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New EU requirements for sustainability in value chains risk undermining prospects of green transition and trust between the EU and Africa.

New EU requirements for sustainability in value chains serve as an essential tool for securing financial streams towards the green transition in the Global South. At the same time, it can help build trust between Africa and Europe. However, this can only happen if the new regulations, as the ones we are now seeing from the EU, are followed by targeted efforts to help countries meet value chain requirements.

Without this help, the otherwise well-intentioned regulations could have to the opposite effect - a further erosion of trust between Africa and Europe. There is also a risk that funds to African countries will dry up, while African economies will likely shift towards value chains rooted in China, which do not have the same sustainability requirements. Without targeted and supportive efforts from the EU, these new requirements could therefore play directly into geopolitical interests in an undesirable way.

Many concurrent crises are exacerbating poverty and vulnerability to climate change in Africa.

Achieving the UN Sustainable Development Goals and the Paris Agreement on climate change can only be ensured through an immediate transformative effort across all countries in the world[1]. The UN estimates that the Covid crisis has set back global sustainable development efforts by about half a decade and has led to serious and profound crises in the economy, health, energy, water, and food supply, as well as accelerated debt burdens in African countries[2]. The EU's relationship with Africa has suffered an immense crisis of trust, and there is a great need to rebuild trust through equal partnerships and acknowledgment of a true shared destiny.

Resultant debt and economic crises challenge African states' ability to invest in climate-efficient and sustainable inclusive growth opportunities that are necessary to stabilize the continent, as highlighted by Nicholas Stern at the CONCITO and the Ministry of Foreign Affairs' climate and development conference in in June 2023. He specifically assessed a need for investments at a level between 2% and 4% of the world's GDP to meet global climate and UN development goals.

[1] UNEP Emission Gap Report 2022

[2] UN SDG Report 2022

This must be weighed against the costs of not timely addressing climate change, which could amount to up to 18% of global GDP by 2050[3]. Already, it is estimated that African countries alone have experienced an annual loss in GDP of 13% in the period 1991-2010 due to climate change[4].

Without substantial private capital, achieving the UN Sustainable Development Goals and the Paris Agreement remains an illusion.

The financing of a global transformative development pathway requires capital and targeted investments of several trillion dollars annually. This necessarily needs to come from a broad range of public and private capital raised through debt relief, tax collection, reform of the international financial system, mobilizing institutional investors in OECD countries, and, importantly, mobilizing private market actors with activities and value chains across the Global North and South.

It is estimated that the African continent needs $200 billion in investments annually until 2030 to achieve the UN Sustainable Development Goals[5]. Other studies have estimated an investment need solely for climate adaptation in Africa of approximately $440 billion by 2030[6]. A prerequisite for this is an unprecedented need for economic reforms in partner countries, in world trade, in development assistance, and in the strengthening of risk mitigation instruments to scale investment flows. Finally, a crucial factor is the currently inadequate regulation of companies' adverse impacts on sustainability factors, i.e., in relation to people, the environment, climate, and society – both internally within the companies themselves and in their value chains.

And it is precisely in relation to the adverse impacts of businesses on the environment that the EU's Green Deal has opened the way for a series of new regulatory initiatives that potentially contribute to building a financially and market-based framework that is 'fit for purpose'. As part of this, a Sustainable Finance Framework has been launched, which aims to integrate sustainability factors at various levels of the economy. The purpose is to channel financing towards those economic activities that are most essential for the transition to a net-zero society. The keywords are standardization, transparency, and documentation, and the intention is to reduce the attractiveness of investments in unsustainable activities and assets while at the same time facilitating opportunities to raise sustainable capital[7].

The suite of new EU regulation in the field of sustainability is absolutely necessary and commendable and reflects - through ambitious implementation across member states - initiatives that support a true transformative effort at the global level. And it should be particularly binding for Denmark, which, as a green frontrunner, has some of the highest global footprints per capita in terms of CO_2, materials, water, and land use[8].

[3] Swiss Re, Cost of Climate Change, 2023
[4] IPCC, AR6, WG2, Africa, 2022
[5] SDG Action, 2022
[6] UNECA, 2023
[7] EU Kommissionen, 2023.
[8] Tukker et al, The Global Resource Footprint of Nations, 2014

Companies and investors must ensure transparency and management of adverse impacts.

On the company side, all large companies and all listed companies with the Corporate Responsibility Reporting Directive (CSRD) are required to report on the impact of their activities on social, environmental, and governance issues (sustainability factors) as well as the business and financial risks they face due to sustainability risks, based on a double materiality assessment[9]. The European Sustainability Reporting Standards provide guidance on how companies should report on this, distributed across more than a thousand data points[10]. The Corporate Sustainability Due Diligence Directive (CSDDD), currently being negotiated in Brussels, aims to promote responsible corporate behavior and embed human rights and environmental considerations, including climate, in companies' operations and management[11]. CSDDD introduces mandatory due diligence for sustainability, meaning that companies will be obliged to address their adverse impacts on people and the environment, including in their value chains within and outside Europe.

Similarly, there are requirements in the financial sector. By specifying how financial market participants should disclose sustainability-related information, the Sustainable Finance Disclosure Regulation (SFDR) aims to assist investors seeking to invest in companies and projects that support sustainability goals in making informed choices[12]. SFDR imposes disclosure obligations on both the company level and the product level regarding the integration of sustainability factors. CSRD is directly tied to SFDR as it ensures the availability of (most of) the information that needs to be disclosed in SFDR reporting.

A common definition of sustainability

Last but not least, the EU's taxonomy comes into play, which forms the cornerstone of it all. The taxonomy sets a common definition across the EU of what can be considered as an environmentally sustainable economic activity[13]. This definition should be used when reporting both in the CSRD and on financial products in the SFDR. In this way, the taxonomy plays an important role in helping the EU scale up sustainable investments by providing security for investors, protecting against accusations of greenwashing, helping companies become more climate-friendly, and mitigating market fragmentation.

Furthermore, the above-mentioned regulations all refer to internationally recognized standards for responsible business conduct, with the recently updated OECD Guidelines for Multinational Enterprises[14] spanning across all the regulations, while the UN Guiding Principles on Business and Human Rights[15] – which are incorporated in the OECD Guidelines – are referenced both directly and indirectly.

With this, the EU ensures that they build on already existing, recognized, and tested methods that are widely supported by private, public, and civil actors worldwide. CSDDD, CSRD, SFDR, and the taxonomy are all interconnected and designed to work together to a greater or

[9] EU Kommissionen, 2023
[10] EFRAG, 2023
[11] EU Kommissionen, 2022
[12] EU Kommissionen, 2023
[13] EU Kommissionen, 2021
[14] OECD, 2023
[15] guidingprinciplesbusinesshr_en.pdf (ohchr.org)

lesser extent. The regulatory framework is ambitious and comprehensive, and if the EU manages to land it all as intended, it has the potential to accelerate the green and just transition.

High risk of regulations without support pulling value chains and investments out of Africa

However, there is a very high risk that these commendable initiatives will draw the already insufficient private capital out of the African continent and thus seriously undermine prospects for promoting economic growth and stability at a crucial time. Such a development will undoubtedly deepen the trust gap between Europe and its African partners.

The underlying challenge is threefold. The development of the new EU regulatory requirements has not sufficiently involved actors and perspectives from Africa[16], which is highly criticizable, as the regulation - drafted in the Global North - will undoubtedly affect development opportunities for workers, businesses, and countries in the Global South[17]. In this context, supportive efforts in Africa have also not been taken into account, meaning that actors in these countries have not been able to plan their own preparations. Finally, there is a widespread risk that the European private sector will divest and avoid sourcing from countries and areas they perceive as risky in order to ensure compliance with sustainability regulation.

The European Commission's High-Level Expert Group on Sustainable Finance has appropriately recommended in their report "Scaling up sustainable finance in low- and middle-income countries" that a completely new model for strategic collaboration between the EU and low- and middle-income countries is established to support inclusive sustainable growth and urges the EU to provide more coherent support along the entire value chain and project lifecycle, while involving private investors in a timely manner[18].

The organizational implementation of the EU's new wave of regulations places great demands on, among other things, technology, data availability and architecture, economic resources, and the right professional skills.

For example, SFDR requires asset managers to classify their funds as either article 6, 8, or 9 depending on the level of sustainability[19]. If an asset manager wants to create an article 9 fund - a fully sustainable product with sustainable investment or reduction in CO_2 emissions as the goal - it must meet a range of disclosure and documentation requirements regarding social, environmental, and governance aspects. And the manager can only obtain this information by requesting it through the value chain. Therefore, it is essential that actors in the value chain are capable of providing the requested data points and also capable of delivering services, products, and projects that meet the desired level of sustainability.

As actors in the EU have a strong incentive to increase their sustainable activities, their focus will be on projects, actors, and areas that they consider are already able to meet the requirements for sustainability and documentation or are close to doing so. Their attention will be directed toward more developed economies, while the supply of possible sustainable investments in low and middle-income countries will be limited[20]. As a result, financing is at an

[16] Caroline Lichuma, Centering Europe and Othering the Rest: Corporate Due Diligence Laws and Their
[17] HREDD in Global Value Chains (swp-berlin.org)
[18] High Level Expert Group on Sustainable Finance in low- and middle-income countries, 2023
[19] Danish language: Disclosureforordningen (finanstilsynet.dk)
[20] https://www.swp-berlin.org/publications/products/arbeitspapiere/WP02_HREDDinGlobalValueChains.pdf

even greater risk of being diverted away from the countries that are in greatest need of sustainable investments and economic and social development. This is reflected, among other things, in Ethical Trade Denmark's latest member survey, where 92% of companies indicate that, in response to the new regulations, they consider to a higher or lesser extent avoiding suppliers in risk countries[21].

The potential effects of the new regulatory measures raise questions about how businesses will handle the fact that many of the resources and inputs used in the EU originate from African countries. Approximately 63% of all African value added from exports is embedded in EU exports[22], which underscores the importance of the European market from an African perspective. Therefore, the EU's sustainability regulations may have enormous consequences for capital flows to the African continent and thus support economic development, job creation, and the transition of economies in a more climate-friendly and sustainable direction at a crucial moment - and this must be seen in light of the fact that leading companies in the Global North already use sustainability as a marketing strategy and to differentiate themselves, while the burden is often shifted onto suppliers, including those in Africa, who are pressured to comply with additional requirements for certifications, standards, audits, and traceability without being properly compensated for the extra burdens[23].

Ripples in the Water: Africa Caught in a Crossfire of Sustainability Regulation

The regulations that come with the Sustainable Finance Framework are not the only ones at play. The introduction of the EU Carbon Border Adjustment Mechanism (CBAM) further contributes with its imposed carbon tariffs on competitively traded products, creating a whole new universe of requirements that African economies must address in their trade relations with the EU. The entire regulatory wave mentioned above is only seen from an EU perspective. In addition, sustainability regulations have also been introduced in other parts of the world. Canada, Australia, the UK, Russia, Malaysia, Sri Lanka, Indonesia, Thailand, Colombia, and South Africa have all begun or completed work on introducing their own versions of green taxonomies, while Singapore has taken the lead in developing a green taxonomy for use in all ASEAN countries[24]. The same trend can be seen in regulating companies' adverse impacts on human rights around the world[25]. This means that there are plenty of standards, reporting requirements, and demands that actors in African partner countries must address and meet if they want to attract the necessary sustainable private capital.

Implementation of regulation must be supported by assistance and partnerships.

There is no doubt that the EU, and especially Denmark as a self-proclaimed green frontrunner, must stick to an ambitious implementation of the EU Sustainable Finance Framework and the many strong regulations associated with it, as market-driven climate and sustainable

[21] Etisk-Handel-Rapport-2023.pdf (etiskhandel.dk)
[22] Banga, Karishma; United Nations. Economic Commission for Africa; United Nations. Economic Commission for Africa. Regional Integration and Trade Division. African Trade Policy Center (2020-08). Africa trade and covid-19: the supply chain dimension. Working paper. 586, 52 p.: ill.. Addis Ababa :. © UN. ECA,.
[23] Ponte, S. (2019). Business, Power and Sustainability in a World of Global Value Chains
[24] Sustainable Taxonomy development worldwide: a standard-setting race between competing jurisdictions | Our Center of Expertise (natixis.com)
[25] What data do investors need to manage human rights risks? | Discussion paper | PRI (unpri.org)

transition are indispensable means of reaching our own climate and sustainability goals on time while also cleaning up our global footprint and supporting the development trajectory of partner countries.

However, at a time when African governments are working to rebuild and stabilize their economies to emerge from a devastating and seriously destabilizing polycrisis, and when Europe simultaneously needs to establish a trustful relationship with our major neighbor in the south, massive support and cooperation with these countries must inevitably be provided to ensure a foundation for adequate management of growing sustainability demands related to value chains and investments. The EU needs to acknowledge that actors on the African continent's accommodation of the requirements of must necessarily be addressed on an equal footing through sincere partnerships with these countries, supported by concrete assistance, as recommended by the aforementioned expert group. The way it is currently organized, the new requirements only add fuel to the fire in the narrative of an EU that only thinks of itself and once again acts without considering the consequences for the African continent.

There is a need for equal partnerships and efforts at the highest political level in formulating a common desire to transform businesses and investors' behavior towards a more sustainable direction. Broad collaborations are needed, and implementation strategies must be designed to ensure that the EU's wave of regulation does not become a de facto trade barrier for African countries. This requires capacity building and competencies to ensure the infrastructure for responsible and data-driven value chains that can comply with new sustainability regulations. The whole issue of transparency in value chains becomes crucial for the integrity and effectiveness of the new regulation, and equal trade relationships and collaborations across public, private, and civil actors in both the Global North and South are a prerequisite for this.

Pathways to solutions – what is already underway and what should we do more of?

There are some tools in progress from the European side, including, for example, the European Single Access Point (ESAP), which ensures digital access to companies' sustainability information[26]. However, it does not contribute to the partnership with collaborating countries that are needed to enable responsible and data-driven value chains across the Global North and South. There is a need for consistency in approaches and a rapid replication of best practices in the market.

A good example could be the company Fair Food, which has established five specific principles of data governance in value chains within the agricultural sector. They focus on innovation, inclusion, and sharing of digitized data for the benefit of all actors in the value chain, so it is not perceived solely as a burden[27]. The UNEP Finance Initiative has established six criteria for the implementation of new taxonomies, including ensuring alignment with the taxonomies of other countries and regions, ensuring transparency and clear governance, and ensuring realistic feasibility in the market[28].

There are also concrete initiatives underway from the Danish side to support sustainability and responsibility in value chains. As part of the government's action plan for implementing the UN Sustainable Development Goals, the Danish Business Authority has launched a guidance universe to help Danish companies better manage risks of adverse impacts on people

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[26] EU, ESAP, 2023
[27] Fair Food, who owns farmer data? Fairfood's principles on data governance, 2023
[28] UNEP FI, 2023

and the environment both locally and globally in the value chain[29]. Together with the Ministry of Foreign Affairs, the Ethical Trade Denmark has established a knowledge center for sustainable value chains, where companies for example can learn about responsible supplier dialogue[30]. There are also targeted efforts, for example, in relation to forest-related value chains, including coffee, chocolate, and soy, through organizations such as the Ministry of Foreign Affairs, the Danish Ethical Trading Initiative, WWF, and the Danish Soy Sustainable Alliance, as well as through CONCITO's collaboration with the American think tank, WRI, to promote sustainable value chains for soy as input in Danish animal production. The Danish Institute for Human Rights supports the implementation of the UN Guiding Principles on Business and Human Rights at the national level around the world through research, guidance, and assistance to states, companies, and civil society[31]. In addition, trade unions and industry associations are taking initiatives, such as the Confederation of Danish Industry's projects with Danish and local companies, authorities, and business organizations in East Africa[32].

In this light, it is particularly surprising that the government's proposal for the 2024 Finance Act does not include the current initiatives to support responsible implementation of the regulations, as it appears that the state's support for Ethical Trade Denmark and the knowledge center for sustainable value chains is no longer included in the budget proposal[33].

There is a need for a collective partnership-based approach in order for the new regulations to have the sustainable and climate-efficient impact that is necessary in the short term. This should be done at a coherent systemic level. It is essential for sustainability regulation to be embedded in a broader set of instruments that facilitate economic and social development in the African partner countries. Regulation of companies and investors' actions in the Global North should prioritize value creation in the Global South instead of the reverse.

No rules are better than their implementation. Therefore, both the Danish and EU sides should ensure:

1. ***Full integrity and high ambition in the development and implementation of the new sustainability requirements***, including continuing to work towards full symmetry in requirements for investors and companies, and avoiding voluntary reporting through double materiality assessments that only serve to obscure the overall efforts. It is also important to strive for harmonization and coherence across sustainability requirements and standards at a global level, as attempted with the new International Sustainability Standards Board (ISSB) reporting standards[34].
2. ***A partnership-based approach at the highest political level with African countries indirectly affected by the new regulation***. This entails setting common goals and agreements for supporting initiatives that can establish strong monitoring frameworks and implementation plans, while also reflecting local market conditions and contexts. Such efforts should also be supported by initiatives through the African Union's free trade cooperation, the African Continental Free Trade Area (AfCFTA) [35].
3. ***Building local competencies and capacities through long-term and equitable collaborations*** across public, private, and civil actors in accordance with internationally

[29] Danish Language: Bæredygtig omstilling | Virksomhedsguiden
[30] Danish language: Videncenter - Etiskhandel
[31] National Action Plans on Business and Human Rights | The Danish Institute for Human Rights
[32] Danish language: DI Østafrika - DI (danskindustri.dk)
[33] Etisk Handel: Regeringen bremser ansvarlig handel uden midler på finansloven - Altinget: Udvikling
[34] International Sustainability Standards Board
[35] AfCFTA

recognized standards for responsible business conduct[36]. This can support high integrity in the implementation of regulations and the countries' own ability to develop market-based instruments in climate and sustainable transition.

4. ***Full alignment and harmony between national climate plans, sustainable development plans, and business policies in African countries***, including partnerships with governments, the private sector, and civil society.
5. **A particular Danish focus and effort on value chains and in countries that are particularly relevant to Danish production and consumption footprint** – such as wood and biomass, minerals for the energy sector, and inputs for agricultural production. The deployment of value chain attachés through the Ministry of Foreign Affairs should be intensified in African markets that are most relevant for Danish resource imports.
6. **Ensuring support for Ethical Trade Denmark and the knowledge center for sustainable value chains**, as well as other similar initiatives that can strengthen dialogue, knowledge gathering, and support for companies' adherence to the new regulation throughout the value chain.

The above should be integrated as key elements in both the upcoming development policy strategy and the forthcoming focused efforts on the African continent, due to the strong ties to global climate action, poverty reduction, export promotion, and geopolitical considerations.

[36] The international standards for responsible corporate behavior are defined in the UN's Guiding Principles on Human Rights and Business (2011) and the OECD's Guidelines for Multinational Enterprises (2023).