to resolve such matters quickly.

In terms of the third inclusive trade criterion, sustainable development, the directive explicitly integrates rights and prohibitions anchored in international human rights and environmental law. However, the focus lies in areas that are traditionally seen as trade-related, such as labour abuse and environmental degradation, but falls short of incorporating new inclusive trade areas such as gender. In view of Finland's wider development priorities, incorporating a gender-dimension in the implementation of the directive would appear to be key. Similarly, in terms of the fourth inclusive trade criterion, equity, SMEs are the only group listed under inclusive trade criteria, but does not tailor its design to other gendered and racialised minorities, which can be corrected in implementation.

The directive does encourage Member States to set up regulatory gateways that help counter the lack of knowledge about rules and regulations as required by the sixth inclusive trade criterion. Given the lack of capacity in developing countries, which is particularly pronounced among the local communities and workers that the directive is

aiming to protect, it is questionable to what extent the proposed dedicated websites and digital platforms can be effective. This ties in with the seventh criterion of Inclusiveness, Engagement & Transparency, which must be assessed from the perspective of marginalised persons and groups. Here, it would be crucial in the implementation of the directive to actively work on capacity building, stakeholder consultation and engagement among those persons that the directive aims to protect. Given social realities and work conditions in LDCs, the directive is not adequately equipped to deliver in this category.

4.3 Summary: potential impact of EU CSDDD on trade

- The EU Directive only directly targets larger corporations, but as shown in the literature reviews above, its rules are bound to also impact on intermediary and supplier companies in the various value chains. Some of these smaller players may be local companies in LDCs. For this reason, the impact of the directive has to be considered in a wider context of direct and mediated trade impact. New regulations add non-tariff measures that may be restrictive to trade between LDCs and the EU.
- The LDCs' ability to comply with new standards would determine whether they are able to maintain their trade levels with the EU. In some cases, introducing stronger standards in LDCs may increase their competitiveness, and therefore trade levels. At the same time, these gains tend to materialise in forward participation in GVCs (measured in domestic value-added share of gross exports), while backward participation tends to be hampered by NTMs (measured foreign value-added share of gross exports).
- The importance (and competitiveness) of the EU as a market would affect the LDCs' decision to invest in closing the regulatory gap. However, local companies may not have the resources or technical capacity to close the gap on their own. Technology and knowledge transfer as well as technical assistance may be a standard remedy to ensure local companies continue to participate in the value chain.
- Social and environmental impact assessments of the CSDDD on a case-by-case basis would reveal whether the directive supports or undermines the attainment of its goals as well as Finnish development policy priorities in each case.
- There are risks that real impacts remain unknown to governments due to gaps in EU CSDDD, notably in capacity, transparency, and engagement dimensions of inclusive trade principles.

5 Case Reports

As outlined in previous sections, the impacts of the new directive on EU–LDC trade are likely to be country-specific and sector-specific. Therefore, to further illustrate the potential impact of the directive, we selected two high-risk sectors in two LDCs as examples – coffee production in Tanzania and textile and garment manufacturing in Ethiopia.

Global agricultural supply chains face various human rights and environmental risks, for which corporations regardless of size trading in the EU are expected to report on the actual and potential adverse impacts of their activities including how they identify, assess, mitigate, and prevent human rights and environmental risks. The agricultural sector which employs 55% of the population in LDCs (UNCTAD, 2022a) is particularly vulnerable to climate change and faces various business related human rights abuses across its supply chains. The garment and textile sector is also becoming increasingly important to LDCs as an entry-level for industrialisation and a strategic sector for employment, growth, and graduation from the LDC status (UN-OHRLLS, 2021), while human rights abuses and adverse environmental impacts are prevalent in these GVCs (ILO, 2022).

5.1 Methodology

The two case studies review existing literature on sustainability and responsibility in Ethiopia’s garment sector and Tanzania’s coffee sector. To develop our contextual understanding, we summarised the state of EU–LDCs trade and reviewed the institutional context in light of the proposed directive. This meant a review of ratifications of international conventions, existing legislation, as well as a mapping of potential threats to human rights, labour rights and environmental rights. Furthermore, we highlighted the current approaches to CSR in LDCs, with examples from Ethiopia and Tanzania. After reviewing the existing literature, we conducted altogether 11 interviews with organisational representatives from the sectors of inquiry, as summarised in Tables A1 and A2 attached. The interviews in Ethiopia consisted of six pre-selected organisations: a governmental organisation, a human rights organisation, an international development organisation, a private global garment buyer operating in the EU, a global labour union, and a private sector association. One of the interviews was conducted through a video call, the rest were undertaken face-to-face in the city of Addis Abeba, Ethiopia.

The interviews regarding the Tanzania case comprised four online interviews with (intermittent) video connection, as well as one written interview through the chat function. The interviews in Tanzania consisted of five pre-selected organisations: a governmental organisation, a cooperative, a private global coffee exporter operating in the EU, an international NGO and a private coffee roaster operating in Finland.

The interview participants were approached either through email with an attached support letter from the Ministry for Foreign Affairs of Finland, or by phone call. Prior to the interview, each participant was asked to read through the interview consent form. Every interviewee also signed the consent form as a sign of agreeing to the interview. The interviews were recorded with permission from the interviewees. All the interviews can be characterised as semi-structured, in-depth, qualitative interviews (see, e.g., Longhurst, 2003). The interview questionnaire was devised with input from the entire research team and informed by the general literature review, as well as the case-specific literature reviews. The length of the interviews ranged from 50 to 90 minutes and they were conducted either in English, Swahili or Amharic languages. In some of the interviews, several participants were present and can be thus categorised as group interviews. The analysis of empirical material started with a partial transcription of the recorded interviews. After multiple readings of interview transcripts and interview notes, the textual material was categorised into broad themes that were again informed by general as well as case-specific literature reviews. The syntheses of these analyses are presented below in the form of case reports (Hyett et al., 2014).

5.1.1 Institutional contexts of the cases

Ethiopia and Tanzania have ratified all international conventions, covenants and declarations for human rights listed in the directive's Annexe except the UN Declaration on Rights of Indigenous Peoples in the case of Ethiopia, and the UN Convention Against Torture in the case of Tanzania. ILO labour conventions are also ratified/in force and reflected in both countries' labour laws and regulations. However, Ethiopia has not signed the ILO's Minimum Wage Convention. Despite having ratified many international conventions (see Table A3), Tanzania and Ethiopia face challenges related to human rights and environmental protection as outlined in Table 5 below.

Table 5. Summary of Ethiopia’s and Tanzania’s main human rights and environmental challenges and violations. Sources: Abe, 2022; Agegnehu & Worku, 2016; Daley, 2015; Ethiopia Human Rights Report, 2021; le Mat et al., 2019; LHRC, 2021; Oya & Schaefer, 2021; Tura, 2017 URT, 2019a; URT, 2021a; URT, 2021b; Wassie, 2020.

Case	Reported human rights abuses and violations	Human Rights legal framework	Reported environmental and climate impacts	Environmental and climate policy framework
Ethiopia	<ul style="list-style-type: none"> • Killing and torture of civilians, racial and ethnic discrimination • Poor labour standards, insufficient wages • Gender-based violence, sexual harassment • Human trafficking • Malnutrition • Forced displacements and evictions • Restricted political participation and freedom of press • Corruption 	<ul style="list-style-type: none"> • UN human rights conventions listed in the CSDDD ratified except the UN Declaration on Rights of Indigenous Peoples (see Table A3 in Annexes) • All ILO conventions ratified and reflected in labour law, except minimum wage convention. • No national action plan for human rights and business 	<ul style="list-style-type: none"> • Soil degradation and erosion • Deforestation • Access to water • Pollution of lakes, rivers, air and soils • Biodiversity loss 	<ul style="list-style-type: none"> • All treaties, conventions and protocols related to environment that are listed in the CSDDD ratified • Environmental Impact Assessment Proclamation (2002) • Environmental Pollution Control Proclamation (2002) • Prevention of Industrial Pollution Regulation (2008) • Climate-Resilient Green Economy Strategy (2011)

Case	Reported human rights abuses and violations	Human Rights legal framework	Reported environmental and climate impacts	Environmental and climate policy framework
Tanzania	<ul style="list-style-type: none"> • Violence against women and children • child labour, land/property rights violations • lack of transparency, disregard for regulations • corruption • non-existent or unsatisfactory grievance mechanisms • lack of employment contracts or paid overtime • poor compensation • denial of leave • violation of freedom of association • workplace violence and harassment 	<ul style="list-style-type: none"> • UN human rights conventions listed in the CSDDD ratified except the UN Convention Against Torture (see Table A3 in Annexes) • Torture prohibited in the constitution • 30 out of 37 ratified ILO conventions in force 	<ul style="list-style-type: none"> • Land degradation caused by human actions, rapid population growth, poverty and climate change (deforestation, loss of vegetation cover, soil erosion, soil pollution, loss of biodiversity) • deforestation • lack of good and accessible water • threats toward wildlife habitat and biodiversity • poor management of environmental pollution and waste. • extreme droughts and flooding • gender inequality in access and control over natural resources • gender inequality in decision-making and representation within environmental management 	<ul style="list-style-type: none"> • All treaties, conventions and protocols related to environment that are listed in the CSDDD ratified • Tanzanian Environment Management Act (2004) • Environmental Impact Assessment and Audit Regulations (2005) • Climate Change Strategy for 2021–2026

5.2 Case 1: The garments industry in Ethiopia



Image source: International Water Management Institute, CC BY-NC-ND 2.0,
Credit: Loney, Prue <https://flic.kr/p/athEt2>

With a population of nearly 118 million, Ethiopia is the second largest country on the continent of Africa by population. The Ethiopian economy has been growing rapidly in recent decades, making it the fastest growing economy on the continent. The average percentual growth rate was 9.5% during 2007–2022 (World Bank, 2022). The growth of the Ethiopian economy has been largely attributed to the steps Ethiopia has taken to move from an agrarian economy towards becoming an industrialised nation, labelled as ‘latecomer industrialisation’ (Altenburg et al., 2020). Currently, Ethiopia’s economy is dependent on agriculture, which accounts for 32 per cent of the GDP, 80 per cent of exports, and an estimated 75 per cent of the country’s workforce (GoE Development Plan, 2021). The share of industrial production is estimated at 28% (GoE Development Plan, 2021). 78% of the population reside in rural areas (World Bank Data, 2021a). In 2014, around 300 EU-domiciled companies operated in Ethiopia, generating approximately

200,000 jobs (EU Business Forum Ethiopia, 2022). The EU is Ethiopia's second biggest trading partner: Around 20% of its exports go to the EU market, valued at €652 million. One third of these exports to the EU are industrial goods. (European Business Council for Africa, 2019)

In their recent 10-year development plan, the government of Ethiopia outlined reallocating “the factors of production from low productivity to high productivity sectors, resulting in the economy's structural transformation from agriculture to industry and from construction-led to manufacturing-led economy” (GoE Development Plan, 2021: 27). Manufactured goods make up of 9% of total merchandise exports (World Bank Data, 2021b).

It should be noted that the recent political unrest and civil war in the Tigray and Amhara regions have resulted in considerable violence since late 2020. Ethiopia is currently facing a socioeconomic crisis, as the growth for FY2021–22 fell to 3.8% and inflation rates reached almost 27% (World Bank Data, 2022). The COVID-19 pandemic, spillovers from the war in Ukraine, as well as droughts furthermore resulted in lower agricultural production, a sharp fall in donor financing, and foreign exchange shortages (IMF, 2022). In January 2022, the United States excluded Ethiopia from its African Growth and Opportunity Act (AGOA) in an effort to pressurise the government to end violence in Northern Ethiopia. These actions did not have a notable effect in ending the war but have limited the options available to industrial and agricultural workers (Bedasso & Emiru, 2022). It is difficult to estimate the long-term effects of the current situation on the industrialisation process at large, but with regard to the garment industry, several international garment brands have recently ceased their operations in Ethiopia.

Despite the ongoing crisis and war, Ethiopia has been a major receiver of foreign direct investment in recent years. In 2022, foreign direct investment flows to Ethiopia reached \$4.3 billion, making it the second largest FDI receiver within LDCs. Chinese investments tripled in 2021, as Ethiopia is a central hub for China's Belt and Road Initiative. (UNCTAD/WIR, 2022a) Most of the FDI consists of so-called brownfield investments, where investment companies purchase or lease an existing facility or land. New greenfield investment projects with companies' own facilities, on the other hand, have reduced from 32 ventures in 2019 to eleven ventures in 2020 to only seven ventures in 2021 (UNCTAD/WIR, 2022b). On top of providing lease agreements, the Ethiopian government issues several other incentives for investors, including import and export duty exemptions (import duty exemption up to 100% for industrial park enterprises that are fully exporters) and cheap rental prices, electricity and water for corporations operating in industrial parks (EIC, 2017). The government also provides up to fourteen years of corporate tax exemptions to companies.

Despite the recorded growth rates, the socio-economic benefits have not trickled down to those suffering from poverty (Wodajo & Senbet, 2017). While the national poverty rate, has decreased from 30% in 2011 to 24% in 2016 (World Bank, 2020), urban-rural inequality rates have increased (World Bank, 2020). Ethiopia has received foreign aid since the 1960s, and a substantial amount of the national budget is financed from external sources (Heyi, 2018). Major donors include the EU, UN agencies, the World Bank, the World Food Programme, and the African Development Bank.

5.2.1 Private compliance regimes in Ethiopia

Unlike most other African countries, Ethiopia has neither a national CSR policy, nor coordinating CSR bodies at macro, meso, or micro levels (Aliye, 2020). Several issues related to labour rights and environmental protection are already embedded in the Ethiopian legislation, yet the enforcement of laws is often lacking. Reasons range from limited capacity and resources to inadequate coordination and commitment (World Bank, 2016). Previous studies indicate that governmental labour regulations, local employers, workers and unions have played a bigger role for social upgrading, e.g. employment security and physical well-being, than private governance regimes and CSR (Mulubiran & Karlsen, 2023).

The predominant position towards CSR in Ethiopia is one of philanthropy (Demamu, 2020; Kellow & Kellow, 2021). Much of the focus of MNCs' CSR is on environmental aspects, the provision of infrastructure, health, education and microcredit, and it is characterised by firms partnering with NGOs (Kassa, 2018). NGOs in Ethiopia are often acting reactively to the damage that has been caused by the unsustainable business practices, rather than working proactively by collaborating with corporations, government, and other stakeholders (Asfaw et al., 2017). CSR practices have largely been introduced in the wake of foreign companies entering Ethiopia (Demamu, 2020), yet systemic integration of CSR into company strategies and business planning is rare even in the largest corporations (Kellow & Kellow, 2021). The export-oriented suppliers of the garment industry have been at the forefront of adopting voluntary CSR initiatives into their business practices. However, while enterprises have developed model codes of conduct and guidelines including CSR projects and initiatives, they miss their mark in driving systemic benefits (Demamu, 2020).

5.2.2 The textile and garment industry in Ethiopia

One of the core drivers of industrialisation in Ethiopia is the nation's garment sector (Desta, 2021). The focus on textile and garment industry development started during the government's first five-year Growth and Transformation Plan (GTP I) during 2010–2015. In the government's ten-year development plan, the textile and garment sector, including industrial cotton production, is considered as a strategic focus area of developing the manufacturing industry. Growing expectations have been placed on Ethiopia's ability to take on its share of the global garment production (Uddin & Chowdhury, 2008).

Figure 8. Leading destinations for Ethiopian textiles and garment exports (in '000's US\$). Source: World Bank WITS database (2022b).



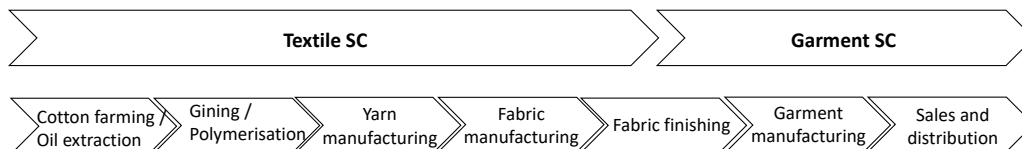
To accelerate structural transformation, balance trade deficit and job creation, the Ethiopian government is implementing an industrial policy to attract foreign investors to their textile and garment industry (Oya & Schaefer, 2021). One major pillar of the policy has been the construction of 13 Industrial Parks around the country (ETGAMA interview). International garment production is consolidated in these parks, as eight of the active parks focus on textiles and garments (Baseline Survey Report, 2022). The main source of FDI in the textile and garment sector originates from Chinese investors, contributing to nearly half of the investments (Baseline Survey Report, 2022). In 2020, the parks had a total of 189 companies, employing 71,000 workers (CEPHEUS, 2020).

Some years ago, the global textile and garment corporations listed Ethiopia as one of the most interesting new countries to expand garment production within Sub-Saharan Africa (Mihretu & Llobet, 2017). Several garment manufacturers from other low-cost production

countries, such as China, India and Bangladesh, invested substantially in the Ethiopian garment sector to join the benefits of the envisioned growth (Nair, 2022). The migration of factories from other low-cost production countries can be indicative of a race-to-the-bottom – a term used to describe economic actors’ single-sighted focus on greatest margins and lowest costs often at the expense of precarious working conditions for labour (Davies & Vadlamannati, 2013).

Leading garment value brands, such as PVH, H&M and Decathlon have been producing apparel in Ethiopian industrial parks. The parks are designed so as to provide all necessary services for international business: from availability of workers to all necessary permits, logistics services and export procedures (Bessette, 2022). Specific measures were designed to promote the sector, including cheap land lease and rent in industrial parks, cheap and green electricity from hydropower, access to finance by means of low interest loans, assistance by various institutions ranging from setup to marketing, duty free privileges and tax holidays (UNCTAD, 2016).

Figure 9. Textile and garment supply chain. Source: Adapted from Brandenburg et al. (2022) Human rights in the Ethiopian garment industry.



Similar to the global garment industry’s gendered structures across the world, the overwhelming majority of Ethiopian factory floor workers are female, reaching around 80% of total workers (IndustriALL interview). The garment workforce in Ethiopia is characterised as “young, female, have migrated internally, and have relatively high levels of education for the jobs they fill” (Oya and Schaefer, 2021, p. 4), yet without prior experience of industrial working regimes (Gonsamo, 2019). This group is particularly limited with regards to their agency on the terms and conditions of their employment (Pearson & Seyfang, 2001). The use of child labour within factories is very rare, although challenges prevail in verifying the ages of workers (ETGIRDC – Ethiopian Textile and Garment Industry Research and Development Center interview).

The Industrial Federation of Textile, Leather and Garment Workers' Trade Unions (IFTLGWTU) used to have 55,000 members in 2019 prior to the challenges faced by the industry: COVID-19, the civil war and consequent removal from the AGOA list (IndustriALL, 2019). The number of members has risen significantly since 2017 when the government allowed unions to start recruiting members in the industrial parks. The power of unions in Ethiopia, however, has been contested, as they are often dominated by management personnel from companies' human resource departments (Oya & Schaefer, 2021). Ethiopian workers have resisted the new industrial work regimes both through individual and collective action, e.g., through absenteeism and wildcat strikes outside union structures (Oya & Schaefer, 2021). Research has also shown that a majority of enterprises do not support employees in joining trade unions, workers' councils or participating in related activities (Baseline Survey Report, 2022).

Among the primary challenges faced by the workers are low wages, stress caused by long working hours, sexual harassment, vulnerability to sexually transmitted disease and reproductive health problems, and multi-cultural communication problems (Gonsamo, 2019). Workers' demands for decent wages are strong among the factory labour (Baseline Survey Report, 2022). The average salary is between 30–48 USD per month, depending on previous experience and the type of work (IndustriALL interview). The starting salary in industrial parks might reach as low as 26–28 USD per month (IndustriALL interview). With the current depreciating currency in Ethiopia, the salaries are among the lowest in the world within the textile and garment industry (IndustriALL interview). The living wage – a level of remuneration sufficient to afford all necessities, pay required taxes, and save for emergencies – for an individual in Ethiopia is estimated at 139 USD per month (Wage Indicator, 2023). 30% of all the employees work more than 60 hours a week. This implies that the overtime (which is not always compensated) at some enterprises has exceeded the limit set by the local legislation. (Baseline Survey Report, 2022)

On top of low wages, occupational health issues and reproductive rights are at the top of female workers' labour rights agenda. Yelling and restricting speaking and movement on the factory floor are all common practices (Mitta, 2019). A recent study found that two thirds of workers were diagnosed with a disease; respiratory diseases and musculoskeletal disorders being the most common diagnoses (Zelee et al., 2021). Maternity leave is around three months, and the salaries are not enough to purchase formula milk for infants, indicating a pressing need to extend the period of maternity leave. Otherwise, women need spaces and arrangements to bring their infants to the workplace. Another option would be to organise part-time working schedules for mothers to visit their homes during the day, or to leave early to breastfeed their infants. Bringing infants only for breastfeeding is often not an option either, since the workers' transportation fees alone may already take up half of their salaries. The lack of living wages urges women to contract loans to

keep their jobs after childbirth. The salaries are not enough to pay back loans, leading to vicious circles of debt, or opting out to stay home as a more economic option. (IndustriAll interview)

The management of garment factories consists mainly of foreign males. Sexual harassment and abuse are rampant in the factories, and sometimes forced sexual relations are required by managers in order for the women to keep their jobs, or to advance their careers (IndustriALL interview). Managerial techniques of domination are reinforced by “racist and sexist discourses concerning the supposed docility of Ethiopians in general and of young women in particular” (Oya & Schaefer, 2021). Ethiopia has a number of laws, policies and institutional frameworks intended to address violence and harassment, yet the existing laws do not adequately cover the issue at the workplace (ILO, 2021). The role of unions is limited in addressing sexual harassment, as women’s representation in unions’ leadership positions is often tokenism (IndustriALL interview). Approximately one out of 15 executives in labour unions are female (IndustriALL interview). Development partners, such as GIZ, are working on establishing e.g., anonymous hotlines for the women to file their complaints and grievances (GIZ interview).

The turnover of workers in factories is exceptionally high: turnover rate for women between 2014 and 2016 amounted to almost 90% (Hailu, 2016). Job satisfaction among women remains low (Baseline Survey Report, 2022) and the occupation in the textile sector is often seen as a stepping stone rather than long-term employment (Oya, 2019).

5.2.3 Environmental impacts of the Ethiopian garment industry

The main environmental impacts of the garment industry’s value chains include water use, chemical pollution, CO₂ emissions and textile waste. The garment industry uses water mainly in its wet processing, dyeing, and cotton cultivation, accounting for 79 trillion litres of water consumed per year globally (GFA & BCG, 2017). A quarter of globally consumed textile fibres are derived from cotton (Gschwandtner, 2022), and the plant requires pesticides and high amounts of water for it to grow; for organic cotton, the water use is even higher. In addition to pesticides, the textile industry has been reported to use over 15,000 different chemicals during the manufacturing process (Roos et al., 2019). Alongside aluminium production, textile life cycles (including laundering) generate the most CO₂ emissions per unit of material (Kissinger et al., 2013). The textile industry is attributed to 10% of total global CO₂ emissions (UN Climate Change, 2018). The high carbon footprint comes from high energy use in production processes, and especially in the production of synthetic textile fibres derived from petrochemicals i.e., fossil fuels (Niinimäki et al., 2020). The industry produces over 92 million tonnes of textile waste per year (Quantis, 2018). A

large portion of the waste – including unsold products – ends up in landfills (Dahlbo et al., 2017). The garment industry also contributes to ~35% of oceanic primary microplastic pollution (UN Climate Change, 2018).

Typically, in garment production, the capital intensity tends to be low while labour intensity is high, factory size is small, and technology is unsophisticated. The production networks are increasingly dominated by large buyers, with low supplier switching costs (Dicken, 2015). In such GVCs, competition between suppliers is usually based on price/cost, notably labour cost. This has created a landscape where lead firms can take advantage of the uneven geography of manufacturing costs seeking out locations with lax labour laws and weak regulatory enforcement (ibid). Although the primary driver is to relocate supplier networks where labour costs are low, historically, global garment manufacturing companies have also located their operations in countries where environmental regulation authorities are not well resourced to monitor for the use of pollution-mitigating technologies (Niinimäki et al., 2020). Such regulation-averse mode of production results in detrimental environmental impacts due to chemical leakages (Anguelov, 2015), as well as in health risks for workers, local communities, cotton farmers and garment consumers (Niinimäki et al., 2020). In the Ethiopian garment industry, the focus of environmental impacts has been directed at the factories' waste management systems (ETGIRDC interview). The industrial parks (IPs) redirect post-production wastewater directly to water bodies, e.g. the Hawassa Lake (Azmach, 2019, p. 49), while many factories within and outside of IPs have sub-optimal effluent treatment plants (Baseline Survey Report, 2022). Chemical leakage and spillage, poor chemical storage and poor chemical handling within the factories are being reported as risks to the surrounding environment and communities around industrial parks and stand-alone factories. Solid waste and hazardous waste management are also found to be poor, and the deteriorating quality of water in the communities neighbouring the IPs has led to several conflicts. Although groundwater usage is still relatively low, the future implications of large-scale abstraction of water are yet to be seen, as there is no regulation on groundwater use for the IPs. (Baseline Survey Report, 2022). Adding to the wastewater treatment, chemical leakages and waste management, the question of hydropower as a main source of energy for garment production is worth mentioning. Promoted as a 'green energy' source for investors, e.g. the Great Ethiopian Renaissance Dam (the largest hydropower dam in Africa and among the largest worldwide) may adversely impact fish, aquatic plants and biodiversity in the downstream (Elagib & Basheer, 2021).

5.2.4 Impacts of EU CSDDD on Ethiopian garment industry

As a new sector, the Ethiopian textile and garment industry has been primed to be able to weave the most ambitious CSR protocols into its production practices. CSR initiatives have contributed to environmental upgrading in the form of improved wastewater treatment, sludge management and solid waste management systems (ETGIRDC and ETGAMA interviews). On the side of social upgrading, unionisation rates in industrial parks have increased due to CSR compliance and the work undertaken by international labour unions (IndustriALL interview). Sanitary conditions in factories have also improved, as well as occupational health related to ergonomics (ETGIRDC interview). In terms of economic upgrading, CSR initiatives have opened doors to several markets and buyer relationships and contributed to improved productivity through workers' wellbeing (ETGAMA interview). To date, however, the existing private governance regimes have still not eradicated major human rights issues: the unacceptably low wages, several occupational safety and health issues, or sexual harassment at factory level. Neither have the certifications and labels managed to stop environmental degradation and dumping of textile waste in landfills. The question then becomes how the EU CSDDD will create both opportunities for upgrading as well as minimise risks for downgrading effects.

5.2.4.1 Impacts on the value chain

Garment trade between Ethiopian manufacturers and EU buyers is characterised by asymmetrical power relations, where EU garment companies set the rules of the business. The garment industry has been traditionally very price-sensitive and focused on quality, but CSR compliance has steadily increased its importance as a competitive measure (ETGIRDC interview). The EU CSDDD is not expected to impact the existing garment trade between the EU and Ethiopia significantly, except through the increased risk of buyers' disengagements from Ethiopian suppliers. The low impacts on the current trade relations can be explained through the wide compliance with already existing CSR initiatives within the sector. The current CSR labels and certifications are already much aligned with the EU CSDDD's requirements, with the notable exception concerning its legally binding character. Since export-oriented garment manufacturers in Ethiopia already comply with several voluntary initiatives requested by EU buyers, future CSDDD compliance regimes are not expected to induce significant changes at the operational level (GIZ interview, ETGIRDC interview).

The textile and garment industry in Ethiopia is designed to grow in order to capture the benefits of the governments' large-scale investments in industrial parks and infrastructure. The EU CSDDD will possibly create more stringent risk assessment procedures for potential new buyers who are considering relocating or investing in a country such as Ethiopia (GIZ interview). Attracting new buyers will require more action and dialogue between concerned parties, and given its political and regulatory landscape, potential buyers

might rank Ethiopia as a high risk destination. Lack of new buyers would hamper the envisioned growth of the manufacturing industry in Ethiopia, and potentially jeopardise the government's investments and refinancing of national debts.

For current buyers, the development of strategic, long-term relationships with large suppliers in Ethiopia appears to be a promising future avenue, however, the Ethiopian value chains need to improve in terms of providing locally or regionally sourced, traceable cotton (e.g. through the Cotton Made in Africa initiative) as well as in reducing costs, transparency risks, and carbon footprints of garments. Moreover, buyers need faster lead times for imported trims and accessories in order to upgrade the production from simple products to more complex garments (Buyer interview). The actual commitment to long-term supplier relationships remains to be seen as evidence points to risks of buyers' disengagement from Ethiopia, as discussed further in section 5.2.4.3.

The EU CSDDD is expected to make it more difficult for small and local suppliers in Ethiopia to enter into sustainable global value chains. The foreign investors in the Ethiopian garment sector are typically more experienced with CSR regimes, yet Ethiopian companies, and especially small suppliers, will need to learn and invest substantially in compliance processes (ETGIRDC interview, ETGAMA interview). The CSDDD may also hinder the expansion of the Ethiopian garment value chain into cotton production. The Ethiopian garment industry's development strategy has chronologically started from upstream activities of the garment value chain. While mainly focusing on ready-made garment manufacturing, the industry has relied on imported goods such as synthetic fabrics, cotton yarns and chemicals. Only recently has Ethiopia started to intensively develop cotton production to capture a larger proportion of the value chain. (ETGIRDC interview) For the nascent cotton production value chain, the CSDDD will pose challenging requirements regarding traceability (ETGIRDC interview). Traceability of cotton is perceived as a demanding task in Ethiopia, as it requires significant amounts of foreign currency for technology investments, and vast training programmes (ETGIRDC interview). The economic upgrading possibilities through increased profits deriving from larger vertical integration to GVCs may thus remain unattainable in the case of Ethiopian garment and cotton value chains, unless the EU supports suppliers in covering the costs of technology transfer.

5.2.4.2 Division of costs and responsibilities

The responsibility of addressing the cascading financial and organisational impacts of the EU CSDDD on Ethiopian garment suppliers is expected to fall on EU actors, the Ethiopian government as well as suppliers. The interview participants emphasised the need for the EU to support manufacturers in sharing the costs of future compliance (ETGIRDC, ETGAMA, GIZ interviews). Currently, there are a number of initiatives by international donors, the

ILO, industry associations and Ethiopian trade unions to educate governmental actors, factory managers and workers of their rights and responsibilities regarding CSR-compliant human rights and environmental impact processes. The costs of verification are also likely to increase for garment buyers within the CSDDD. Buyers rely on certification bodies and associated third-party verification schemes in complying with CRS initiatives throughout the value chains. This dependence is likely to intensify within the CSDDD, as the risks of non-compliance for EU companies will increase (Buyer interview). For garments, the value chains are rather complex: for a basic T-shirt with a button, the number of 3rd-tier suppliers within the value chain already reaches 80 suppliers (Buyer interview). This will make labels such as GOTS (Global Organic Textile Standards) ever more attractive in the future, as it accounts for a large proportion the total garment value chain (ETGAMA interview).

The EU CSDDD is expected to exacerbate existing inequalities between small and large producers, and foreign and local garment producers (ETGIRDC interview; ref. Acheampong & Maryudi, 2020; Maryudi et al., 2020). The same phenomenon has already occurred with the current CSR initiatives: the costs of compliance are too high for the smaller suppliers. The government of Ethiopia, and international and multilateral organisations such as the GIZ, Solidaridad and UNIDO are engaged in programmes that support local, small manufacturers in upgrading them in becoming “export-ready”; which entails reaching the quality standards required by international buyers, and complying with the myriad of CSR certifications and standards required by different buyers (ETGIRDC, GIZ interviews). Typically, the Ethiopian garment manufacturers are more interested in adopting social compliance initiatives, such as the Business Social Compliance Initiative (BSCI). Compared to environmental compliance, which often requires substantial investments in, e.g., waste water treatment, social compliance is seen as simultaneously improving productivity and profits. (ETGAMA interview)

The existing voluntary initiatives have had mixed outcomes in terms of upgrading and downgrading effects. Environmental upgrading effects have followed from compliance with wastewater and sludge treatment facilities set up in the industrial parks (IPs). For several Ethiopian-owned stand-alone manufacturers, however, investments in such facilities are often out of their reach. This limits their participation in the export trade. The preferential rental agreements for FDIs in the industrial parks further exclude local manufacturers from these facilities, where waste water and sanitation facilities required by CSR initiatives are already in place. The rent agreements within IPs require foreign currency, which is only available to already exporting companies.

Grievance mechanisms in industrial parks are currently poorly implemented by management, and vaguely understood by workers, and as such, they have not translated into effective action (Mitta, 2019). The legal recourse for workers to address business

related human rights abuses is close to non-existent due to expensive and sometimes corrupt judicial processes (CEHRO interview, IndustriALL interview). As stated by union interviews, the only viable route for workers to address business related human rights abuses and disputes is through dialogue within factories, facilitated by unions. The EU CSDDD is seen as a promising mechanism for global unions to challenge the brands beyond the national legal structures within LDCs. Similar to labour unions' global framework agreements with garment producers, the directive will open a route to raise issues pertaining to workers' rights directly at the global level, where the bargaining power of unions is concentrated (IndustriAll interview). Another route for the CSDDD to establish more effective grievance mechanisms for workers is e.g. through anonymous hotlines. However, reaching workers is not always easy, as worker turnover is high, and training resources are comparatively limited. The Ministry of Labour and Social Affairs equally advocates for workers' rights and fair wages; however, this seems problematic to realise as economic growth and industrialisation are prioritised over rights-based approaches by the Ethiopian government (American Bar Association Rule of Law Initiative, 2017). The government officials are controversially seeking to remove barriers to potential new investors, such as the promotion of trade unions, but also protecting the workers in cases of grievances (Oya & Schaefer, 2021).

Despite the resources required for the establishment of grievance mechanisms, as well as the uncertainties in raw-material sourcing and processing which make the monitoring of environmental impacts challenging (c.f. Karaosman et al., 2018), concerted efforts should be directed towards monitoring. For environmental impacts, the governmental ETGIRDC advises factories on pollution and wastewater treatment. Their laboratories conduct tests for all the parameters within waste production, including traces of hazardous waste. However, despite being an organisation within the Ministry of Trade and Industry, they are separated from the Environmental Protection Authority (EPA), which should have the legal monitoring role for the industry's environmental impacts. The EPA, on the other hand, is under resourced and limited in its capacity to monitor the garment sector. There are cases, though, where factories were shut down after repeated neglect of industrial pollution (ETGIRDC interview).

In order to avoid CSR decoupling, it has been proposed that relevant stakeholders such as CSO and labour unions would be represented in independent third-party verification mechanisms, i.e., auditing organisations (IndustriALL interview). The most common CSR compliance requirements for the EU market include the Business Social Compliance Initiative (BSCI) social auditing methodology, which provides companies with a system for gradually achieving the SA8000 social management certification; OEKO-TEX STeP; OEKO-TEX STANDARD 100; and GOTS. Once a manufacturer obtains one of these certifications, significant changes are not required to obtain the other ones – except for paying the costs of certification. The overlapping of compliance systems, however, creates notable

additional organisational costs, as the various batches of garments need to be treated differently within the factories (ETGAMA interview). The government of Ethiopia is currently creating its own 'hybrid' compliance standard to support the manufacturers in juggling the various requirements of different soft law initiatives (ETGIRDC interview).

Due to the shortcomings of typical auditing schemes and grievance channels, the role of watchdog NGOs should also be strengthened in Ethiopia (CEHRO interview). The Ethiopian case shows well the importance of deploying an inclusive trade lens to the implementation of the EU CSDDD. Women working in the garment sector in Ethiopia are unlikely to have the time, financial resources, and the online literacy to learn about the EU CSDDD and its complaint mechanisms. Workers' collectives, local unions and civil society organisations should be empowered to work in the medium term with all stakeholders in order to improve working conditions for women.

5.2.4.3 Impacts on trade between the EU and Ethiopia

The impacts of CSDDD on the Ethiopian garment industry may lead to several outcomes, depending on its implementation. Regarding supplier relationships and wider trade relations, the impacts on country-level disengagements due to the CSDDD would likely be severe. Within a few years of the civil war breaking out in Ethiopia in 2020, several global retailers and buyers, including H&M and PVH, have exited the country and disengaged from Ethiopian garment suppliers. The companies stopped their long-term relationships with suppliers due to the country's high-risk profile (Nelson et al., 2020). These disengagements resulted, firstly, due to Ethiopia being removed from the AGOA treaty and hampering exports to the U.S. market. Secondly, the disengagements were supposedly a result of the fear of being connected to human rights abuses and violations, such as war crimes, taking place within the companies' value chains. The long-term effects of these disengagements remain to be seen, yet they already resulted in high-level job losses. The fast disengagement of garment companies from their heavily subsidised and profitable investments exposes the vulnerability of LDCs, which often experience political instabilities due to geopolitical relations, poverty and the unequal effects of climate change.

A possibility exists that the Ethiopian garment industry would start to orient towards other markets if the CSDDD becomes too stringent, or if it leads to unpredictable disengagements. South-south markets for garments are a growing trade avenue due to China's increasing production costs, and being significantly less stringent in their modus operandi. The EU needs to pay attention to emerging power configurations for its consumption of garments, and the future impacts on the African Continental Free Trade Area, as approximately 80% of EU-consumed finished textiles are manufactured outside of the EU (Niinimäki et al., 2020).

Although the CSDDD in its current form does not address the use of products produced under the directive, the responsibilities of end users, i.e., consumers, should not be forgotten (GIZ interview). The EU is currently implementing approaches to reduce textile waste by 2025 as part of its circular economy strategy. Consumers in the EU are urged to understand fashion as more of a functional product rather than entertainment and be ready to pay higher prices that account for the environmental impacts of fashion. Whether circular economy approaches will progress from a focus on increasing recycling rather than decreasing production remains to be seen. Potential policy-level decisions to reduce production in the garment industry would naturally impact the garment trade and value chains between the EU and Ethiopia in the future.

5.3 Case 2: The coffee industry in Tanzania



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Tanzania has a population of about 61.7 million people, consisting of about 125 ethnic groups and languages. Two-thirds of the population live in rural areas, and about 65% of employment is in agriculture. Tanzania is classified by the United Nations as a Least Developed Country and by the World Bank as a lower middle-income country. In 2018, nearly 28 million Tanzanians lived on less than 1.90 US dollars a day. Most people (52 million) lived on less than 5.50 US dollars a day (World Bank, 2021). From a human

development perspective, life for Tanzanians has been improving during the 2000s, and the country is on the verge of crossing the line between low to medium human development (UNDP, 2022a). However, based on the most recent UNDP Multidimensional Poverty Index, more than half of the population, about 35 million people, are living in multidimensional poverty. Multidimensional poverty is calculated based on several indicators relating to people's health, education, and living standard. The standard of living is proportionally the biggest problem for multidimensionally poor Tanzanians, who lack proper housing, sanitation, cooking facilities, assets such as radios, TVs, bicycles, telephones, or computers and do not have proper access to water and electricity (UNDP, 2022b).

Throughout its independence, Tanzania has received significant amounts of development aid from OECD countries. Until recently, it has been one of the most aid-dependent countries in Sub-Saharan Africa and among the two largest development aid receivers on the continent. At its highest dependence, donors have financed over a quarter of the national budget and up to 80 per cent of the state's so-called development budget (Tripp, 2012). Tanzania has since reduced its aid dependence. In 2020, net aid received stood at 3.65% of GDP. The combined share of development cooperation by European Union members makes the EU the largest donor in Tanzania before the US. European development cooperation is spread widely across numerous sectors and actors (European Commission, 2022b).

Based on an EU market survey, fresh and processed agricultural products attracts most European investment (40%). It is estimated that EU companies employ about 151,000 people in Tanzania, and while many companies are SMEs, there are about 30 large taxpayers among EU companies, having paid close to USD 1.45 billion in taxes between 2015 and 2021. EU firms in Tanzania also report having spent over €11 million on CSR annually. (European Commission, 2022b)

5.3.1 Private compliance regimes in Tanzania

Different voluntary schemes on corporate responsibility have been prevalent especially in the mining and petroleum sectors (Lange & Wyndham, 2021; Nilsson, 2023; Nyankweli, 2012). These have ranged from charitable donations to education, health, and housing to support for youth education and entrepreneurship (ibid.). Furthermore, different forms of certifications have been prevalent in the agricultural sector, fisheries, and forest management. The first Forest Stewardship Council (FSC) certified timber exports from Africa have been made from Tanzania (Ponte et al., 2021).

The government promotes and seeks to have control over CSR interventions by foreign investors. Within the extractive sector, local government authorities (LGAs) have powers through legislation and policy guidelines to agree upon and monitor voluntary CSR interventions and to report on them to the central government or other overseeing bodies regularly. Even though an expectation about ethical business behaviour dates far back in the country's history (Fulgence, 2016), the concept and practice of Corporate Social Responsibility has entered Tanzanian legal and policy speak through interaction with foreign actors (Fulgence, 2016; Nilsson, 2022). The understanding among government officials, politicians, NGOs, and researchers in Tanzania is overwhelmingly that CSR refers to philanthropic, voluntary donations on the local, community level (Nilsson, 2022), which is common in Sub-Saharan Africa (Adeleye et al., 2020; Amaeshi et al., 2006; Dartey-Baah & Amponsah-Tawiah, 2011; Muthuri, 2013). Beyond philanthropic CSR, NGOs in Tanzania point to the importance of the so-called Service Levy, which corporations are expected to pay to local government authorities at a maximum rate of 0.3 per cent of their turnovers. The revenue income from the levy is not currently earmarked to anything particular but NGOs in Tanzania have called for it to be allocated for developmental purposes (Policy Forum, 2015).

In addition, so-called "local content policies" have come to have heavy political importance in the country (Lange & Kinyondo, 2016; Nilsson, 2022). Local content policy refers to localisation measures that ensure that Tanzanians gain jobs, business opportunities and skills from foreign investments and that technological transfer takes place. In 2019, the Tanzanian government decided to expand local content policies beyond the extractive sector and adopted national local content guidelines for priority sectors which include the extractive sector, agriculture, construction, manufacturing and trade, and tourism (URT, 2019b). A central tension between foreign investors and the Tanzanian state has been if and how the capacity of the Tanzanian labour force and private sector lives up to the expectations of extensive localisation, and when not, who is responsible for building that capacity (Nilsson, 2023).

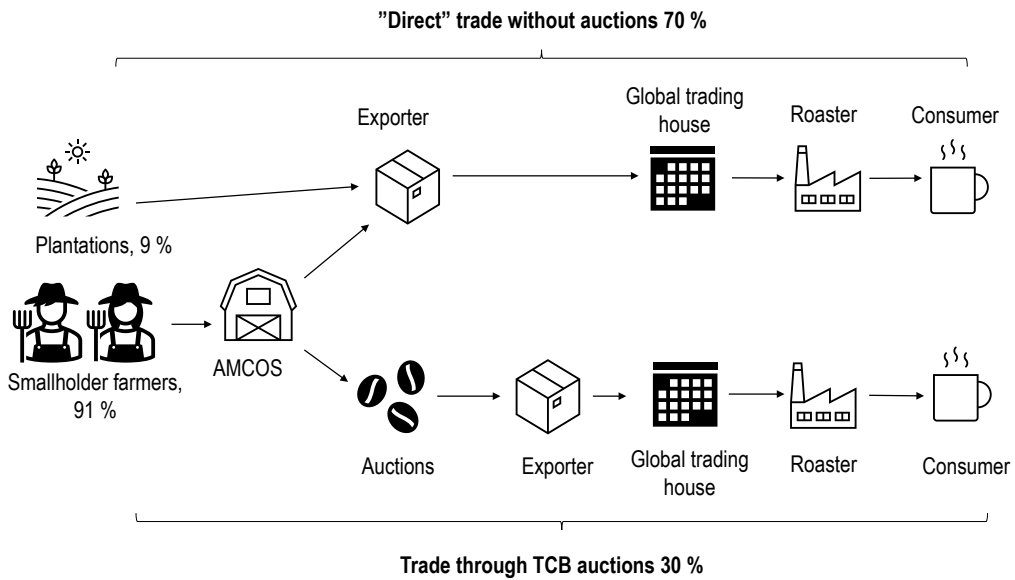
5.3.2 The coffee industry in Tanzania

Tanzania is among the top five coffee producers in Africa, contributing 1.7% to global coffee production and providing direct income to over 400,000 households in Tanzania. The vast majority of Tanzanian coffee is produced by smallholder farmers. For example, in the 2019/2020 period, 91% of the coffee produced in the country was from smallholder farmers, and 9 per cent was from plantations (URT, 2021c). Approximately 93 per cent of the coffee produced is exported. Coffee accounts for 2 to 3 per cent of the country's total exports and about 0.2 per cent of the country's GDP. Coffee is cultivated in 17 regions (51 districts) across the country.

The Tanzanian government has named coffee as one of the strategic cash crops for the country. Since March 2022, the Tanzanian government has removed 42 out of 47 export duties, and lowered levies on coffee exports by 75% to increase coffee exports (USDA, 2022). Despite the increasing value of coffee exports in recent years, coffee production has been declining over the years due to climate change, pests and diseases, and global price fluctuations (Pyk & Abu Hatab, 2018). Smallholder farmers feel the most of these impacts, coupled with pressures from market liberalisation, high input costs, limited access to credit, and other factors that affect farmers' incomes (Pyk & Abu Hatab, 2018). Several institutional factors inhibit the potential of the coffee sector in Tanzania: inadequate research and extension services, limited production of seedlings and weak cooperative organisations (Mhando, 2019).

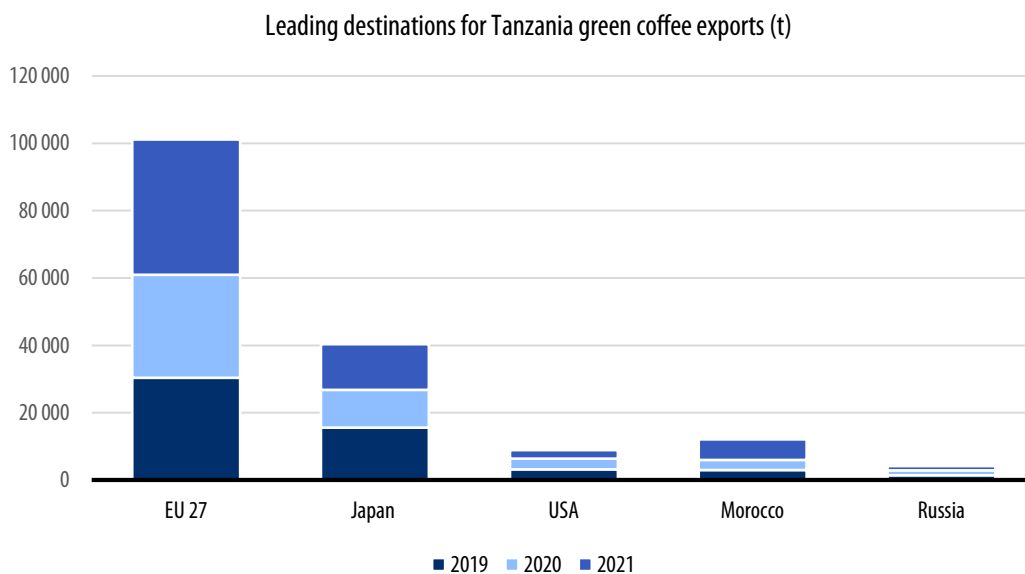
The Tanzania Coffee Board regulates the coffee industry and advises the government on coffee matters including growing, processing, and marketing Tanzanian coffee. Licensed exporters buy coffee from suppliers including from plantations and cooperatives through 3 key markets: Farmgate market (for pre-processed coffee), and auctions and direct exports (DE) for green coffee beans. Since 2018, farmers (except plantations) are only able to sell their coffee through registered Agricultural Marketing Cooperative Societies (AMCOS). In 2022, TCB in collaboration with the Tanzania Mercantile Exchange ran the first online farmgate auction for pre-processed coffee (Oirere, 2022). TCB also runs 3 rotating auctions for conventional coffee within production zones (in Moshi, Songwe, and Mbinga). Coffee is increasingly sold through direct exports. Currently, about 70% of coffee is sold through direct exports (TCB interview). Both buyers and farmers tend to prefer the DE market as it offers opportunities to build relationships and offers higher prices to farmers. Per the TCB regulations, the coffee sold directly to buyers must be priced higher than the average auction price. However, the DE market lacks transparency, and it is often difficult for cooperatives to establish direct relationships with buyers and to meet all the volume and quality requirements.

Figure 10. Tanzania’s coffee trade. Source: Figure compiled by authors through literature and interview data.



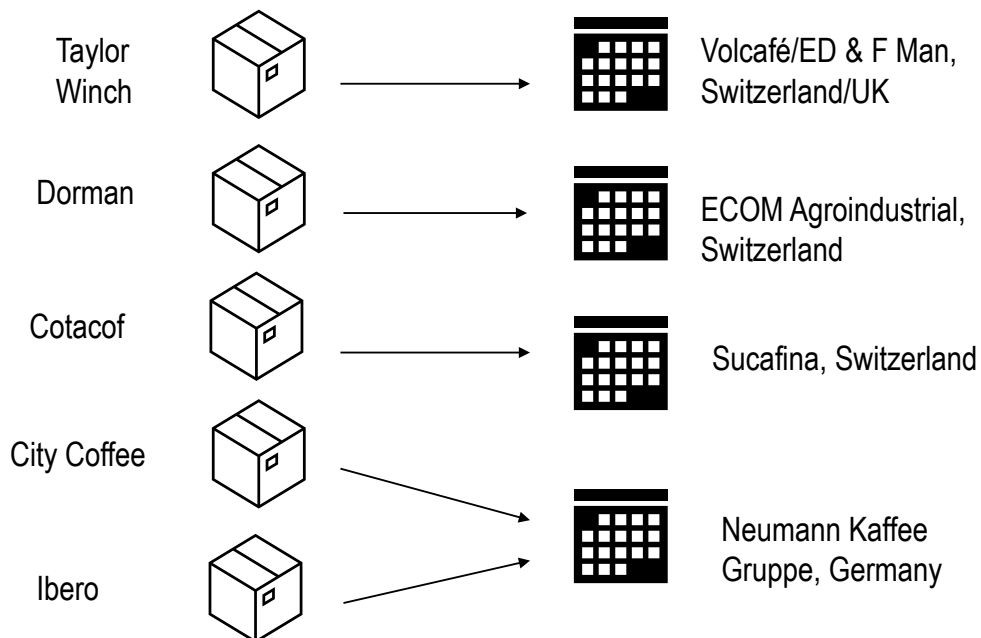
The EU is Tanzania’s biggest market for both green coffee beans as well soluble coffee (USDA, 2022).

Figure 11. Leading destinations for Tanzania green coffee exports (t). Source: USDA, 2022.



Tanzanian coffee trade is historically dominated by very few multinational companies. They have been claimed to often operate through multiple subsidiaries to bypass the one-licence regulation (Mhando, 2019). The coffee industry regulations of 2013 prohibit the issuance of multiple licences in buying, curing, and exporting coffee, except for specialty coffee. Nevertheless, the Tanzanian coffee market is highly concentrated among a few buyers. Currently, the five largest exporting companies are Taylor Winch, Cotacof, City Coffee, Ibero Ltd, and Dorman (TCB interview, 2022). These are all subsidiaries of the world's largest coffee and commodity traders, which are in respective order ED & F Man/ Volcafé, Sucafina, Neumann Kaffee Gruppe (owns both City Coffee and Ibero), and ECOM Agroindustrial. They all have headquarters or subsidiaries in Switzerland. ED & F Man and Neumann Kaffee Gruppe have headquarters in the UK and Germany, respectively. In 2018/2019 these companies as well as a company called Engelhart dominated 87 per cent of the auctioned coffee market (Mhando, 2019). All of these companies are likely to be within the scope of the EU CSR directive.

Figure 12. European traders dominate the Tanzanian market. Source: TCB interview and authors' compilation.



According to the Value Chain Analysis for Development (VCA4D) study by the EU, some companies “purchase coffee beans directly from local farmers, process them and put them up for auction; they then buy their own coffee in the auction at low prices (buy-back system)” (Ruben et al., 2018, p. 27). This suppresses prices and limits the capacity of cooperatives and small farmers to receive better prices for their coffee. For example, a small farmer in the Southern Highlands earns between 850 € to 1300 € in profits per year, while an exporter earns 189,000 € in profits per year, and a curing factory earns 163,000 € in profits (Ruben et al., 2018). Meanwhile, trading houses like Volcafe reported an operating profit of 86.2 million USD (~71 million €) in 2021 (ED&F Mann, 2021) and roasters like Paulig reported operating profits of 95.3 million € in 2021 (although not all of it can be attributed to coffee) (Paulig, 2021). The positioning of smallholder farmers within value chains is also a historical issue. The agricultural systems of the colonial era promoted plantations and outgrower schemes that link networks of smallholder farmers with buyers – a system which risks cementing smallholders at the economic bottom of value chains. The government of Tanzania is currently aiming to replicate a similar agricultural transformation logic while promoting outgrower schemes. Such a policy raises concerns over the economic upgrading possibilities of small-scale coffee farmers (Enns & Bersaglio, 2020).

Still, the income from coffee has great social value for farmers, as it often goes to pay for children’s education (Anderson et al., 2016), thus supporting upward social mobility for many households. Coffee farmers through their cooperatives are able to access services such as health insurance at an affordable cost which would otherwise be out of reach for them.

5.3.3 Human rights in the Tanzanian coffee sector

Despite the social and economic contribution of coffee in the Tanzanian society, the value chain analysis for coffee production highlights some key concerns in the area of working conditions and labour rights, where despite Tanzanian laws reflecting international labour standards, including the right to join unions, it doesn’t cover informal workers that are mostly found in the coffee value chain. Smallholder farms often utilise their own family labour, while some larger farms may hire seasonal workers during the weeding or picking seasons. They are paid in cash per day (or based on work done), and there are no contracts or records maintained. Moreover, gender inequality in Tanzanian society contributes to the exclusion of women from reaping benefits from the coffee value chain. The historical origins of coffee production in Tanzania cannot be separated from the political apparatus of colonial regimes, which established male authority and economic superiority through the marginalisation of women (Williams, 2022). While colonial officials identified men with the production of cash crops, women were assigned to caring for food crops, a

hierarchical structure which had far-reaching consequences (Mbilinyi, 2016). For example, even though by law, women and men should be equal, persisting customary laws and practices that inhibit women's land ownership via inheritance, and family-level dynamics exclude women from decision-making, as well as reaping benefits of their work in family coffee farms (Tanhua & Komba, 2022). This suggests that, even though laws may be in place, practices and societal realities in the context may be contrary to them. For example, a certified cooperative like Kimuli, whose representative we interviewed, only has 10% of women members compared to men, and women board members had to be appointed because none would vie for elected positions. Women's responsibilities with food production and family rearing are key inhibitors to women's participation in leadership. Interestingly, according to TCB, women-led coffee cooperatives tend to perform better. The efforts to train farming communities on human rights are negligible. More work is needed on issues of gender equality and youth participation in coffee value chains.

5.3.4 Environmental sustainability in the Tanzanian coffee sector

Coffee cultivation represents 39% of land in Tanzania under permanent crop cultivation. The carbon footprint of 1 kg of fresh coffee cherries is estimated to be between 0.26–0.67 kg CO₂e for conventional coffee, and 0.12–0.52 kgCO₂e for organic coffee production, with the main contributor to greenhouse gas emissions being nitrous oxide from N fertiliser use (Noponen et al., 2012). Land-use change also contributes to greenhouse gas emissions (Gütlein et al., 2017). Coffee production in Tanzania has also been severely impacted by climate change. Shortenings and changes in growing seasons have already been observed as a direct consequence of climate change. Coffee production has been impacted and productivity is expected to decrease from 225 kg/ha currently to less than 100 kg/ha in 2060 (URT, 2021b, p. 37). New pest infestations have caused low yields and increased the cost of production due to the increasing need for pesticides. Extended droughts have led to flower abortion and the drying of coffee trees and cherries before maturity (HRNS interview). Droughts have also rendered lowland areas unsuitable for coffee cultivation, forcing farmers to move further upland, causing deforestation and further impact on climate. Land degradation problems are more eminent in semi-arid areas, including the Kilimanjaro region where coffee is being cultivated. The government estimates that that up to 61% of land in these areas is likely to be degraded (URT, 2021b). Deforestation is currently estimated at 469,420 ha/year. The government has noted inadequate awareness and understanding among the general public and decision makers of climate change risks, lack of research and data on climate change impacts, as well as a lack of resources and capacity to implement, monitor and evaluate climate change (URT, 2021a).

Despite efforts by the government to address environmental deterioration through an ongoing development of legal instruments for governing the environmental sector, numerous problems remain in the implementation of the legislation and different programmes. The government has noted these to be inadequate land and water management at various managerial levels; inadequate financial and human resources; inequitable terms of international trade; the vulnerability of nature in some local environments; rapid growth of rural and urban populations and inadequate institutional coordination. In addition, the monitoring and information systems are inadequate, there is insufficient capacity to implement programmes; as well as inadequate involvement of major stakeholders such as local communities, NGOs, and the private sector in addressing environmental problems (URT, 2019a). The government's stance is that private actors should finance and invest in environmental protection and conservation. They are also considered to play an important role in reducing greenhouse gas emissions through, for example, tree planting campaigns. So far, the participation of the private sector in environmental management has been considered inadequate by the government (ibid).

Furthermore, investors that operate in medium and large-scale farming, irrigation, genetic engineering, agro-processing and manufacturing and utilisation of agrochemicals are required to submit environmental impact assessments to National Environment Management Council (NEMC). An environmental impact assessment should take into account anticipated impacts, identify and analyse alternatives, propose mitigation measures, and develop an environmental management plan. In collaboration with NEMC, investors also have to seek views of persons affected by the project. When closing an undertaking, investors must, at their own cost, rehabilitate the site and restore the ecosystem. Research shows, however, that there are many challenges to the successful enforcement of Environmental Impact Assessments. The act has set out penalties for companies that fail to comply with the regulations, but so far, the penalties have remained so low that companies may opt out of paying them, which decreases the impact of the environmental regulations (Fulgence, 2016). Furthermore, management and monitoring plans of the assessments are poorly implemented due to low institutional capacity, awareness, and resources. This means that even if impacts are assessed, negative impacts and neglected compliance are not really addressed (Nyihirani et al., 2014; Yhdego & Lema, 2022). In addition, different stakeholders have been found to have poor knowledge about environmental protection and related laws and have been poorly consulted in the processes (Kavishe et al., 2022).

The environmental impact of coffee cultivation in Tanzania depends on farm size, system of cultivation (conventional or organic), and whether they use irrigation or not. Although smallholder farmers tend to use fewer mineral agrochemicals, larger farms tend to be more efficient, obtaining higher yields for the water and fertilisers used in cultivation. Small farmers who use irrigation combined with limited use of mineral and organic

fertilisers are the most sustainable as they maximise yield while minimising the impact of agrochemicals. Use of manual weeding instead of herbicides may also improve human health (Ruben et al, 2018). However, small farmers, especially in the western and northern regions of Tanzania, benefit from intercropping coffee with bananas when done correctly.

TCB recognises corporate social responsibility as a shared function among all stakeholders in the coffee value chain, however, most stakeholders expect the government to take the lead in ensuring the sustainability of the sector. TCB has made efforts to engage key stakeholders in making of a new coffee strategy that prioritises sustainability but there is still scepticism about its implementation. Some actors believe that the government has not allocated enough resources towards the implementation of the strategy and instead relies on NGOs for implementation. Since 2021, TCB has begun collecting a coffee development levy (0.08 euros/kg of arabica, and 0.04 euros/kg of robusta) to support sustainability efforts. However, how the funds will be used remains unclear. Researchers find that a significant number of farmers lack adequate extension services that could improve sustainability, yields and efficiency in coffee production. For example, in the Mbeya region, nearly 59% of farming households do not receive extension services (Otieno et al., 2019). The government, which is the key provider of these services, often lacks resources to reach all farmers. An example of the lack of resources is that some of the government's extension officers rely on NGOs to provide transport for them to reach farmers. While the government works closely with NGOs, the reach of NGOs is rather limited. For example, Hanns R. Neumann Stiftung (HRNS), which implements a CSR initiative by 8 European coffee roasters, has supported about 4000 smallholder coffee farming households in 2022. This equals one per cent of all coffee farming households. Although private trading houses also have capacity building programmes for farmers, most of them only work with the farmers they buy from directly. According to a report published by the European Commission, European companies will remain reluctant to invest in the capacity of smallholder farming and their infrastructure because of negligible returns on investment and being limited to buying partly through auctions (European Commission, 2022b).

The government seems to promote private certifications as a tool for marketing and sustainability. However, the ability of sustainability certifications to improve smallholder farmers' welfare tends to be limited (Van Rijsbergen et al., 2016). Only 30 per cent of Tanzanian coffee is certified (TCB interview, 2022). A survey study of smallholder coffee farmers in Tanzania revealed that farmers had economic motivations to gain Fairtrade certification, such as fetching higher prices, increasing their incomes and productivity, and enhancing their competitiveness in accessing higher-value agricultural markets. Moreover, Fairtrade has a strong social sustainability focus, and Tanzanian cooperatives can sell their coffee at a premium price and receive an additional social development fund (0.44 USD/Kg) that they can use at their discretion. For example, Kimuli AMCOS,

which was interviewed for this report, uses its fund to obtain better seedlings for its members. However, despite Fairtrade's intention for environmental sustainability, farmers found these requirements to be abstract and were less motivated by that aspect of the certification, which raises concerns about the ability of market-based voluntary sustainability certifications such as Fairtrade to achieve the intended environmental outcomes (Pyk & Abu Hatab, 2018). Furthermore, certifications remain out of reach for many farmers and cooperatives as the cost is high compared to the benefit. For example, the initial cost of certification for a typical AMCOS can be as high as 25,000 €. The yearly cost can be around 3,000 € which is 10% of gross income for all members (Interviews with HRNS and Kimuli).

Issues of traceability remain a concern for Tanzanian coffee (Interviews with buyers). Auctioned coffee can currently be traced up to the AMCOS level and most farms are yet to be GPS mapped. For example, only 50–60 per cent of Taylor Winch's direct exports are traceable to farm-level and the rest to the level of farmer cooperatives (AMCOS). Moreover, abrupt changes in the Tanzanian coffee regulations led to the rapid formation of farmer organisations. As a result, most AMCOS organisations are weak, with poor record-keeping. Besides, even for established and independently certified farmer cooperatives (i.e., not certified through buyers' in-house programmes), their members' farms are not GPS mapped. TCB has plans to create a farmer register and map all coffee farms, but some actors worry whether this could be done in time to meet all the environmental regulations by the EU, including the recent deforestation directive.

Overall, environmental protection and climate resilience are a strong focus for stakeholders in coffee farming communities, with investments geared towards research and development of more resilient seedlings, as well as training farmers on better farming practices such as planting trees, building water dams, and terracing to minimise land degradation.

5.3.5 Impacts of EU CSDDD on the coffee industry in Tanzania

Based on our analysis, we highlight the impacts of the EU CSDDD on the coffee value chain as well as on the extent and manner of trade between Tanzania and the EU.

5.3.5.1 Impacts on the value chain

Although the coffee trade between Tanzania and the EU is already concentrated within a few trading houses, the EU CSDDD is likely to create more consolidation of suppliers, so that buyers can have more control over human rights and environmental risks. Notably, the two companies interviewed for this study – Taylor Winch, a coffee exporter in

Tanzania, and Paulig, a European coffee roaster, both emphasise that the current European regulatory environment, including, for example, the deforestation directive and recent food safety requirements, imposes a lot of pressure on traceability. Exporters prefer long-term partnerships with their current farmer-suppliers, and buyers in Europe prefer to work with a limited number of traders that can help them manage their supply chain. The pressure on traceability also entails that exporters invest in improving farmer capacity through a variety of certification and in-house verification schemes, such as Rainforest Alliance, Starbucks' C.A.F.E. practices or Volcafé's own Volcafé Way farmer support programme. These schemes improve traceability to farmer-level because farms that are part of these schemes are usually GPS-mapped. Because of these factors, buyers do not want to terminate collaboration with farmers easily, but rather work on a long-term basis.

Buyers prefer direct exports from farmers not only for the sake of traceability but also to guarantee better quality control. Buying through large estate plantations would be the easiest and most traceable for traders and roasters, but as described above, only nine per cent of the total coffee market in Tanzania consists of plantations. If there were more plantations, their popularity would likely increase, but since this is not the case, countries that offer this option (such as Brazil and Vietnam) are more competitive. In the Tanzanian context, however, this means that government-controlled auctions, which currently cover a 30% share of the country's coffee export market, are likely to become less popular among buyers that export to European markets. While direct exports bring in more income to farmers and attract more investment to their farms, it is difficult for smallholder farmers to establish direct relationships (they are barred by law), and their sizes are often too small to do this. Farmers must rely on their "weak" cooperatives to establish such relationships. Furthermore, the prices offered through DE are heavily dependent on auctions. In the Tanzanian coffee regulations, DE prices must be higher than the average auction price at the time of purchase. The decreasing popularity of auctions among EU buyers would not only exclude many smallholder farmers from participating in EU markets, but it could also decrease the prices in auction markets, which in turn would likely lower the DE prices.

5.3.5.2 Division of costs and responsibilities

Stakeholders in the Tanzanian coffee sector generally agree that CSR is a shared function, and that for the sector to become sustainable all actors (farmers, buyers, host and EU governments, NGOs) must be involved. However, there are two angles to the division of responsibilities and costs in implementing the EU CSDDD. On the one hand, some responsibilities and costs will spread out among different actors, and on the other, some are likely to be pushed on a few actors within the value chain.

The interviews show that more multistakeholder collaboration is needed to meet the capacity needs in the sector and that public funding is important. No single actor will be able to reach all smallholder farmers in the country. Shared responsibilities are also emphasised in government policy. In the local content guidelines of 2019, the responsibility of capacity building is stipulated to be a shared function between state institutions, foreign investors and the local private sector. In the agricultural sector more precisely, public Agricultural Training and Research Institutes have been tasked to build the capacities of local farmers, livestock keepers and fish processors to meet international standards. Also, foreign investors are expected to “support programs aimed at building capacities of local suppliers and workforce to obtain certifications, standards and skills required by the investors”; and the local private sector is expected to “build their capacities to obtain the standards and certifications required by investors or in various strategic projects” (United Republic of Tanzania, 2019, p. 19).

A lot of investments are still going to be needed for European buyers to be able to continue to buy from Tanzania, and the traders want to share the burden. For instance, traders have already invested in mapping out farmers to improve traceability and calculate their carbon footprints, but the biggest buyers can only map out about a quarter of Tanzania’s smallholder farmers and a lot still needs to be done on data management, especially in countries such as Tanzania where coffee farming is mainly done by smallholder farmers. To reach the rest of the farmers, NGOs, despite limited reach due to lack of funding, are better positioned than corporations to get public funding from European development funders.

The role of the Tanzanian government cannot be understated in meeting the demands of the directive. Not only is the trade regulated by TCB, both buyers and farmers look to the government to make certain aspects of due diligence possible. For example, buyers would like to see more involvement from the Tanzanian government to support mappings, due diligence processes, and building the capacity of farmers, take stronger measures to stop deforestation and map out living wages in different regions in Tanzania. Farmers, on the other hand, look to the government to safeguard their interests, and to share timely information about changes happening in the market, including the EU CSDDD. However, the government as well as all the actors we interviewed in Tanzania weren’t aware of the upcoming requirements of the EU CSDDD. In addition, from the interviews, the government has not always been effective in timely sharing information about changes to all actors, even when they happen internally. The Tanzania Coffee Board has also recently started collecting a development levy on every sold case of coffee beans, but buyers, farmers, and NGOs are not aware of how these funds will be used. Actors in the coffee value chain need the Tanzanian government and the EU delegation to increase transparency and collaboration with them when it comes to regulations that directly and substantially affect their lives.

Responsibilities move up from European roasters and traders to farmers through Codes of Conduct (CoC). This practice is referred to as cascading. For example, Paulig has a CoC with which it wants its suppliers throughout the supply chain to abide, and Taylor Winch manages different CoCs, depending on whether they concern trade in certified, supported or conventional coffee. Most of the farmers and cooperatives have signed some form of CoC. Roasters and exporters find each other through a comparison of CoC to see how well they match. Compliance with CoCs is audited by internal auditors and external, certification-related auditors through, for example, Rainforest Alliance or FLOCERT. Suppliers are expected by buyers to capacitate themselves to live up to the requirements of the CoC. Exporters and buyers also engage in ongoing dialogue with each other to understand needs and risks (Interview with Paulig).

Different grievance mechanisms with possibly accompanying remedy portions are also managed through CoCs. Once farmers sign a CoC that includes a grievance mechanism, they will receive information about how it works. Through some certifications and programmes, farmers are trained on how the grievance mechanisms work. A lot of work is still needed for farmers to be covered by grievance and remedy mechanisms and for them to be aware of them. Although the directive requires companies to have grievance mechanisms in place, Tanzanian farmers rely on their government to administer remedies for any business related human rights abuses or negative environmental impacts within the coffee value chain. As such, access to remedies would likely need to be localised, and for the local governments to be involved to a certain extent. The buyers' stand is that the ones who are directly responsible for human rights abuses or negative environmental impacts bear the costs of possible remedies (Interview with Paulig).

The EU CSDDD is likely to increase the popularity of existing voluntary initiatives. Currently, buyers are already seeing increased demand for certified coffee. For example, of the entire volume of coffee that Taylor Winch buys in Tanzania, 40–50 per cent is certified or verified through Rainforest Alliance, Organic, Starbucks C.A.F.E. Practices or Volcafé Way. Paulig, on the other hand, buys only through different certification or farmer support schemes from Tanzania. These schemes include different activities, such as trainings in business skills, agricultural practices, land conformity, human rights, labour rights and environmental protection. Several programmes also have a grievance mechanism. Certified farms are audited annually by external auditors, while in-house programmes are audited only internally but several times a year (Taylor Winch interview).

However, the directive points to going “beyond” existing schemes. Interviewed buyers are also aware that current certification schemes are not enough to cover the expectations of this directive and other regulations. For instance, buyers with in-house certifications have their own Code of Conduct that farmers must sign up for if they wish to be within them. In addition, when buyers, certifiers, or auditors visit farms, they go through a checklist to

see how compliant farmers are. The requirements for different certifications have become tougher in the past years and the CSDDD might make them even tougher. Therefore, as buyers emphasise, a lot must be done for existing initiatives to be able to comply with the demands of the directive, including farmers' capacity building and increasing traceability.

In addition to supplier programmes and certification schemes, several NGOs are engaged in supporting smallholder farmers through cooperation and partnerships with exporters. These include NGOs such as the Dutch Solidaridad that has been supporting farmers with record keeping of different farming activities, or the HRNS, a charity owned by European coffee roasters. In addition to NGOs, companies partner with coffee traders to support farmers. However, the existing scale of these programmes is not enough to reach all smallholder farmers in the country. For example, HRNS supports only 1% of all smallholder farmers in Tanzania. All the large trading houses (who buy 80% of the coffee) through their in-house programmes likely reach less than 25% of all smallholder farmers.

The reliance on certifications and voluntary schemes will also likely push the costs up the value chain to farmers. As it stands, the cost of certification and compliance with standards always goes back to the farmers. Even when traders claim to assist farmers in paying for certifications, or in other farm-level investments, ultimately, the costs incurred will be built into the price they will offer farmers, and farmers would get less (Interview with HRNS). As stated previously, the cost of certification remains out of reach for many smallholder farmers and their cooperatives, and the profit margins from certified coffees are not always better than those from conventional coffee, disincentivising farmers from these schemes. Furthermore, certifications do not always guarantee a market with a premium price. Cooperatives are not always able to sell their certified coffees through direct exports and must still rely on auctions to sell all their volumes at the price of conventional coffees. Exporters who buy certified coffees are also not always able to sell all the coffee they bought at a premium price. Ultimately, a large proportion of end buyers are not ready to pay more for their coffee.

At this point, it is impossible to say for certain how costs for the CSDDD implementation will be divided within the value chain. If the directive requirements would be covered by existing certifications and laws in host countries, the costs would not be that high. But since there will be costs, it will either become harder for the farmers to sell or tougher for buyers to buy. However, based on previous experience, it seems likely that most of the potential costs will be borne in the end by the smallholder farmers.

5.3.5.3 Impacts on trade between the EU and Tanzania

Tanzania's coffee trade with the EU will likely stagnate if adjustments to comply with the EU CSDDD are not made, and alternative markets to the EU are not found. Currently, the majority of coffee traded in Tanzania is not certified nor traceable to the farm-level. Our findings indicate the likelihood of disengagement from government-run auctions, and a shift towards direct buying from plantations or certified farmers if the TCB will not invest in ensuring the traceability of auctioned coffee. This means that some suppliers are likely to be affected by the new regulation if no one is ready to carry the costs of adjusting to the regulation's expectations. Furthermore, markets such as Brazil, Vietnam, and Colombia are found to be "easier" in terms of compliance by the buyers. Many of the human rights and environmental risks in the sector in Tanzania require long-term and broader social transformations that may be impossible to reach within the strict conditionalities and requirements of the EU CSDDD. For example, strict requirements about women having more decision-making power in the coffee value chain would make it difficult to buy any coffee at all from Tanzania (Interview, Taylor Winch).

Without adjustments, Tanzanian suppliers will have to find non-European coffee markets to export the majority of its coffee to. Currently, Tanzania exports a significant bulk of its coffee to Japan, Morocco and the USA. Recently, China has begun sourcing coffee (and other agricultural commodities) from African countries through the "green channel", as announced in the 2021 Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC). Even so, the likelihood of finding an alternative market for coffee to substitute the present EU demand is very low. Therefore, without significant investment to comply with EU requirements, Tanzania (and other African coffee producers) will likely see decreasing demand for conventional coffee by EU buyers and the lack of alternative markets will likely lead to over-supply and a drop in coffee prices.

It is likely that all African coffee-producing countries will be slow to make the adjustments needed to comply with the directive. Buyers who increasingly prefer long-term relationships and direct control over risks would likely shift more of their purchasing to "easier" markets. However, since different markets offer different coffee flavour profiles and supply in different seasons, complete withdrawal from Tanzania or other African markets is unlikely.

In the end, complete disengagement from certain markets depends also on factors in the legislative and institutional setting. Instability and regulatory incompatibility create incentives for divesting from such markets into more stable markets. Yet incentives for disengagement can go both ways. If Tanzanian suppliers perceive non-European markets to be more valuable in the future, they are less likely to invest in reforms to meet the EU CSDDD requirements, since that would make their products less attractive to markets that have fewer requirements.

5.4 Insights from the case studies

There are many similarities between the Tanzanian and Ethiopian institutional contexts. In both countries, we see that there is a regulatory framework that can support due diligence, and that the state and other local actors (such as CSOs, labour unions, and cooperatives) play an important role in working for the rights and access to remedy for business related human rights abuse for local actors in the value chain. However, there are significant differences in the make up and nature of the coffee industry vis-à-vis the garments industry as well as the realities of the two countries that make the severity of the impact of the directive distinctive. This underscores the assertion that the impact of this directive will be country-specific and sector-specific.

In the Ethiopian garment industry, previous CSR initiatives have contributed to several upgrading and downgrading effects. The Ethiopian government, development partners, and local and international suppliers have strategically invested into the CSR compliance mechanisms required by global buyers. These investments have been directed towards e.g. pollution-mitigating infrastructures, certification processes and workers' occupational health and safety in order to boost the export of Ethiopian CSR-compliant garments. In terms of economic upgrading, the quality of finished products as well as productivity have increased as a result of these efforts, leading to larger profits and access to foreign currency through exports. Skills and knowledge on quality management as well as CSR compliance regimes are becoming increasingly embedded in the managerial structures of manufacturers due to large-scale trainings conducted for several stakeholders. These large investments, however, have exposed the vulnerability of the Ethiopian garment industry to political exclusion from international trade agreements as well as sudden disengagement of buyers in the face of civil war and geopolitical tensions in the country. Exclusion from global value chains as a form of economic downgrading is also common for smaller, local manufacturers who cannot cope with the investment costs required for export-oriented CSR compliance mechanisms.

For social upgrading, CSR initiatives have generally only led to instrumental improvements in working conditions. A slight positive impact has occurred in collective bargaining processes through the pressure and publicity around labour rights and unionisation. While compliance costs are pushed to the suppliers, indirect effects occur on social downgrading in the form of pressure to lower workers' wages. Similarly, the pressure for cost reduction can lead to environmental downgrading in the form of CSR decoupling or decreased investment capabilities into pollution-mitigating or resource saving technologies. The industrial parks in Ethiopia have already contributed to increased water and energy consumption, as well as water quality problems in the surrounding catchment

areas. Simultaneously, notable upgrading effects of CSR initiatives can be noted in the environmental realm: the asset specific investments in effluent and sludge treatment have improved the quality of factories' waste outputs.

In the case of Tanzania's coffee industry, existing private CSR schemes are not enough to bridge the inequalities between smallholder farmers and traders and roasters in the global north. Coffee production is done largely by smallholder farmers while trade is controlled by few multinational trading houses. Although most traders and roasters make millions in profits, most coffee farmers do not earn enough from their work to live by. Nonetheless, our analysis shows that the large European trading companies would likely push the costs and responsibilities for due diligence to smallholder farmers and cut into their already small returns. This is currently seen in existing certifications and private CSR schemes that would enable trading houses to be compliant with the directive. The CSDDD, therefore, poses a threat to the livelihood of small-scale farmers who cannot afford the cost to meet sustainability requirements alone. Furthermore, the directive makes plantation coffee farming the more attractive option for buyers as they are able to control risks better. This increases the risk for social downgrading through the exclusion of smallholder farmers, and environmental downgrading since plantations tend to have a higher carbon footprint. However, the potential for environmental upgrading is high if smallholder farmers are supported to improve productivity, efficiency and sustainable farming practices while minimising the income inequalities they face in the current trade environment. The Tanzanian government, by itself, is not positioned to close the regulatory gaps facing the sector in a timely manner with sufficient resources.

The possibilities for recoupling in both industries remain promising, if the implementation of CSDDD encompasses proper surveillance and auditing mechanisms that support changes in compliance practices. For recoupling to take place, trust-based relationships between labour unions, employees and employers in the Ethiopian garment industry should be fostered in order to prevent human rights abuse in the factories. Building trust, however, is challenging in a working environment with a high turnover of employees – a topic which brings the discussion back to low wages and unsatisfactory occupational safety. In order for the EU CSDDD to address the downgrading effects and further facilitate the upgrading effects in the Ethiopian garment industry, the implementation of the directive would need to focus especially on social upgrading, with a special focus on living wages. Living wages would have positive spill-over effects on reproductive rights of female workers, workers' health, productivity as well as skill retainment in the face of decreased employee turnover. In the Tanzanian coffee industry, recoupling would require the engagement of multiple stakeholders to share the cost and responsibility of meeting due diligence compliance while ensuring no one is left behind.

The case studies reveal a wide range of problems related to women's rights, gender-based exploitation and gender-based violence in the two supply chains under investigation. Without deploying an inclusive trade lens to studying the Directive, these problems could have remained invisible. Our study thus highlights the importance of integrating a bottom-up perspective, whereby the directive and any related laws and regulations are formulated and implemented with an inclusive trade lens in mind. Following Kuhlmann (2021), this means formulating and implementing the law from the perspective of those living under it, which are not only large corporations, but also economically marginalised communities, racial and ethnic minorities, small farmers, SMEs, women, indigenous groups and persons with disabilities.

6 Conclusion and recommendations

In this report, we have analysed the implications of the proposed EU CSDDD on trade between the EU and LDCs. Although the directive only directly applies to larger companies operating in the EU, our study indicates that its impacts extend to suppliers, smallholder farmers, workers and communities in LDCs, as well as the overall trade between the EU and LDCs. Bringing together insights from literature on CSR compliance on global value chains, inclusive trade and NTMs, we highlight the potential impacts of this directive on LDC value chains and trade. However, we note that effective insights would only come from nuanced and contextualised understanding at country and sectoral levels. To illustrate this, we conducted two case studies to showcase the impacts of the directive on the Ethiopian garments industry and the Tanzanian coffee sector.

Therefore, based on the literature review and the case studies in this report, a number of concerns can be raised about the impact of the ongoing push for due diligence on LDC suppliers. Firstly, we cannot simply assume that LDC suppliers will be able to respond effectively to tightening social and environmental standards. Instead, these standards may pose additional barriers to entry into the supply chains of European companies. Secondly, these barriers may be further enhanced by the fact that companies in the scope of due diligence legislation may attempt to push costs and responsibilities (e.g. for auditing or certification) to suppliers. Thirdly, rather than working together with suppliers, there is a real risk that companies instead opt for a strategy of disengagement, turning their backs on high-risk suppliers. Lastly, given that the complaints mechanisms foreseen in the directive neither acknowledge nor tackle the capacity constraints and vulnerabilities of those local communities it seeks to protect, social and environmental abuses may fail to surface under the regime of the EU CSDDD unless this is mediated in implementation.

In the following section, we formulate a number of recommendations to help minimise and avoid these risks.

6.1 Recommendations for due diligence legislation

The proposed EU Directive explicitly promotes the ‘cascading’ of due diligence requirements to suppliers, through the use of contractual assurances (e.g., codes of conduct). In addition to the inherent limitations of an approach that revolves primarily

around formal contractual assurances, this risks simply shifting the burden to (often smaller) suppliers. The Directive ‘encourages’ companies to support business partners that are SMEs to ‘comply with due diligence measures’ and to ‘use fair, reasonable, nondiscriminatory and proportionate requirements’. However, ‘encouragement’ risks not being enough. Therefore, we recommend the following:

Recommendation 1: Where cascading is maintained in due diligence legislation, ‘responsible cascading’ should be obliged. In particular, guidance should be given on how the costs and responsibilities for implementing due diligence will be shared across the value chain. For example, the cost of capacity building for SMEs or smallholder farmers by larger companies could be determined progressively based on turnover.

Recommendation 2: Rather than emphasising cascading, a better option would be to explicitly prioritise supplier engagement, or develop a ‘duty to engage’. The proposed Directive repeatedly emphasises that companies can rely on third-party audits, certification schemes, industry schemes and multi-stakeholder initiatives to help them fulfil their due diligence obligations. It is clear that collaboration is key to ensuring effective and inclusive due diligence. At the same time, our literature review has revealed important shortcomings of private governance initiatives. Yet important differences exist between these schemes. Broadly speaking, initiatives that seek to engage diverse and local stakeholders should be preferred over industry-driven initiatives that rely on top-down instruments to identify and reduce risks for companies.

Recommendation 3: Explore ways to integrate fair purchasing practices into due diligence legislation. When developing due diligence legislation, refrain from generic statements about the role of private governance initiatives. Rather, emphasise the importance of relying on initiatives that engage diverse and local stakeholders on an equal footing. Research on global value chains points to widespread unfair purchasing and trading practices, and the fact that most of the added value flows to large ‘lead firms’. The EU directive does not acknowledge this reality.

Recommendation 4: When implementing the EU CSDDD, explicitly seek coherence with the EU Trade for All Strategy and with the inclusive trade principles listed in the report. For example, the proposed Directive lacks a gender-dimension, despite the fact that previous research and our case studies have suggested that gender-based violence is a known problem in supply chains (UNCTAD, 2014; 2021b).

6.2 Recommendations for accompanying measures to European governments

In addition to the need for companies to offer support to their suppliers, governments in Europe have a key role to play in supporting LDC suppliers to meet standards and requirements resulting from due diligence legislation. For example, development cooperation and trade policies can support the inclusive implementation of the directive. Based on our findings, it is evident that without special measures, the directive will not reach its aims in LDCs. Special measures are also needed for the directive to support development policy objectives, such as Finland's aim to reach gender equality, non-discrimination, climate resilience and low-emission development. Ultimately, public efforts are needed to address structural poverty and to realise living wages.

Recommendation 1: Provide targeted support for initiatives that encourage and support inclusive due diligence. Inclusive due diligence integrates the EU's inclusive trade agenda and its due diligence agenda. It applies inclusive trade principles (Kuhlmann, 2021) to due diligence initiatives, whereby laws and regulations (1) recognise levels of development and integrate capacity building; (2) include "rapid response" and "review & revise" provisions to tackle unforeseen consequences and periods of crisis; (3) incorporate ways to address environmental, health, labour, gender equality, climate, poverty eradication and other considerations; (4) are tailored to the needs of economically marginalised communities, racial and ethnic minorities, small farmers, SMEs, women, indigenous groups and persons with disabilities; (5) provide for legal and regulatory gateways that track measures and provide transparency and local knowledge, in ways that are accessible to local communities; (6) foresee capacity building that improves knowledge about laws and regulations among affected communities and institutionalises stakeholder participation, consultation and engagement; and (7) monitor implementation, impact and equal distribution as well as how well laws and regulations measure up to stated or shared goals.

EU governments should also commit to, exchange information on best-practices in, and promote inclusive due diligence in relations with stakeholders of the directive, including corporate actors, civil society actors, EU institutions, and relevant global economic governance institutions, including the OECD, G20, World Economic Forum, UN Global Compact, IMF, World Bank, WTO, UNCTAD, and ITC.

Recommendation 2: Monitoring the implementation of the EU CSDDD. Support should be given to Civil Society Organisations (CSOs) and labour unions so that human rights and environmental grievances can be effectively addressed. Providing support to watchdog CSOs and to initiatives that assess the changing anatomy of different value chains would

increase the accountability of actors in global value chains and support a fair integration of smallholders, suppliers, and workers from LDCs to them; and the geographical (re-) structuring of GVCs as a result of changing corporate buying practices.

Recommendation 3: Raise LDC governments and CSOs' awareness about the EU CSDDD and support public efforts in LDCs to adjust to the directive. Engage with LDC governments to assess the levels of development in LDCs' regulatory environment and develop sector-specific agreements that can support inclusive due diligence. This may include support for traceability efforts in specific value chains, the building of critical infrastructure such as laboratories or the formalisation of labour relations. Awareness-raising about laws and regulations among affected communities should also be encouraged.

Recommendation 4: State actors should lead by example and require state-owned and publicly supported companies to carry out inclusive due diligence in LDCs. Inclusive due diligence should also be considered in public procurement.

Recommendation 5: Increase the transparency of value chains and ensure public accessibility of due diligence instruments, relevant information about risks and suppliers (e.g. audit results, ESG ratings), technological solutions (e.g. blockchain traceability schemes), so that everyone can access them, all companies, and not only those able to afford it.

Recommendation 6: Create greater convergence between different (and often competing) private standards, certification schemes, and reporting requirements, which currently form a highly fragmented landscape and result in a multiplication of demands on suppliers. This could be done for example by publicly setting minimum requirements for private certification and support schemes. In addition, LDCs should be supported to manage certification processes locally.

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ANNEXES

Table A1. Interviews / Ethiopia

Interviewee	Organisation	About organisation
<p>Anna Waldmann, Head of Project</p> <p>Elke Wiedemann, Advisor for Sustainable Industrial Park Management</p> <p>Amelie Többen, Advisor for Social Sustainability</p> <p>Blen Masresha, Private Sector Advisor</p> <p>Jean-Baptiste Damestoy, Strategy Advisor</p>	<p>German Agency for International Cooperation (GIZ)</p>	<p>GIZ operates from around 90 offices worldwide and focuses on capacity development for sustainable development as its key services. In Ethiopia, GIZ has been working on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) since 1964. GIZ has two projects focusing on the textile industry in Ethiopia: the Sustainable Industrial Clusters project, and the Sustainable Textile II project. The aim of these projects is to create decent jobs and sustainable growth in the textile and garment sector. Core areas: improving working conditions for women in industrial parks (IPs); advising IPs on how to improve their environmental footprints; upgrading local companies to become global actors in textile industry.</p>
<p>Ageazi Hailemariam, Secretary General</p>	<p>Ethiopian Textile and Garment Manufacturers' Association (ETGAMA)</p>	<p>ETGAMA is a national association of the textile and garment industry, currently representing more than 200 member factories operating in textiles and garment manufacturing. The organisation supports both domestic and FDI factories through providing training on various topics, creating market linkages and policy advocacy.</p>
<p>Mesud Gebeheyu Reta, Executive Director</p>	<p>Consortium of Ethiopian Human Rights Organizations (CEHRO)</p>	<p>CEHRO was established in 2015 to serve as a platform to work on human rights and democratic governance in Ethiopia. CEHRO supports its member CSOs in protecting human rights, democracy and good governance through advocacy, capacity building and conflict resolution activities. CEHRO currently works on the Extractive Industry Transparency Initiative.</p>

Interviewee	Organisation	About organisation
Paule Ndessomin, Regional Secretary / Sub-Sahara Africa Region	IndustriALL Global Union	IndustriALL Global Union represents 50 million workers in 140 countries in the mining, energy and manufacturing sectors, and fights for a new economic and social model integrating democracy and social justice. IndustriALL challenges the power of multinational companies and negotiates with them on a global level through Global Framework Agreements. Their affiliate in Ethiopia is the Industrial Federation of Textile, Leather and Garment Workers' Trade Unions.
CEO	Anonymous	German-Scandinavian global buying organisation
Mamaru Tesfaye, Director of Research and Testing Laboratory Directorate Abebe Teka, Researcher Tesfaye Tumdedo, Senior Marketing Expert	Ethiopian Textile and Garment Industry Research and Development Center (ETGIRDC)	ETGIRDC (formerly ETIDI, Ethiopian Textile Industry Development Institute) was established within the Ministry of Trade and Industry to support textile industry development in Ethiopia. The centre supports local and FDI factories in their marketing, CSR and quality related activities.

Table A2. Interviews / Tanzania

Interviewee	Organisation	About organisation
Frank Nyarusi , Sales and Quality Control Manager	Tanzania Coffee Board (TCB)	TCB is a government organ under the ministry of agriculture which regulates the coffee industry in Tanzania and advises the government on all matters related to the growing, processing and marketing of coffee for internal and external markets.
Kenneth Komba, assistant to the secretary	Kimuli Agricultural Marketing Cooperative Society (AMCOS)	Kimuli AMCOS is a coffee cooperative in Mbinga established in 1993. It has approximately 2052 smallholder farmers (1448 of which are certified by Fairtrade). Kimuli AMCOS is certified by both Fairtrade and Café practices since 2014.
Zipporah Irungu, General Manager	Taylor Winch (Volcafe/ED&F Man)	Taylor Winch is one of the four largest coffee exporters in Tanzania with a 20–25% market share. It buys beans from approx. 15,000 coffee farmers. It mainly exports to European markets. It is owned by the Swiss company Volcafé, which is owned by the UK company ED&F Man.
George Tillya, Country manager Morgan Mkonyi, Deputy country manager & director of operations	Hanns R. Neumann Stiftung (HRNS)	HRNS is a nonprofit NGO founded in Germany in 2005 by Michael R. Neumann of Neumann Kaffee Cruppe to support smallholder coffee farming households in 18 countries. HRNS has been active in Tanzania since 2006 and works to improve the livelihoods of smallholder coffee farmers by improving their productivity in coffee as well as food crops. HRNS is also the implementation partner in Tanzania for the International Coffee Partnership (ICP), a CSR initiative by 8 European family-owned coffee companies - Neumann Gruppe, Tchibo (Germany), Lavazza (Italy), Löfbergs (Sweden), Paulig (Finland), Joh. Johansson Kaffe (Norway), Franck (Croatia) and Delta Cafés (Portugal).
Seija Säynevirta, Head of Human Rights & Sustainable Sourcing Kati Sorvali-Borén, Sourcing Manager, Green Coffee	Paulig	Paulig is a food and beverage company, headquartered in Finland and operating in more than ten locations in Europe. Coffee is among its main products, and it has two roasteries in Finland.

Table A3. Human rights, labour and environmental international conventions and protocols.

Source: Compiled by authors.

HR/Labour/Environmental international conventions and protocols	TZ: Ratification Date, Accession(a), Succession(d) Date	ETH: Ratification Date, Accession(a), Succession(d) Date
Human rights conventions and protocols:		
The Universal Declaration of Human Rights;	ratified	ratified
The International Covenant on Civil and Political Rights;	11 Jun 1976 (a)	11 Jun 1993 (a)
The International Covenant on Economic, Social and Cultural Rights;	11 Jun 1976 (a)	11 Jun 1993 (a)
The Convention on the Prevention and Punishment of the Crime of Genocide;	5 Apr 1984 (a)	1 Jul 1949
The Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment;	NO	14 Mar 1994 (a)
The International Convention on the Elimination of All Forms of Racial Discrimination;	27 Oct 1972 (a)	23 Jun 1976 (a)
The Convention on the Elimination of All Forms of Discrimination Against Women;	9 Apr 1986	10 Sep 1981
The Convention on the Rights of the Child;	20 Jun 1991	14 May 1991 (a)
The Convention on the Rights of Persons with Disabilities;	5 Nov 2016	7 Jul 2010
The United Nations Declaration on the Rights of Indigenous Peoples;	voted for	absent
The Declaration on the Rights of Persons Belonging to National or Ethnic, Religious and Linguistic Minorities;	voted for	voted for
United Nations Convention against Transnational Organised Crime and the Palermo Protocol to Prevent, Suppress and Punish Trafficking in Persons Especially Women and Children, supplementing the United Nations Convention against Transnational Organized Crime;		
The International Labour Organization's Declaration on Fundamental Principles and Rights at Work;		
The International Labour Organization's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy;		

HR/Labour/Environmental international conventions and protocols	TZ: Ratification Date, Accession(a), Succession(d) Date	ETH: Ratification Date, Accession(a), Succession(d) Date
The International Labour Organization's core/fundamental conventions:		
• Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)	4 Jun 1963, In Force	18 Apr 2000 In Force
• Right to Organise and Collective Bargaining Convention, 1949 (No. 98)	4 Jun 1963 In Force	30 Jan 1962 In Force
• Forced Labour Convention, 1930 (No. 29) and its 2014 Protocol;	2 Sep 2003 In Force	30 Jan 1962 In Force
• Abolition of Forced Labour Convention, 1957 (No. 105)	24 Mar 1999 In Force	30 Jan 1962 In Force
• Minimum Age Convention, 1973 (No. 138)	27 May 1999 In Force	16 Dec 1998 In Force
• Worst Forms of Child Labour Convention, 1999 (No. 182)	2 Sep 2003 In Force	12 Sep 2001 In Force
• Equal Remuneration Convention, 1951 (No. 100)	24 Mar 1999 In Force	26 Feb 2002 In Force
• Discrimination (Employment and Occupation) Convention, 1958 (No. 111)	11 Jun 1966 In Force	26 Feb 2002 In Force
Environmental Conventions / protocols		
Convention on Biological Diversity	Ratified 8 Mar 1996	Accession 5 Apr 1994
Nagoya Protocol of the above	Accession 19 Jan 2018	Accession 16 Nov 2012
Cartagena Protocol of the above	Accession 24 Apr, 2003	Ratified 9 Oct 2003
Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)	Ratified 29 Nov 1979	Accession 4 Jul 1989
Minamata Convention on Mercury	Accession 05/10/2020	Signed 10 Oct 2013
Stockholm Convention/Persistent Organic Pollutants (POPs Convention)	Ratified 30 Apr 2004	Ratified 9 Jan 2003
Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (UNEP/FAO)	Ratified 26 Aug 2002	Ratified 9 Jan 2003 a
Vienna Convention for the protection of the Ozone Layer	Accession 7 Apr. 1993	Accession 11 Oct 1994

HR/Labour/Environmental international conventions and protocols	TZ: Ratification Date, Accession(a), Succession(d) Date	ETH: Ratification Date, Accession(a), Succession(d) Date
Montreal Protocol of the above	Accession 16 Apr 1993	Accession 11 Oct 1994
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal	Accession 7 Apr 1993	Accession 12 Apr 2000
Paris Agreement	Accession 18 May 2018	Ratified 9 Mar 2017

Table 6. Table A4: EU–LDCs trade statistics

LDCs	LDCs trade with the EU				Details on exports			Explanation
	Exports to EU (2021) Mil €	Imports from EU (2021) Mil €	Share of exports to EU/Imports from EU	Average growth in EU exports 2017-2021	commodities export as share of merchandise exports*	commodities export as share of GDP*	Herfindahl–Hirschman index*	
LDC - Africa								
Angola	1 907	2 725	5.5% / 29.7%	-3,60%	96,40%	39,50%	0,382	Dependent on fuel exports. 69.2% of EU exports are fuel exports.
Benin	42	678	4.8% / 24.3%	4,30%	90,30%	29,10%	0,397	Dependent on agricultural exports. 50% of EU exports are agricultural products.
Burkina Faso	150	862	2.5% / 22.1%	-5,60%	97,40%	20,50%	0,681	Dependent on minerals, ore and metals exports. 44.6% of EU exports are mineral products and 43.6% are agricultural.
Burundi	32	79	8.1% / 12.9%	7,10%	93,20%	4,90%	0,478	Dependent on minerals, ore and metals exports. 87% of export to EU are agricultural products, 10% are mineral products.
Central African Rep.	31	115	33.6% / 39.9%	25,60%	53,30%	3,70%	0,291	Not dependent on commodities. Only 37.2% of EU exports are in primary products, 60.7% are in pearls and precious metals.
Chad	1 202	177	67.8% / 20.6%	56,50%	98,80%	25,60%	0,787	Dependent on fuel exports. They make up 99.5% of its exports to EU.
Comoros	7	70	43.2% / 26.6%		58,40%	2,40%	0,602	Not dependent on commodities.
DRC	1492	1024	1% / 8.9%	4,90%	95,20%	17,10%	0,516	Dependence on minerals, ore and metals exports. 59.7% of EU exports are metal ores.
Djibouti	6	217	2.3% / 18.7%	-18,70%	61,50%	71,20%	0,199	Dependent on agricultural exports. However, 57% of its EU exports are industrial products/manufactures.

LDCs	LDCs trade with the EU				Details on exports			
Eritrea	4	28	0.7% / 10.9%	-34%	84%	8,90%	0,316	Dependent on minerals, ore and metals exports. However, 95.9% of its EU exports are manufactures (84.9% textiles)
Ethiopia	616	1261	12.6% / 12%	4,10%	79,50%	2,50%	0,339	Dependent on agricultural exports. 85.2% of its EU exports are agricultural products (primary)
Gambia	11	203	5.8% / 12%	5%	86,40%	6,90%	0,324	Dependent on agricultural exports. 84.8% of its EU exports are fisheries products.
Guinea	465	835	8.5% / 22.5%	1,20%	93,50%	29,40%	0,521	Dependent on minerals, ore and metals exports. 83.3% of its exports are minerals.
Guinea-Bissau	3	146	0.9% / 52.5%	0,60%	98,30%	19%	0,875	Dependent on agricultural exports. 75.2% of EU exports are primary agricultural products.
Lesotho	220	15	28.9% / 0.9%	-5%	43,90%	18,90%	0,299	Not dependent on commodities. 98.5% of its EU exports are manufactures (97% pearls and precious metals)
Liberia	750	1234	20.5% / 19.9%	7,90%	61,90%	13,60%	0,431	Dependent on minerals, ore and metals exports. However 58.9% of its EU exports are primary products (minerals), 39.8% of exports are transport equipment.
Madagascar	924	562	31% / 13.7%	-5,10%	73%	15,20%	0,313	Dependent on agricultural exports. However, 56.1% of its EU exports are primary agricultural commodities, 31.4% are textiles.
Malawi	215	109	35.2% / 5.3%	-10,70%	92,30%	10,50%	0,574	Dependent on agricultural exports. 99% of its EU exports are primary agricultural products.
Mali	36	1220	1.5% / 12.7%	0,50%	91,40%	19,20%	0,714	Dependent on minerals, ore and metals exports. However, 54% of its EU exports are primary agricultural products.
Mauritania	655	755	17.5% / 38.4%	4%	97%	27,4 %	0,367	Dependent on minerals, ore and metals exports. 51.5% of its EU exports are minerals, and 45.8% are live animals.
Mozambique	1570	815	22.5% / 9.8%	9%	95%	32%	0,296	Dependent on fuel exports. 76% of its EU exports comprise of fuel.

LDCs	LDCs trade with the EU				Details on exports			
Niger	170	309	9.8% / 23.6%	-8,40%	66%	6%	0,348	Dependent on minerals, ore and metals exports. However, 97.6% of its EU exports are manufactures - chemicals and related products.
Rwanda	69	363	2.2% / 11.9%	11,10%	92%	10%	0,398	Dependent on minerals, ore and metals exports. However, 63% of its EU exports are primary agricultural products, and 24% are primary mineral products.
São Tomé and Príncipe					65%	2%	0,511	Dependent on agricultural exports
Senegal	463	3735	11.5% / 34%	3%	74%	12%	0,234	Dependent on agricultural exports. 47.5% of its EU exports are fisheries products, and 24.3% are agricultural products.
Sierra Leone	272	251	18.1% / 19.3%	0,90%	72%	10%	0,220	Dependent on minerals, ore and metals exports. 84.3% of its EU exports are crude minerals.
Somalia			7.2% / -		94%	30%	0,415	Dependent on agricultural exports
South Sudan	75	46	17.1% / 5.2%	282,30%	100%	19%	0,970	Dependent on fuel exports. 99.8% of its EU exports are fuel.
Sudan	225	665	3.6% / 7.8%	12%	98%	8%	0,384	Dependent on agricultural exports. However, 53.1% of its exports to the EU include fuels and only 31% are agricultural products.
Togo	125	1960	8.7% / 26%	11,50%	76%	16%	0,295	Dependent on fuel exports. However, 67% of EU exports are primary agricultural products, and 20% are mineral and metal products..
Uganda	535	737	16.5% / 8.4%	1,80%	84%	9%	0,289	Dependent on agricultural exports, 89.8% of its EU exports are primary agricultural products.
Tanzania	457	856	5.4% / 8.5%	-2,40%	74%	5%	0,223	Dependent on agricultural exports. 47% of its EU exports are primary agricultural products, 30% minerals.
Zambia	331	304	3.5% / 7.5%	-1,10%	87%	27%	0,677	Dependent on minerals, ore and metals exports. They make up 74% of its EU exports.

LDCs	LDCs trade with the EU				Details on exports			
LDC -Asia and Oceania								
Afghanistan	75	312	3.5% / 3.1%	39,60%	92%	4%	0,382	Dependent on agricultural exports. However 58% of its EU exports was in primary minerals, and only 26% was in primary agricultural products.
Bangladesh	15 738	2 831	38.3% / 4.2%	2,50%	4,70%	0,60%	0,406	Not dependent on commodities. 96% of its total EU exports was in textiles and footwear.
Bhutan					39,70%	8,60%	0,370	Not dependent on commodities.
Cambodia	3498	971	17.4% / 3.7%	-3,40%	15,70%	8,40%	0,275	Not dependent on commodities. 82.5% of its EU exports were in textlies and footwear.
Kiribati					95,50%	5,70%	0,884	Dependent on agricultural exports.
Laos People's Democratic Republic	286	248	4% /4.2%	3,30%	70,70%	22,30%	0,248	Dependent on minerals, ore and metals exports. However, 74.4% of its EU exports were in textile and footwear.
Myanmar	2249	322	15.3 / 3.2%	13,10%	61,10%	13,90%	0,233	Dependent on agricultural exports. However, 82.2% of its EU exports were in textiles and footwear.
Nepal	71	197	4.2% / 1.7%	0%	30,50%	0,90%	0,139	Not dependent on commodities. 73.8% of its EU exports were in textiles and footwear.
Solomon Islands					98%	40%	0,674	Dependent on agricultural exports
Timor-Leste					79%	3%	0,406	Dependent on agricultural exports
Tuvalu					83%	0%	0,790	Dependent on agricultural exports
Yemen	250	659	~0% / 3.2%	66,40%	94%	5%	0,458	Dependent on fuel exports. 99% of its EU exports are fuel.

LDCs	LDCs trade with the EU		Details on exports					
LDC - South America								
Haiti	26	198	2.3% / 7.4%	-9,40%	12,30%	1,60%	0,498	Not dependent on commodities. 50% of its exports to EU are chemicals and related products, and 19% are textiles.
LDCs total	35 409	28337	14.4% / 10.1%	2,50%				Primary commodities 31.9% of export value, manufactures 65.6% of export value. Textiles and footwear make up 58.1% of LDCs export to EU

Source: European Commission Trade Statistics (2021), and * based on UNCTAD state of commodity dependence 2021.

Herfindahl–Hirschman index – measure of degree of product concentration, the higher the value the more concentrated the exports are in few products.



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