



*Empowered Lives  
Resilient Nations*

# **AFRICAN INTEGRATION FUND**

*A special continental fund for the implementation of the priority regional integration and minimum integration programs of the African Union Commission*

## **DRAFT FEASIBILITY STUDY**

Prepared by:

Oumar SECK  
Wilfred THARIKI

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## LIST OF ACRONYMS AND ABBREVIATIONS

ACP	African, Caribbean and Pacific
ACGM	African Credit Guarantee Mechanism
AEC	African Economic Community
AFC	Africa Finance Corporation (Nigeria)
AfDB	African Development Bank
AFP	African Financing Partnership
AFREXIM	African Export-Import Bank
AFRICA50 Fund	Planned Infrastructure Fund of the AfDB targeting to raise US\$ 50 billion
AGA	African Governance Architecture
AGOA	African Growth and Opportunity Act
AIB	African Investment Bank
AIDA	Accelerated Industrial Development of Africa
AIDF	African Infrastructure Development Fund
AMU	Arab Maghreb Union
APSA	African Peace and Security Architecture
ASEAN	Association of South East Asian Nations
ATI	Africa Trade Insurance Corporation
AU	African Union
AUC	African Union Commission
BEE	Business Enabling Environment
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Developt. Bank of Brazil)
BRICS	Brazil, Russia, India, China, South Africa
CAADP	Comprehensive African Agriculture Action Program
3ADI	All Africa Agricultural Development Initiative
CADF	China-Africa Development Fund
BCEAO (in French)	Central Bank of West African States
BEAC (in French)	Central Bank of Central African States
CCI	Chamber of Commerce and Industry
CCIA	Chamber of Commerce, Industry and Agriculture
CEMAC	Commission Economique et Monétaire de l'Afrique Centrale
CDC	Commonwealth Development Corporation
CDE	Centre for Development of Enterprise
CEN-SAD	Community of Sahel-Saharan States
CEPGL	Communauté Economique des Pays des Grands Lacs
C-FTA	Continental Free Trade Area
CIGL	Conférence Inter-Gouvernementale des Pays des Grands Lacs
COMESA	Common Market for Eastern & Southern Africa
DAC	Development Assistance Committee
DBC	Development Bank of China
DBR	Doing Business Report
DBSA	Development Bank of South Africa
DEG	Deutsche Investitions und Entwicklungsgesellschaft(Germany)
DevCo	European Commission's Development and Cooperation Office
DFC	Development Finance Cooperation Committee
DFI	Development Finance Institution
DfID	Department for International Development (UK)
EABC	East Africa Business Council

ECCAS (CEEAC in French)	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EAC	East African Community
EACDF	East African Community Development Fund
EAPP	East Africa Power Pool
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDF	European Development Fund
EIB	European Investment Bank
EGL	Energie des Grands Lacs
EPA	Economic Partnership Agreement
EPYW	Employment Pact for Youth and Women
ESA-IO	Eastern and Southern Africa – Indian Ocean
EU	European Union
FTA	Free Trade Area
GCC	Gulf Cooperation Council
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HLPASF	High-Level Panel on Alternative Sources of Funding of the AU
ICF	Investment Climate Facility
IFC	International Finance Corporation
IGAD	Intergovernmental Authority on Development
IOC	Indian Ocean Commission
IPA	Investment Promotion Agency
IRCC	Inter-Regional Coordinating Committee
IsDB	Islamic Development Bank
LVBC	Lake Victoria Basin Commission
LVFO	Lake Victoria Fisheries Organization
MDTF	Multi-Donor Trust Fund
MIP	Minimum Integration Program (of the African Union Commission)
MIGA	Multi-lateral Investment Guarantee Agency
MRU	Mano River Union
M&E	Monitoring & Evaluation
NBI	Nile Basin Initiative
NEPAD	New Partnership for African Development
NHSGOC	NEPAD Heads of State and Government Orientation Committee
NPCA	NEPAD Planning and Coordination Agency
NTB	Non-Tariff Barriers
ODA	Official Development Assistance
OGM	Oil, gas and mining
OSBP	One-Stop Border Post
PIDA	Programme for Infrastructure Development In Africa (of NEPAD)
PPP	Public-private Partnership
PTA	Preferential Trade Area
PTA Bank	Southern Africa Development Bank (Preferential Trade Area Bank)
RADS	Resource-based African Development Strategy
REC	Regional Economic Community
SACU	Southern Africa Customs Union
SADC	Southern Africa Development Community
SME	Small and Medium Enterprise
TB	Tariff Barrier

TBT	Technical Barriers to Trade
TF	Trust Fund
TMEA	Trade Mark East Africa
TEAM 9	Techno-Economic Approach for Africa-India Movement
ToR	Terms of Reference
SWARIP	Support to West Africa Regional Integration Programme (DfID-ECOWAS)
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	US Agency for International Development
WAEMU (UEMOA in French)	West African Economic and Monetary Union
WB	World Bank
WBG	World Bank Group
WTO	World Trade Organization

# 1.0 EXECUTIVE SUMMARY

## Introduction

This Feasibility Report on the creation of an African Integration Fund (AIF) has been prepared for the African Union Commission (AUC), under the sponsorship of the UNDP Ethiopia Country Office and the supervisory role of the Department of Economic Affairs of the AUC.

The AIF is meant to help finance the so-called “Minimum Integration Programme” (M.I.P) adopted during the Fourth Conference of African Ministers of in charge of Integration (COMAI IV) of May 7-8, 2009 in Yaoundé-Cameroon.

However, the feasibility study takes cognisance of the significant evolutions in the regional integration process and ambitions of the AU and the Regional Economic Communities (RECs) since the articulation, in 2009, of the Minimum Integration Program (MIP) which the AIF is meant to support. Firstly, the AU has expressed enhanced ambitions for its regional integration agenda and launched major continental initiatives (C-FTA, BIAT, CAADP/3ADI, PIDA, AIDA/RADS, AGA, APSA, EPYW and the like). Secondly, at the level of the RECs, though the pace of regional integration has been relatively slow overall; some degree of realization has been achieved in many thematic areas of regional integration (Free Movement of People, Customs Union, TBs, NTBs, Transport Corridors, regional infrastructures, etc.) and bold steps have been taken by some RECs to speed-up the integration process, namely, with the advent of the Tripartite FTA COMESA-SADC-EAC announced by the three RECs in 2008. Hence, the AIF and the concept of MIP have been “re-contextualized” to account for these major developments in the African regional integration agenda. In other words, the AIF will support priority regional integration programs/projects as well as the re-actualized MIP programs and projects of slow-movers in the regional integration process of the Continent.

The study/report covers the following: (a) African Socio-political and Economic Review (b) Progress Review on the African Regional Integration Agenda; (c) Review of Priority Regional Integration Programs, Projects and Activities and The Re-actualized MIP to be Targeted by the AIF; (d) AIF Project Rationale; (e) Structuring the African Integration Fund; (f) Definition of the AIF Mission, Objectives, Support Mechanism and Projects/Activities to be Financed; (g) Articulation of AIF Operational Procedures and Management Structures; (h) Definition of AIF Governance Framework; (i) Sizing of the AIF and Definition of its Management and Operational Costs; (j) Definition of a Resource Mobilization Strategy with the Identification of Potential Financing Sources; (k) Suggestion of a Rollout and Implementation Plan for the AIF; and (l) Identification of the Critical Success Factors and Risks for the Project.

The beneficiaries of this Feasibility Report are the African Union Commission (AUC), Regional Economic Communities (RECs) and member States (MS) of the African Union.

## Background

Despite the many resolutions made by African leaders, the African integration process has been marked by slow progress as a result of differences in political commitment vis-à-vis the integration agenda, limited effectiveness of continental, regional and national bodies dealing with regional integration issues and limited expertise and financial capacity to implement the decisions taken.



Despite improving growth performance of the Continent in recent years, poverty level, economic diversification and international competitiveness still remain a challenge the Continent still faces. Furthermore, several studies have indicated that, if African countries were to increase their share in global trade by only 1 per cent, that would represent an additional annual income of over \$200 billion which is approximately five times more than the amount the continent receives as Official Development Assistance (ODA). Yet despite this potentially massive economic return of international and regional trade to Africa; intra-African trade remains relatively small (at around 11-12% of global African Trade) as a result of numerous non-tariff barriers (NTBs), poor trade facilitation services and limited supporting infrastructure, including in transport and logistics, as well as financial institutions and services.

## **Rationale for a Dedicated Funding Vehicle for the MIP and the Priority Regional Integration Projects**

### ***Slow Progress in the Implementation of the Abuja Treaty***

A summit of AU leaders in January 2012 endorsed a new action plan to boost trade between the continent's countries on the basis, among others, of the closer links being built between COMESA, EAC and SADC. The summit noted the slow progress of implementing the Abuja Treaty and set a target of 2017 to establish a Continental Free Trade Area (C-FTA) to bring together Africa's small and fragmented economies into a single market. Furthermore, the global economic crisis has increased pressure on Africa to speed up its integration and be ready for new challenges and the proposed C-FTA would significantly boost this effort.

However, the progress towards the realization of the objectives of the Abuja Treaty remains slow given the prevailing regional development challenges and the pressures exerted by the international environment on African countries.

Hence, speeding-up the regional integration process and moving forward the implementation of the Abuja Treaty (hence the C-FTA that leads to the AEC) through a dedicated financing vehicles that will support priority regional integration projects, among others is of vital importance to the future of many African countries and to the Continent as a whole.

### ***Economic rationale***

It is widely reported that the low-level of intra African trade is a missed growth and development opportunity for African countries. Several studies have indicated that, if African countries were to increase their share in global trade by only 1 per cent that would represent an **additional annual income of over \$200 billion** which is approximately five times more than the amount the continent receives as Official Development Assistance. This steady source of income would help underpin the transformation of African economies and enable them to compete globally, as well as enable them to deal effectively with crippling poverty

In addition, with their small economies, a number of African countries face stiff competition on international markets, do not enjoy economies of scale in scale-intensive industrial sectors, and have less bargaining power at international bodies such as the World Trade Organization and negotiating economic partnership agreements.

Furthermore, intra-African trade has the potential to reduce vulnerability to global shocks, contribute to economic diversification, enhance export competitiveness and create employment.

### ***Financial and Risk Mitigation Rationale***

The Obasanjo-led High-Level Panel on Alternative Sources of Funding of the AU (HLPASF) has revealed the unsustainability of the present AU's funding system. In addition, most RECs face challenges mobilizing the resources needed to support their program activities.

The setting-up of the AIF will yield the following benefits:

- **Enabling other resources mobilization activities:** The AIF and its impact on the regional integration process make other resources mobilization initiatives that support the regional integration process more attractive. Indeed, success on alternative resources mobilization (member states contribution, commercial/structured/PPP finance) depends largely on evidence of progress on the regional integration agenda and the MIP in particular.
- **Support to other resources mobilization efforts:** The AIF will support the resources mobilization efforts of RECs and the AUC itself. In particular, it will assist in thematic fund structuring and mobilization and support, where relevant, as well as in capacity building and project development-related funding mobilization efforts of the NPCA.
- **Bridge financing:** The AIF will serve as a bridge financing for priority regional integration activities, projects and programs for which the financial resources mobilization is delayed or takes time to materialize.
- **Synergetic and complementary financing:** In all circumstances, the AIF will be complementary to all other available funds or resources mobilization processes (e.g. existing Thematic Funds, NEPAD IPPF, RECs Funds, etc.) with which it will seek synergy.

Furthermore, the alternative resources mobilization vehicles being planned (additional levies on member states revenues, AIDF & ACGM of the NPCA, Africa50 Fund of the AfDB) will take (36 – 60 months) time to materialize due to the strong political implications and/or the technical, legal and financial complexity of the vehicles being considered. The AIF, which involves a relatively smaller scale, could be implemented in a time frame of 18 to 24 months with adequate leadership, hard-working and sufficient development resources.

### Multi-donor Trust Fund as the Most Appropriate Funding Vehicle

Among the traditional ODA solutions and the many variants of trust funds available, a multi-donor trust fund (MDTF) in the form of a multi-recipient umbrella facility to mobilize and deploy pooled trust fund resources, appears to be the most suitable on the ground of its many benefits for the AUC and the RECs listed below:

- **Ownership:** It will help boost AUC and RECs ownership of their programs and projects. It will allow the AUC and RECs to fund their priority needs (versus situations where donors put emphasis on their own priorities).
- **Tackling cherry-picking:** It will help ensure that donors do not cherry-pick their favorite projects and ensure that unfashionable yet critical projects of the regional integration process are funded.
- **Mobilizing resources:** It encourages a range of multilateral donors, bilateral donors and private sector actors to commit resource.
- **Transaction costs:** It has the potential to cut transaction costs and administrative burdens on the AUC and the RECs.
- **Reform:** Articulation of coordinated donor strategies and action plans will have a positive effect on the capacity of the AUC, RECs and member states to undertake the reforms and priority projects envisaged.

- **Donors' coordination and donors-AUC/RECs policy dialogue:** It facilitates donor coordination and harmonization while providing a platform for policy dialogue amongst donors and between donors and the AUCs and the RECs .

## Mission, Goals and Financing Modalities of the Fund

**Mission:** The mission of the fund is to help fast-track the regional integration process through, among others, the financing of priority regional integration programs/projects and the “re-actualized Minimum Integration Program (MIP) of the African Union Commission for slow-movers. In the process, the AIF will complement AUC and RECs’ regular vehicles as well as existing multilateral and regional financial vehicles that support the regional integration process.

**Goals and objectives:** The goals and objectives pursued, through the operationalization of the AIF, are to achieve each of the six stages of the Abuja Treaty within the fixed time frame while also stemming the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect.

## AIF Support Mechanisms

AIF Support mechanisms will be in the following various forms:

- **Grant support:** Fund transfer to qualified regional bodies that meet stringent eligibility criteria for the implementation of a specific project against agreed upon deliverables and execution schedule.
- **Technical assistance support:** Tradition technical assistance in areas such as: (a) reforms needs assessment and reforms implementation and evaluation; (b) policy, strategy and program formulation, implementation and monitoring and evaluation; (c) knowledge capture and dissemination); (d) statistical database design, statistical surveys and statistical information capture and dissemination.
- **Advisory services support:** Advisory services support will be targeted at two categories of activities: (a) pre-investment support in the form of project development, project bankability readiness support, and project investment readiness support, support for funding mobilization campaign for already finalized bankable/PPP project (investment memo preparation, roadshow support, investors’ mission); and (b) support for resources mobilization activities for AUC, RECs, regional organs.
- **Institutional support:** Institutional support will be offered only to AUC, RECs and regional organs of RECs in priority regional integration areas. The support will be targeted at activities such as: (a) management, organizational, planning, governance and architecture system design/improvement; (b) specific projects/events that advance considerably the regional integration agenda (a request for support to a regional organ will be validated first by the concerned REC before it is evaluated by the AIF); and (c) study tour and learning facilitation at best-practice institutions/projects.

## AIF Disbursement Channels

The AIF will consider a variety of disbursement modalities such as calls for proposals, tendering and direct grants that will be chosen with flexibility according to the aims of the pool-fund, the activities envisaged and the targeted groups of actors.

Identified suitable disbursement channels include: **direct disbursement to the AUC or the RECs** (for continental projects or regional/cross border initiatives), **direct disbursement to member states** (for national projects that will have an impact on regional integration), and **disbursement to Member States through RECs** (whereby RECs would take on the character akin to a Regional Development Agency (RDA) serving as an interlocutor between the central funding body and Member States, and responsible for disbursements monitoring and evaluation, and reporting back to the central funding body.

Size of the Fund Based on a 4-Year Planning Horizon

The total funding requirement for a 4-year program (corresponding to the targeted deadline for the establishment of the C-FTA) stands at **US \$ 350 million** broken-down as follows:

- Priority Regional Integration Projects and Re-actualized MIP :	US\$ 320 000 000
- Enabling Capacity Building Projects:	US\$ 21 000 000
- Best-practice capture, dissemination and knowledge transfer facilitation:	US \$ 2 000 000
- Success story dissemination:	US \$ 2 000 000
- AIF Set-up and Operating Cost for 4 years:	US \$ 5 000 000

NB: Typically, fund managers require to be paid a management fee of 1.5% to 3.5% based on amount involved and the type/amount of work involved. Reports indicate that the AfDB requires 5% (its funds are typically below US\$ 50 million). Hence, for the AIF fund, one could anticipate/negotiate a management fee of 1% to 1.5% given its size.

Resources Mobilization Channels and Opportunities

The AUC will leverage a combination of channels for the AIF resources mobilization campaign; including the following:

- Diplomatic channels
- Political channels
- Development cooperation channels
- Corporate social investment channels
- Commercial finance and financial market channels

There are potentially six sources for the AIF resource mobilization with different levels of probability for success, different prerequisites for success, different types of conditionality or eligibility criteria and different resources acquisition instruments. They include:

- Traditional donors’ resources mobilization including resources mobilization through established global funds
- Emerging donors’ resources mobilization
- Resources mobilization through increased and rationalized member states’ contributions
- Commercial/financial market resources mobilization
- Private sector resources mobilization
- Philanthropic resources mobilization

Hosting and Governance of the AIF

The fund will be hosted at one institution subject to mutual agreement with the AUC as well as that potential host institution meeting relevant eligibility criteria in the form of passing the test of EU-type “ Six-pillar Assessment”. In other words, the AUC should obtain evidence of the existence and proper operation at the potential host institution within the framework of the EU’s ‘Six-pillar assessment.

Based on the above requirements, institutions that could be considered as potential hosts of the AIF include the following:

Regional institutions:

- African Development Bank
- Development Bank of South Africa
- Regional Development Banks (EBID, CADB, EADB, PTA Bank)
- African Investment Bank (that is being planned)
- Established private sector bodies that meet the eligibility requirements.

Multi-lateral institutions:

- World Bank Group
- Un system

Based on the above, it should be stressed that there will be an added advantage, from a credibility and risk management point of view, to have the fund hosted by institutions such as the African Development Bank, the World Bank Group or the UN System that, not only have established experience in managing trust funds; but also provide comfort to other bilateral and multilateral donors in the areas of accountability, professional management and risk management requirements for trust funds.

## **Rollout and Implementation Plan**

The rollout of the AIF project is based on the following assumption from a resources mobilization point of view<sup>1</sup>:

- Phase 1: Partners-based resources mobilization strategy: 2014 -2017
- Phase 2: Domestic resources mobilization based on enhanced member states' contributions (i.e. resources from member states as per the conclusions of the HLPASF ): 2017 - 2021

The roll-out and implementation plan could be concluded in a time horizon of 18 – 24 months with serious commitment from the AUC leadership and by making sure that the financial and human resources needed to conduct the resource mobilization campaign are made available early enough and a robust diplomatic back-up by AUC and relevant member states are provided to the team and intermediaries/consultants in charge of the resources mobilization campaign. Early engagement with key strategic partners (host institution for the fund and anchor funding partners) will be crucial to the fast-tracking of the resource mobilization and rollout/implementation plan.

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<sup>1</sup> The consultants take the view that the AIF instrument should continue beyond the 4-year of its planning horizon.

## 2.0 INTRODUCTION: PROJECT RATIONALE, BENEFICIARIES AND DELIVERABLES

### 2.1. The Regional Integration Agenda

African leaders are seeking to fast track regional integration first agreed in the 1991 Abuja Treaty. The treaty, which aimed for the creation of a competitive single market **African Economic Community (AEC)** and a single currency, entered into force in 1994. All African countries have ratified the AEC (except Morocco, which withdrew from the Organization of African Unity (OAU) in 1984). The general concern is over the slow implementation of the stages, not in line with the agreed framework. African countries now recognize, however, the importance of speeding up the process.

The African Union (AU), United Nations Economic Commission for Africa (UN-ECA), the African Development Bank (AfDB) and regional economic communities (RECs) are all developing policies and frameworks aimed at accelerating integration.

The Abuja Treaty set out six stages to integration. But the process has been confronted by limited financial resources, the setting of tariff and non-tariff barriers, the slow pace of implementation of a protocol on free movement of goods and services across frontiers and internal conflict in some countries. The objective of pan-African integration, particularly in creating a larger market, is still far from being realized.

With the low levels of intra-African, a summit of AU leaders in January 2012 endorsed a new action plan to boost trade between the continent's countries. Furthermore, the summit noted the slow progress in the implementation of the Abuja Treaty and set a target of 2017 to establish a **Continental Free Trade Area (C-FTA)** to bring together Africa's small and fragmented economies into a single market.

### 2.2. Project Genesis and Rationale

From the Organization of African Unity (OAU) to the creation of the African Union (AU), the New Partnership for Africa's Development (NEPAD) and recent discussions on the Union Government, Africa's integration process has been marked by numerous initiatives, mixed results and the slow pace of implementation of regional integration programs.

The integration approach geared toward the establishment of the African Economic Community (AEC), set forth by the Abuja Treaty, was regional in orientation, and was anchored on the RECs which constitute the pillars and building blocks of the AEC. These regional communities have made significant progresses in their respective domains since they were created, but the pace of implementation of programs is still slow and needs the support of stakeholders.

In this context, in order to stem this problem as well as to support the RECs as major pillars of the AEC, African Ministers in charge of Integration adopted the **Minimum Integration Program (MIP)**. This was accomplished during the Fourth Conference of African Ministers of in charge of Integration (COMAI IV) held in Yaoundé, Cameroon, from May 7-8, 2009. The MIP constitutes Africa's efforts to map out, how, in phases and through selected sectors/program support, it will achieve each of the six stages of the Abuja Treaty within the fixed time frame while also stemming the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect. It will serve as the basis for convergence amongst the RECs, though cognisant of the principle of variable geometry. Considering the acute needs of integration, in terms of funding the

process in general and the MIP activities in particular, the African Ministers in charge of Integration recommended the establishment of an **African Integration Fund** dedicated to the financing of integration activities on the continent.

However, the **feasibility study takes cognisance of the significant evolutions in the regional integration process and ambitions of the AU and the Regional Economic Communities (RECs) since the articulation, in 2009, of the Minimum Integration Program (MIP)** which the AIF is meant to support. Firstly, the AU has expressed enhanced ambitions for its regional integration agenda and launched **major continental initiatives (C-FTA, BIAT, CAADP/3ADI, PIDA, AIDA/RADS, AGA, APSA, EPYW and the like)**. Secondly, at the level of the RECs, though the pace of regional integration has been relatively slow overall; some degree of realization has been achieved in many thematic areas of regional integration (Free Movement of People, Customs Union, TBs, NTBs, Regional Corridors and Regional Power Pools and Regional Energy and Transport Infrastructures) and bold steps have been taken by some RECs to speed-up the integration process, namely, with the advent of the **Tripartite FTA COMESA-SADC-EAC Agreement** announced by the three RECs in 2008. Hence, the **AIF and the concept of MIP are “re-contextualized”** to account for these major developments in the African regional integration agenda. In other words, **the AIF will support priority regional integration programs/projects as well as the re-actualized MIP programs and projects of slow-movers** in the regional integration process of the Continent.

From an economic standpoint, the most compelling rationale for the project relates to the following:

It is widely reported that the low-level of intra African trade is a missed growth and development opportunity for African countries. Several studies have indicated that, **if African countries were to increase their share in global trade by only 1 per cent, that would represent an additional annual income of over \$200 billion** which is approximately five times more than the amount the continent receives as Official Development Assistance (ODA). This steady source of income would help underpin the transformation of African economies and enable them to compete globally, as well as enable them to deal effectively with crippling poverty. Yet, over the period 2007 to 2011, the average share of intra-African exports in total merchandise exports in Africa was a mere 10-12 per cent that compares very unfavorably with 50 per cent in developing Asia, 21 per cent in Latin America and the Caribbean, 70 per cent in Europe and 48 percent in North America. Furthermore, available evidence indicates that the continent's actual level of trade is far below potential, given its level of development and factor endowments.

In addition, with their small economies, a number of African countries face stiff competition on international markets, do not enjoy economies of scale in scale-intensive industrial sectors, and have less bargaining power at international bodies such as the World Trade Organization and negotiating economic partnership agreements.

### 2.3. Scope and Deliverables of the Study

The study/report covers the following: (a) African Socio-political and Economic Review (b) Progress Review on the African Regional Integration Agenda; (c) Review of Priority Regional Integration Programs, Projects and Activities and the Re-actualized MIP to be Targeted by the AIF; (d) AIF Project Rationale; (e) Structuring the AIF; (f) Definition of AIF Mission, Objectives, Support Mechanisms and Projects/Activities to be Financed; (g) Articulation of AIF Operational Procedures and Management Structures; (h) Definition of AIF Governance Framework; (i) Sizing of the AIF and Definition of its Management and Operational Costs; (j) Definition of a Resource Mobilization Strategy with the Identification of Potential Financing Sources; (k) Suggestion of a Rollout and Implementation Plan for the AIF; and (l) Identification of the Critical Success Factors and Risks for the Project.

The final deliverable of the assignment is a detailed Feasibility Report along with a Resources Mobilization Strategy and a Rollout and Implementation Plan.



## 2.4. Beneficiaries of the Study.

The beneficiaries of this Feasibility Report are the African Union Commission (AUC), Regional Economic Communities (RECs) and member States (MS) of the African Union.

## 3.0 METHODOLOGICAL APPROACH

The implementation of the assignment has been based on the following methodology:

- Inception meeting with UNDP and the African Union Commission (AUC) and production of an **Inception Report**
- Document collection and desk research on regional integration-related programs and funds and an assessment of the state of regional integration in Africa
- Planning of field missions and preparation of a questionnaire to guide the interview process and information/data/feedback collection process;
- **Field missions and consultation** with all RECs recognized by the AU (except CEN-SAD, given the security situation in Libya), and interviews of the heads of all Departments of the AUC as well as the Head of the AUC/NEPAC focal point and consultation with key stakeholders on their priority projects and the state of their MIP implementation. Field mission to the African Development Bank (AfDB) to appreciate its interest/view on the project and learn about its new regional integration strategy that is being just completed;
- **Critical review of the MIP** after taking stock of the state of implementation of the regional integration agenda (at AUC, RECs and member states' levels) as well as taking into account new programs designed and evolution in existing programs of the AUC since the MIP was defined in 2009 (e.g. Boosting Intra-African Trade, AIDA, CAADP, PIDA) as well as major developments in the regional integration process of the Continent (Tripartite Agreement COMESA-EAC-SADC, progress realized by individual REC, etc.);
- **Repackaging of the identified priority projects into projects to be targeted by the AIF** based on the information and data collected from the RECs, AUC departments as well as the assessment of the challenges faced in the implementation of the majors AU' continental programs;
- **Initial structuring of the African Integration Fund (AIF)** and definition of the Size of the Funds, Its Operating, Management and Governance Framework as well as the related Operating and Management Cost. Further definition of the Operating/Business Model of the proposed vehicle based on (i) the review of the MIP and its implementation status, (ii) benchmarking against selected regional integration-related funds (EU, ASEAN, African, etc.) and (iii) the need for efficiency, meaningful development impact, and value addition of the Financing Vehicle in relation to other available regional integration financing vehicles;
- Discussion and validation of the proposed structuring, services and target sectors/projects of the African Integration Fund;
- Preparation of a **Draft Feasibility Study** on the establishment of the African Investment Fund; including a **Resource Mobilization Strategy** and an **Implementation Plan**;
- Assistance in the preparation of, and participation in a Validation Meeting at the AUC headquarters in Addis Ababa, Ethiopia;



- Participation to the **Validation Meeting**
- Finalisation of the Feasibility Study by integrating stakeholders and experts' feedback;
- Submission of the **Final Report** on the Project to the UNDP and AUC including a **Resource Mobilization Strategy** and an **Implementation Plan**;

Overall, the execution of the assignment has involved/will involve the following four (4) main phases with their specific deliverables outlined in the below table:

	<i>Table 1: Project Deliverables &amp; Activities</i>	<b>Period</b>
<b>Phase I</b>	<p>Inception Meeting &amp; <b>Inception Report</b></p> <p>Bibliographical Reference &amp; Desk Research</p> <p>Consultations with AUC, its Key Departments, Key Agencies, Key Programs, Key Funds and Agreement on Key Partners to Meet (ECA, AfDB, EU, World Bank Group)</p> <p><b>Field Missions</b> to the <b>RECs</b> (North, West, Central, East, Southern Africa), selected <b>member countries</b> &amp; selected <b>Partners</b> (AfDB, UNDP)</p> <p><b>Internal calls/meetings to all Departments of the AUC</b></p> <p>Revisiting, articulating, prioritizing and repackaging the sectors, projects and activities of the <b>Minimum Integration Program</b> towards a proper scoping and scaling of the African Integration Fund based on findings</p> <p>Initial <b>Structuring of the African Integration Fund</b> and Definition of Its Operating, Management and Governance Framework as well as the related Operating &amp; Management Cost</p> <p>Meeting with AUC &amp; UNDP to Discuss/Agree on the Initial Structuring of the Fund</p> <p>Identification, in cooperation with the AUC &amp; RECs, of Potential Participants to the Validation/Expert Meeting</p>	August, 2013 - September, 2013
<b>Phase II</b>	<p>Articulation of a <b>Comprehensive Resource Mobilization Strategy</b></p> <p>Definition/Articulation of <b>Trust Fund Management Agreement</b></p> <p>Definition of the Tentative Implementation Plan</p> <p><b>Draft Feasibility Report</b></p> <p>Initial Planning of Validation/Expert Meeting</p> <p>Meeting/Consultation with AUC &amp; UNDP to Approve Draft Feasibility Report</p> <p>Translation of the Draft Feasibility Report into the Relevant AU Official Languages</p> <p>Meeting/Coordination with AUC &amp; UNDP to Finalize Preparation of Validation Workshop</p>	September, 2013- October, 2013
<b>Phase III</b>	<p><b>Validation/Expert Meeting</b></p> <p>Discussion/Agreement on the <b>Structure, Operations, Management &amp; Governance of the A.I.F.</b></p> <p>Discussion/Agreement on the <b>Resource Mobilization Strategy</b></p> <p>Discussion/Agreement on the <b>Implementation Plan</b></p> <p><b>Finalisation/Submission: Feasibility Report + Final Resource Mobilization Strategy + Final Implementation Plan</b></p>	October, 2013 - November, 2013
<b>Phase IV</b>	<p><b>Preparation Proposal &amp; Trust Fund Application for the different Targeted Donors</b></p> <p><b>Resources Mobilization (targeted donors' missions &amp; one-on one negotiation + donors' meeting)</b></p> <p><b>Negotiation &amp; Agreement with Trust Fund Managers</b></p> <p>Mobilization of Committed Financial Resources</p> <p>Recruitment/Installation of the Trust Fund Manager + Operations &amp; Management Team +Mobilization of Logistics</p> <p>Training of the Personnel of the Trust Fund Operation &amp; Management Team</p> <p>Engagement/consultation of Trust Fund Operation &amp; Management Team with AUC, RECs, Member States &amp; ROs</p>	January 2014 – October 2014

	<b>Official Launching Ceremony &amp; Start of the Operations of the African Integration Fund</b>	
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## 4.0 SOCIO-ECONOMIC, POLITICAL AND INSTITUTIONAL CONTEXT

### 4.1 Introduction

Africa is home to the world's largest treasure trove of natural resources, from gold, diamonds and other precious stones to strategic metals, petroleum and gas. Africa also has 60% of the world uncultivated arable land. Africa is therefore a region of vital geopolitical and economic interest. European and North American superpowers, emerging economic powers such as China Brazil and India, as well as some of the 1<sup>st</sup> and 2<sup>nd</sup> generation of Asian Tigers are all attempting to get a stronger footprint into the region. The region has recently recorded strong economic growth.

However, in relative terms, Africa remains the poorest region in the world despite the substantial amount of official development assistance ODA it receives from donors and namely the European Union (40 percent). In spite of its huge potential, Africa contributes a mere 4 percent to global trade. Several factors constrain the region's external trade, ranging from a weak supply capacity and a lack of export product diversification to poor infrastructures, poor macroeconomic policies, lack of institutional support, lack of access to adequate capital and absence of pragmatic FDI, industry, export, SMME and technology capability development policies, strategies and programs.

### 4.2 Regional Socio-economic Overview

#### 4.2.1 Population

With a total surface area of more than 32.2 million square kilometres (20.4% of the total land area of the World), and home to over 1.06 billion inhabitants in 2012 (i.e. around 15% of world population), Africa is a geo-economic space composed of 54 countries with significant differences in land area and access to sea, population, economic structure and dynamism, and investment climate.

In 1960, there were 285 million people in Africa; 478 million in 1980; 808 million in 2000; 1.02 billion in 2010 and 1.068 billion in 2012 of which only 403 million or 38% are economically active; including 42.5% of the total population of women in working age. The rapid growth in the number of young people seeking work poses new challenges for Africa, where youth unemployment is currently twice as high as that for adults.

Furthermore, the social indicators of Africa, namely Sub-Saharan Africa, are among the lowest in the world as indicated in the table below.

*Table 2: Selected Social Indicators - Africa*

	<b>Population (millions)</b>	<b>Per capita GDP, current price ( US\$)</b>	<b>Life Expectancy at Birth (years)</b>	<b>Under 5 Mortality Rate (per 1000)</b>	<b>Primary Education Completion Rate (%)</b>
<b>Sub-Saharan Africa, 2012</b>	858	1 345	56	95	69
<b>North Africa, 2012</b>	210	2 191	70.5	87	75
<b>Africa, 2012</b>	1 068	1 878	-	-	-

Source: African Statistical Yearbook (2013) and World Bank (2012)

#### **4.2.2 Political and Institutional Framework: The Regional Integration Agenda**

Africa is composed of 54 countries largely committed to democratic governance, over the past two decades, despite some political turmoil experienced in certain parts of the Continent.

In addition to the widespread democratic governance process, the advent of the African Union (AU) can be described as the key institutional development of the continent following many previous attempts to make operational a pan-African regional integration body. On 9.9.1999, the Heads of State and Government of the Organization of African Unity issued a Declaration (the Sirte Declaration) calling for the establishment of an African Union, with a view, inter alia, to accelerating the process of integration in the continent to enable it play its rightful role in the global economy while addressing multifaceted social, economic and political problems compounded as they are by certain negative aspects of globalization.

The African Union is the continent-wide regional body driving the process of regional integration and development. Over the last decade, several continent-wide initiatives have formed the basis for the mobilization of capital and resources for the structural transformation of the continent. These include the AU's New Partnership for Africa's Development (NEPAD) and its flagship continental programs: (a) the Program for Infrastructure Development in Africa (PIDA); (b) the Comprehensive African Agriculture Action Program (CAADP); (c) the Accelerated Industrial Development of Africa (AIDA) and the Boosting Intra-African Trade (BIAT) as . There are also several sub-regional organizations.

#### **Box 1: New Partnership for Africa Development (NEPAD)**

The “New Partnership for Africa’s Development or NEPAD” is a political and socio-economic development agenda for Africa articulated by the African Union.

### **Description**

The adoption of NEPAD is considered as one of the most important developments of recent times for its conception of a development program placing Africa at the apex of the global agenda, by:

- Creating an instrument for advancing a people-centered sustainable development in Africa based on democratic values;
- Being premised on recognition that Africa has an abundance of natural resources and people who have the capacity to be agents for change and so holds the key to her own development; and
- Providing the common African platform from which to engage the rest of the international community in a dynamic partnership that holds real prospects for creating a better life for all.

### **Objective**

The primary objective of NEPAD is to eradicate poverty in Africa and to place African countries both individually and collectively on a path of sustainable growth and development to thus halt the marginalization of Africa in the globalization process. At the core of the NEPAD process is its African ownership, which must be retained and strongly promoted, so as to meet the legitimate aspirations of the African peoples. While the principle of partnership with the rest of the world is equally vital to this process, such partnership must be based on mutual respect, dignity, shared responsibility and mutual accountability. The expected outcomes of NEPAD are:

- Economic growth and development and increased employment;
- Reduction in poverty and inequality;
- Diversification of productive activities;
- Enhanced international competitiveness and increased exports; and
- Increased African integration

Source: [www.nepad.org](http://www.nepad.org)

From an institutional stand point, Africa also remains characterized by a multiplicity of regional integration bodies: ECOWAS and WAMU (UEMOA) in West Africa, ECCAS and EMCCA (CEMAC) in Central Africa; EAC and IGAD in East Africa; SADC, COMESA and SACU in East and Central Africa to name the most prominent ones. Many other smaller regional integration communities (RECs) such as CENSAD, CEPLG, IGAD, IOC, MRU also exist with declining levels of relevance, for some, given the dominance of ECOWAS, ECCAS, EAC, SADC and COMESA and the fact that officially, the AU has recognized only eight of them as official interlocutors (ECOWAS, ECCAS, EAC, SADC, COMESA, UMA, IGAD, CEN-SAD).

Although progress in African cooperation and integration as well as the effectiveness of regional integration arrangements is mixed, some bodies have made progress particularly in the area of market integration, infrastructure cooperation and sharing of common resources. Increased intra-regional trade and improvements in international competitiveness are key common objectives among Africa’s integration arrangements. In ECOWAS, for instance, countries not members of the West African Economic and Monetary Union (WAEMU) have decided to implement WAEMU’s external tariff structure with the objective of establishing a single regional market. In Central Africa, a free trade zone linking 11 countries, including members of CEMAC (Central African Economic and Monetary Community), has recently come into effect. In East Africa, the EAC has established a customs union in 2005. COMESA, which created an FTA in 2000, intends to create a customs union in 2008 and SADC in 2010. The Southern Africa Customs

Union (SACU) has been renegotiated and the new SACU agreement intends to deepen and broaden the customs union. More importantly,

All regional integration bodies are also implementing trade facilitation measures, notably in the area of transport corridors and the removal/minimization of non-tariff barriers. Cooperation among the different bodies is increasingly taking place, e.g. between COMESA, SADC and the EAC to harmonize trade and trade-related regimes. ECOWAS and WAMU are also engaged in a dynamics of cooperation and synergy that should help avoid duplications and redundancies through improved coordination and the joint implementation of programs and projects to address efficiently their multiple socio-economic development and competitiveness challenges.

The apex of the regional integration process driven by the AUC, RECs and Member States is the creation of a Continental Free Trade Area (C-FTA) to be realized before 2017. In this process, the AU is supported by institutions such as the African Development Bank (AfDB) and the United Nations Economic Commission for Africa (UN-ECA). In that respect, with valuable support from development partners such as the European Union (EU), the World Bank, and other bilateral development partners such (USAID, DfID, GIZ, AFD and others) with valuable inputs from UNCTAD. With regard to the realization of the C-FTA, the planned realization of the Tripartite Free Trade Area COMESA-EAC-SADC launched by the three RECs in 2008; with the objective of unifying their combined market space of over 500 million people (27 countries) provide a strong springboard and impetus towards realizing the continental free trade area (C-FTA).

#### **4.2.3 Socio-Political Context and Outlook**

Thanks to a resurgence of strong growth in this decade, Sub-Saharan Africa (the region most concerned with extreme poverty) was able to reduce the proportion of poor people, from 56.5 percent in 1990 to 48.3 percent in 2010 with a projected rate of 42.3 percent in 2015. However, the absolute number of poor people rose from 290 million in 1990 to 416 million<sup>2</sup>. Of all developing regions, Sub-Saharan Africa alone remains seriously off track to achieve the poverty reduction millennium development goals (MDG).

The political risk profile of Africa improved considerably over the last two decades except in its Western and Central parts and recently its northern parts where number of countries have experienced severe political unrests over the past three years. Two other countries are still facing an internal armed rebellion though on a relatively small scale; while terrorism-related attacks remain a threat two countries have had to deal with over the past two years.

In total, Africa, characterized by a relatively large number of frontier countries with relatively fragile political governance institutions, remain somehow exposed from a political risk standpoint on four fronts: (a) political governance and election-related unrest; (b) youth unemployment-related unrest; (c) cost of living and service gap-related civil disturbances (food, oil, utility and housing); and (d) terrorism. These risks prevent the region from attracting the foreign direct investment and intra-Africa cross border investment needed and to support its socio-economic development objectives.

The poverty level of a growing population, coupled with high unemployment rates of youngsters across the region, translates into social indicators which are among the most alarming ones globally. Except

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<sup>2</sup> 2013MDG Report

Mauritius, Cape Verde, Seychelles, Namibia and few other countries, the large majority of countries from SSA feature predominantly in the last tier of the UNDP Human Development Index ranking as illustrated in Table below.

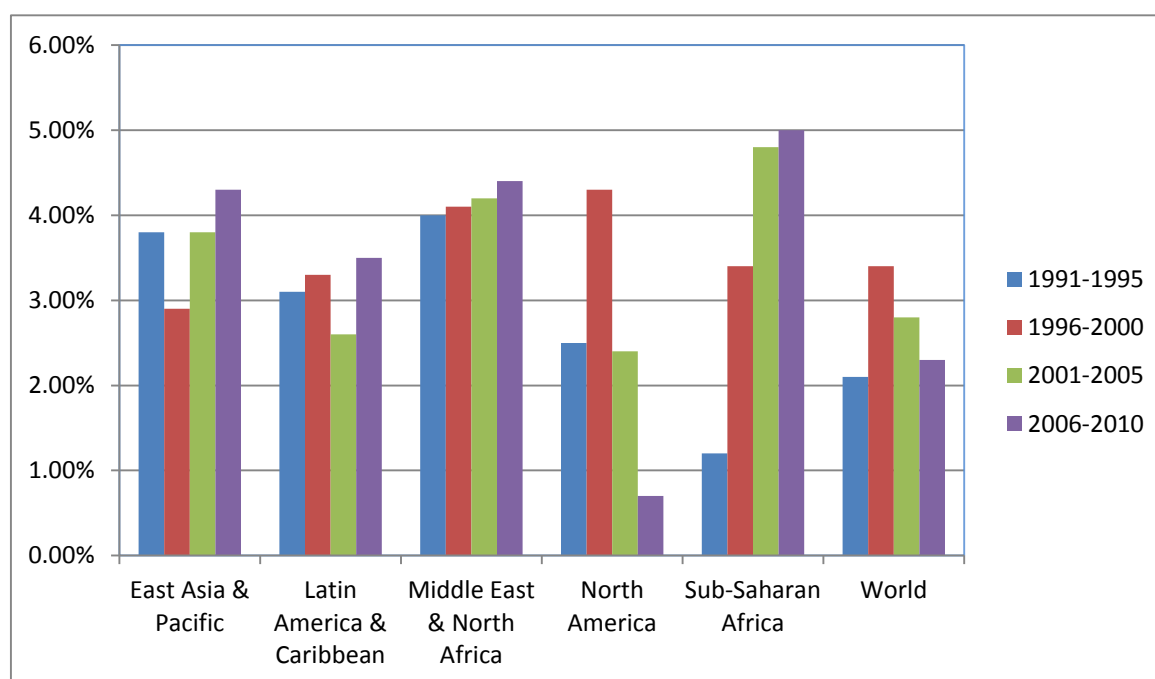
### 4.3. Economic Outlook

#### 4.3.1. Economic growth

In 2012, Africa posted a **GDP figure (current US\$) of US \$ 2.006 trillion for a total population of 1.06 billion**. Anecdotally, that would rank Africa 8<sup>th</sup> economy in the world in terms of GDP; behind the top six G8 economies and China; and the 3<sup>rd</sup> most populated behind China and India, if the region were one single country.

Despite the turbulent global economic environment of last four years to 2012, growth in Sub-Saharan Africa, in particular, remained robust; inching up from 4.8 percent in 2010 to 4.9 percent in 2011, just shy of its pre-crisis average of 5 percent. According to African Statistical Yearbook, in 2012, GDP growth rates in Africa ranged from a 2.8% to 12,4%.

*Figure 1: 5-Year Average GDP Growth Rate by Region*



Source: World Bank's World Development Indicators

Sub-Saharan Africa's economic performance has demonstrated a sustained level of improvement

over the past 20 years. From its lagging 1.6% annual average growth rate over the 10-year period 1983-1992, sub-Saharan Africa's average annual growth rate increased to 3.6% over the 10-year period 1993-2002 and 5.5% over the 10-year period 2003-2012. Africa included seven of the 10 fastest growing nations in the world in 2011 with eight African countries having a GDP growth rate of 8% or more. In 2012, twelve of the 20 fastest growing economies in the world were African with close to a third of countries in the region growing by at least 6 percent, and another third posting growth rates of 4-6 percent.

As has been the case in recent years, the main driver of growth in Africa was domestic demand (rising consumption, investment, and government spending on productive activities) with external demand supported by higher commodity prices also providing a strong impetus. Trade growth has been supported by the increasing diversification of trading partners, particularly with China, and with commodities dominating their exports. Most African countries, particularly oil exporters, benefitted from the surge in commodity prices in the earlier half of 2011. However, several predominantly agricultural exporters and oil importers saw deterioration in their terms of trade.

The underlying factors supporting growth dynamics in Africa are expected to continue over next several years, namely in its Sub-Saharan part. Increased investment flows, rising consumer spending, the coming on stream of new mineral exports in a number of countries will continue to support the region's growth. The most recent IMF estimates indicate that between 2013 and 2018, Sub-Saharan Africa's annual rate of growth will average 5.4% to 5.7%, which will place it as the region with the second highest annual rate of growth, after that of Developing Asia.

#### **4.3.2 Foreign direct investment**

FDI inflows to the region rose from \$23 billion in 2006 to reach \$50 billion in 2012, an increase of 117% over the 6-year period based on UNCTAD statistics database. The increase benefited largely the oil and mining sector. Yet, the increase is also due to a number of factors, including consistent GDP growth rates, increased political stability, a growing middle class, and reforms that reduce barriers to entry. The tourism sector also remained robust while most African countries are increasingly focusing on the implementation of strategic infrastructure projects and more robust private sector development (PSD) and industry development strategies such as special economic zones and pragmatic value chain development.

In terms of sources of FDI, firms from emerging markets are increasingly active in Africa, UNCTAD report notes<sup>3</sup>. Measured by FDI stock, Malaysia, South Africa, China and India are the largest developing-country investors in Africa.

#### **4.3.3 Review of Africa's Key Economic Sectors**

Regarding the structure of the regional economy, agriculture still remains the backbone of the economy for most countries accounting for up to 40% of the GDP in most non-oil producing countries of the region, whilst the secondary and tertiary sectors accounting for the remaining 60%.

The region's improving GDP figures is essentially grounded on four pillars:

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<sup>3</sup> UNCTAD/PRESS/PR/2013/026 Geneva, Switzerland, (26 June 2013)



**An oil and mining sector with limited local content:** The oil and mining industry of the region attracts the bulk of FDI investments. However, the impact of such investments in the region remains largely limited as local content is not given priority as a result of both poor negotiation of concessions and limited participation of local businesses, namely SME/SMI, in the supply, beneficiation/processing, and distribution chains of such sectors.

Africa is also very rich in minerals. The region's geology has been the most stable of all continents with the result that it contains concentrations of many rare minerals, including diamonds, of which it produces 55% of world supply, cobalt (52%), chromite (37%), and gold (22%) (USGS 2008). The region also contains around 10% of proven world oil reserves; attracting strong interest from world economic powers such as the USA and China namely.

In 2001, Africa's electricity generation represented 3.1% of the world's electric production while only about 23% of Africans have access to electricity. Africa's electricity generation capacity is mainly concentrated in the Northern and Southern Africa sub-regions. If combined, these two regions account for 82% of total power generating capacity in Africa. The Democratic Republic of Congo (Central Africa), Kenya (East Africa) and Nigeria (West Africa) are the leaders in the power-generating capacity for their sub-regions.

**An agriculture and agri-business sector below potential:** In sub-Saharan Africa (SSA), 65% of the labor force is involved in agriculture, which generates 32% of the Gross Domestic Product (IFAD, 2010). Mc. Kinsey (MGI, 2010) supports that the 60% of the world uncultivated arable lands are in Africa with SSA having the largest share. However, despite its potential and its socio-economic significance, poor performance characterizes the agriculture sector (crops, horticulture, livestock and fishing) of the region.

The huge potential of the region still remains largely untapped as a result of many factors: (a) poor absorption and adoption of modern production, storage, and processing technology, including the inability to adhere to international quality, food safety and environmental norms and standards; (b) limited availability of infrastructures such as irrigated water, energy, roads, storage and conditioning infrastructures; (c) a generally non-existent R&D and technology transfer and extension infrastructure; (d) inefficient market institutions; (e) an exclusion of the sector, namely in rural areas, from the formal financial market; (f) and non-conducive agriculture development strategies, policies and programmes. Overall, except in South Africa, Morocco, Egypt and Côte d'Ivoire for his cocoa sector, the agriculture sector has failed to generate improved agriculture-related income for farmers, increased value addition, and to turn into an internationally-competitive sector. Food security still remains a challenge across the entire region and most people employed in agriculture remain at poverty levels, with about 200 million Africans undernourished despite massive commercial food imports of between US\$15 billion and US\$20 billion and food aid of about US\$2 billion annually.

Despite the above, agriculture that is essential for Africa's growth and for achieving the Millennium Development Goal of halving poverty by 2015, offer significant opportunities if the following are addressed in a pragmatic way:

- Facilitating agricultural markets and trade (both national and regional supply and distribution chains);
- Improving agricultural productivity namely by tapping into the available stock of global agricultural technology;
- Investing in PPP infrastructure for agricultural growth (transport, storage, conditioning, etc.);
- Reducing rural vulnerability and insecurity through access to market support, the development of profitable value chains, the development of the enabling environment (social investment, energy and infrastructure, rural entrepreneurship support system) for the rural economy to prosper and become diversified;
- Improving agricultural policy framework and institutions.

**An under-developed manufacturing and services sectors:** The performance of African manufacturing and services sector (namely that of SSA) remains largely below reference countries and international standards on five grounds: (a) investment level; (b) technology and core capability; (c) international competitiveness; and (d) output, productivity and value addition. More specifically, the industrial structure of most African countries (except South Africa to some extent) remains characteristically “hollow” with the absence of a dynamic core of mid-range enterprises and supporting industries capable of driving the industrial and export development process of the respective countries. Another key challenge of the region relates to the lack of large manufacturing or export-based firms (FDI-linked or local) around which to cluster and develop a strong base of dynamic small and medium-size enterprises.

Hence, the region needs to articulate and implement in a pragmatic way, manufacturing development strategies, policies and programs around the following:

- Investment climate and business enabling environment conducive to FDI, large local industrial investment, infrastructure development and SME/SMI development.
- Industry development programs around three tracks: (a) promotion of FDI leading to export, connection to global production networks, and regional trade; (b) increase of local manufacturing investment and modernization of manufacturing firms; and (c) local content maximization and value chain migration in the resource-based and agro-business sector.
- Firm capability building in terms of technical skills, technology capability, international standards and overall total factor productivity growth;
- Developing Institutions and infrastructure for industrial technology development for long-term competitiveness.

The services sector of the region has not yet received the attention it deserves given its significant potential for both jobs creation and value addition. More specifically, attention should be paid to platform or foundation services (i.e. services that facilitate the development of other sectors; knowledge-intensive and internationally-traded services - i.e. research and/or innovation-intensive services and services delivered by highly educated / trained personnel); and traditional services that can absorb the large supply

of both qualified and unskilled labour.

**A large and dynamic informal sector:** According to the Delhi Group<sup>4</sup>, Sub-Saharan Africa's informal sector share of GDP is nearly 55% (including agricultural informal sector) and 37.7% without the agriculture sector. This high level of informal sector contribution to GDP is indicative of the potential of such sector to absorb the large supply of both qualified and unqualified labour across the region. Policy-makers should therefore make sure that special attention is given to the sector to further support it by removing the barriers to formalization, namely, through simplified regulatory/administrative and tax framework for small businesses.

#### 4.3.4 Risks

**External risks:** African economy becomes increasingly integrated to the global economy through various channels: trade, portfolio investment, FDI, remittances and official development assistance.

*Shocks from the US and/or the Eurozone:* North America and the Eurozone remains the key trading partners of Africa. Hence, any severe economic crisis from those two regions could negatively impact the growth performance of the region.

*Commodity prices:* Some 70 percent of the region's export revenues come from agricultural products, oil and metals and minerals, all susceptible to a downturn in commodity prices. In Angola and Congo, where the oil sector accounts for over 60 percent of GDP, a 10 percent decline in oil prices could translate into a 2.7 percent and 4.4 percent decline in GDP, respectively. In Nigeria, where the oil sector accounts for some 15 percent of GDP, a similar decline in oil prices could reduce growth by 1.8 percent. In addition, adverse terms of trade shocks are likely to contribute to sharp depreciation of local currencies, and the risk of higher inflation<sup>5</sup>. On the upside, a drop in oil prices will favor the region's oil importers.

**Internal risks:** From an internal risk standpoint, Africa has to face number of risks including the following:

*Political risk:* Disruptions to productive activity, in the aftermath of elections, still remain potential downside risks.

*Drought and poor rain:* With agriculture accounting for about 20-40 percent of GDP in most African countries, the impact of poor rains can be significant not only for the agricultural sector but also for services and industries, namely, via the supply chain channel as well as the high dependency of power generation from hydroelectric sources in some countries.

*Youth unemployment and poor social and public service levels:* Massive youth unemployment and failure to deliver adequate levels of public services (water, energy, transport, social housing) are key risks most African governments have to mitigate through a combination of pragmatic private sector development (PSD) and jobs creation programs grounded on good governance, rule of law and the fight against inequalities if "Arab Spring" type of unrest are to be avoided in the rest of the Continent.

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<sup>4</sup>Delhi Group (2006). Expert Group on Informal Sector Statistics

<sup>5</sup>Global Economic Prospects: Uncertainties and vulnerabilities (2012)

#### 4.3.5 Policy Recommendations

African countries should enhance and sustain, over the next decade, **investment climate and business environment reforms** along with pragmatic **performance-oriented industry, export and SMME development** programs if the region as a whole is to migrate to the status of an “emerging region” and absorb the large pool of unutilized labor.

Investment into major **infrastructure projects** should continue to provide some stimulus to local demand for services and products around the public works sector and the building materials sector and other allied sectors, namely in services.

Further **diversification of export** composition and trading partners should, over the longer term, help African economies become less vulnerable to shocks originating from specific regions. However, from a trading perspective, **boosting intra-African trade** yields the greatest economic return to the Continent.

Last, but not least, African countries should increasingly focus on “Asian-type” **pragmatic technology capability acquisition** strategies.

#### 4.4 Regional Investment Climate and Business Enabling Environment

Analysts' reports on the business environment and the investment climate such as the "Global Competitiveness Report" of the World Economic Forum and the "Doing Business Report of the World Bank Group, rank poorly most countries in the region. For example, the “Doing Business Report” ranks the large majority of SSA countries as the least attractive ones globally as illustrated in the table below that puts most SSA countries in the last quartile of the “Doing Business Report” except for Mauritius (19<sup>th</sup> globally out of 185 countries), South Africa (39<sup>th</sup>), Tunisia (50<sup>th</sup>), Rwanda (52<sup>th</sup>), Botswana (59<sup>th</sup>) and Ghana (64<sup>th</sup>) that have been performing very well over the past decade, and to a lesser extent, Namibia and Seychelles.

*Table 3: Africa - Selected Macroeconomic, Social and Ease of Doing Business Indicators (Top 4 Countries in the 2013 DBR by Sub-region)*

	Population 2012 (million)	Doing Business Report 2013		HDI Rank 2012 (186 countries)	GDP2012 (current \$) US\$ billion	Per Capita GDP 2012 (current \$) (US\$)	Budget Revenue 2011 estimate (US\$ billion)	CPI 2011 (%)	Unemployment Rate 2011 est.* ( %)	Export 2011 estimate (US\$ billion)	Fixed Asset Investment Rate 2011 estimate (% of GDP)
		Global Rank (185 Countries)	African Rank (49 countries)								
<b>WEST AFRICA</b>											
Ghana	25.5	64	6	135	37.4	1,528	8.8	8.7	8.7	12.7	26.1
Cape Verde	0.5	122	13	132	1.7	3,482	0.552	4.5	4.5	0.191	36.5
Nigeria	166.6	131	15	153	287.8	1,727	23	10.8	23.9	103	22.1
Sierra Leone	6.1	140	18	177	3.9	652	0.503	18	-	0.472	-
<b>CENTRAL AFR.</b>											
Cameroun	20.5	161	32	150	26.4	1,290	5	2.9	-	5.5	18.3
Eq. Guinea	0.74	162	33	136	24.0	32,506	8.8	7	25	15.6	49.0
Gabon	1.5	170	36	106	19.4	12,411	5.5	1.2	15.4 (2010)	10.8	28.5
DRC	69.5	181	45	186	18.1	261	4.7	17	-	10.9	28.6
<b>EAST AFRICA</b>											
Rwanda	11.2	52	4	167	6.7	599	1.4	3.9	8	0.372	25.3
Kenya	42.7	121	12	145	40.7	952	6.6	14	40	5.7	23
Ethiopia	86.5	127	14	173	39.9	461	5.3	33.2	20.4 (2009)	2.7	24
Tanzania	47.6	134	16	152	29.9	628	2.4	18.7	10.7	2.5	24
<b>SOUTHERN AF.</b>											
Mauritius	1.3	19	1	80	12.7	9,709	2.3	6.5	7.7	2.6	24.6
South Africa	50.7	39	2	121	369.5	7,287	102	5	24.5	104	19.7
Botswana	2.0	59	5	119	14.8	7,220	5.6	8.5	7.5 (2007)	6.0	21.5
Namibia	2.3	87	7	128	12.0	5,107	3.7	5	27.4	4.3	21.2
<b>NORTH AFRICA</b>											
Tunisia	10.7	50	3	94	44.2	4,130	11.8	5.6	17.4	17.2	22.3
Morocco	32.6	97	9	130	101.2	3,107	25.3	1.2	9	21.8	31.4
Egypt	83.9	109	10	112	253.9	3,024	50	7.1	13.5	23.8	16
Algeria	36.5	152	25	93	198.1	5,432	81.2	8.9	10.2	71.8	31.5

(\*) Unemployment rates are based on figure estimates from CIA World factbook and internet search for Rwanda, Uganda, Ethiopia, Tanzania, Namibia  
Source: Author compilation based on 2013 African Statistical Yearbook, 2013 Doing Business Report, 2013 UNDP HDR, and 2012 CIA World Factbook

## 5.0 TRADE PATTERN IN AFRICA

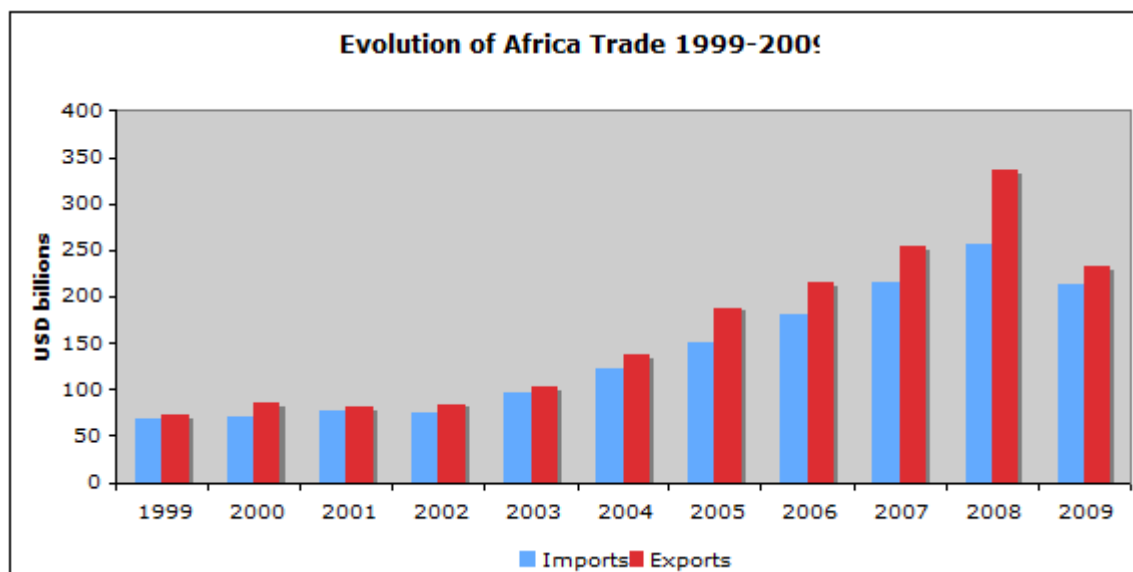
### 5.1. Africa's International Trade

African trade has grown rapidly over the past decade, driven by an increase in South-South trade and the growing importance of Africa as a supplier of raw materials to emerging Asia. According to UNCTAD, in the 1990s, India, the Republic of Korea and Taiwan were the main drivers of trade growth. Since 2000 however, the expansion of trade between Africa and China has increased nearly tenfold reaching \$93 billion in 2008, making China Africa's second largest trading partner after the United States. According to UNCTAD, China represents 11% of Africa's external trade and is among the top 10 trading partners of 26 African countries.

As Asian economies experienced continued rapid growth, the share of primary products imported from Africa rose to 73% in 2008 from 55% in 1995. As would be expected, oil has dominated this growth as a result of increasing oil production in the region and rapidly rising prices of oil over the period 2000 to 2008.

The period 1999 to 2008 saw rapid growth of African trade with the world. According to the WTO, African trade grew from 2.2% of the continent's GDP in 1995 to 3.3% in 2008.

*Figure 2: Evolution of External African Trade 1999 - 2009*



Source (AfDB, 2010)

Spurred by global growth, and consequently demand for Africa's primary products, strong regional economic growth, increasing integration into global economies as well as high commodity prices, African trade grew faster over the course of the 2000s than any other region except China.

## 5.2. Intra-African Trade

UN-ECA compiled data to show the scope of intra-African trade and Africa's share of world trade over the period 2000-2007. As can be observed, intra-African trade averaged around 10 per cent of Africa's total trade, while Africa's share in world trade is about 3% on average over the period 2000-2007. Latest figures for 2008 through 2012 exhibit a similar trend with only a slight improvement; with intra-African trade averaging just around 11 per cent of Africa's total trade, while Africa's share in world trade remains around 3% on average.

*Table 4: Value of trade within groups in millions of USD and percentage shares of Africa's trade*

Trade bloc/REC	2000	2001	2002	2003	2004	2005	2006	2007	Average 2000-2007
CEMAC	112	134	128	172	191	219	270	335	195
CENSAD	4060	4249	4182	5273	7120	8905	10305	12653	7093
CEPGL	11	12	14	16	21	24	27	33	20
COMESA	1932	2039	2234	2724	3403	3939	4914	5048	3279
EAC	422	503	525	631	828	946	1407	1746	876
ECCAS	207	219	187	215	244	279	343	426	265
ECOWAS	2471	2702	2483	3292	4717	5840	6538	8057	4512
IGAD	576	741	729	1031	1031	1247	1408	1698	1057
IOC	56	71	98	117	172	177	191	227	139
MRU	7	6	7	8	9	10	13	16	9
SADC	3913	3906	4252	4726	6924	7958	9563	12802	6755
UEMOA	686	744	841	968	1166	1310	1680	2085	1185
UMA	1190	1224	1334	1483	1512	2074	2725	3384	1866
<b>Intra-Africa Trade (Value)</b>	<b>11631</b>	<b>12466</b>	<b>13224</b>	<b>15572</b>	<b>20994</b>	<b>24854</b>	<b>31660</b>	<b>39565</b>	<b>21246</b>
<b>Africa Trade with World (Value)</b>	<b>133416</b>	<b>129508</b>	<b>144445</b>	<b>176929</b>	<b>232189</b>	<b>273509</b>	<b>329785</b>	<b>418931</b>	<b>229839</b>
<b>Intra-Africa Trade (% of Total)</b>	<b>9</b>	<b>10</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>9</b>	<b>10</b>	<b>9</b>	<b>9</b>
<b>World Trade (Value)</b>	<b>6653669</b>	<b>6414806</b>	<b>6664703</b>	<b>7771121</b>	<b>9462990</b>	<b>10776488</b>	<b>12337928</b>	<b>14056584</b>	<b>9267286</b>
<b>Africa's Share in World Trade (%)</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>

*Source: UN-ECA (Compiled from DOTS, IMF) February 2009*

The figure shows the overall direction of Africa's exports. In general, Africa's main exports to its traditional trading partners, in particular the EU and USA, constitute an average of 57 per cent of the exports. For some of the integration groupings, the EU and USA comprise more than 60 per cent of export markets. However, China in particular and Asia in general are also increasingly becoming important export markets for Africa.

## **6.0 RE-ACTUALIZED MIP AND PRIORITY REGIONAL INTEGRATION PROGRAMS AND PROJECTS TO BE TARGETED BY THE AIF**

The feasibility study takes cognisance of the significant evolutions in the regional integration process and ambitions of the AU and the RECs since the articulation, in 2009, of the Minimum Integration Program (MIP) which the AIF is meant to support. Firstly, the AU has expressed heightened ambitions for its regional integration agenda and launched or re-affirmed its commitment to major continental initiatives (C-FTA, BIAT, CAADP/3ADI, PIDA, AIDA/RADS, AGA, APSA, EPYW and the like). Secondly, at the level of the RECs, though the pace of regional integration has been relatively slow overall; some degree of realization has been achieved in many thematic areas of regional integration (Free Movement of People, Macro-economic Convergence and Policy Coordination, TBs, NTBs, Free Trade Area, Customs Union, Regional Transport Corridors, Regional Power Pools and Regional Energy and Transport Infrastructures) and bold steps have been taken by some RECs to speed-up the integration process, namely, with the advent of the Tripartite FTA COMESA-SADC-EAC Agreement announced by the three RECs in 2008.

Hence, in what follows, the AIF and the concept of MIP are “re-contextualized” to account for these major developments in the African regional integration agenda. In other words, the AIF will support priority regional integration programs/projects as well as the re-actualized MIP programs and projects of slow-movers in the regional integration process of the Continent.

### **6.1. The MIP as Initially Planned**

Article 6(2) of the Treaty Establishing the African Economic Community (AEC) which was signed in Abuja, Nigeria, on 03 June 1991 and entered into force in 1994, provides for six stages to mark the Continent’s progress towards economic integration, the culmination of a colossal enterprise, with the Regional Economic Communities (RECs) as the mainstay.

However, due to the particularities and specificities of their regions, the RECs were unable to implement the provisions of Article 6(2) in a coordinated manner.

The African Union Commission therefore proposed to the Ministers of Integration, who accepted, the idea of elaborating a Minimum Integration Program (MIP) that could focus the energy and action of the RECs and the African Union on jointly identified regional and continental priority projects.

The Draft MIP, elaborated in close collaboration with the RECs, was considered and adopted by the Ministers of Integration at their Fourth Ordinary Session, held in Yaoundé, Cameroon, from 7 to 8 May 2009, <<as a dynamic strategic framework for the continental integration process. The conclusions and recommendations of the Ministers were considered by the Executive Council of the Union [(EX.CL/Dec. 493 (XV))] and adopted by the Assembly of the Union in Sirte, Libya, in July 2009.



**Definition of MIP:** As mentioned above, the Minimum Integration Program consists of different activities which the RECs and the parties concerned should agree to speed up and carry through in the process of regional and continental integration. The MIP is therefore perceived as a mechanism for the convergence of the RECs, formulated on the basis of a number of priority areas to be implemented at regional and continental levels, by which RECs could strengthen their cooperation and benefit from one another's comparative advantages, best practices and experiences in the area of integration.

The MIP embodies the feasible objectives defined in the four-year Strategic Plan of the AU, as well as a monitoring and evaluation mechanism. It is supposed to be implemented by the RECs, Member States and the African Union Commission (AUC), in collaboration with Africa's development partners, on the basis of the principle of subsidiarity.

The MIP was developed using the variable geometry integration approach which allows the RECs the latitude to progress at different paces towards integration. Thus, the RECs will continue to implement their respective programs (seen as their priority programs) and at the same time endeavour to carry out other activities contained in the MIP.

**Objectives of the MIP:** The main objectives of the MIP, which should be viewed as a dynamic strategic framework for the continental integration process, include the following

- situate RECs in the context of implementation of the Abuja Treaty;
- identify priority areas that require bold coordination and harmonization in each REC and among the RECs;
- assist the RECs in identifying and implementing the priority activities they need to cross over to the different stages of integration set out in Article 6 of the Abuja Treaty;
- help the RECs to implement the MIP using a clearly defined calendar;
- develop and implement other support measures to facilitate the establishment of a single market in the priority areas;
- identify joint inter-REC projects and programs; and
- popularize integration success stories of some RECs within other Communities;

It should be recalled that the MIP is structured around the following priority sectors, divided into sub-sectors, and covering a period in three stages, each comprising four years

- Free movement (persons, goods, services and capital);
- Peace and Security;
- Trade (TB-tariff barriers, NTB-non-tariff barriers, RoO-rules of origin, FTA, Customs);
- Industry;
- Infrastructure and energy
- Investment;
- Statistics;
- Political Affairs;
- Science and Technology;
- Social Affairs;

- Women, Gender and Youth

**Initial estimates of the MIP funding requirement:** The AUC was mandated to estimate the necessary funding requirements for the implementation of each activity and project contained in the MIP Action Plan. The overall cost of implementing the MIP Action Plan was estimated to be US\$ 111 million.

In what follows, the state of the regional integration process along with the challenges, priorities and major developments are reviewed to serve as a basis for the re-articulation of the MIP which was designed in 2009.

## 6.2. Re-actualizing the MIP and Identifying Priority Regional Integration Projects

The MIP as initially planned in 2009 has experienced a certain level of execution and some major development in what was supposed to be its structure in terms of program content and institutional setting for implementation.

Hence, the MIP, as initially defined, needs to be cleaned, tightened and “upgraded” to reflect the current realities and status of implementation by the various RECs, AUC and MS. Despite the low level of overall execution on the MIP as initially planned, RECs and MS have achieved a certain degree of realization. Furthermore, at the AUC’s level, there are major developments namely on the Trade Integration front with “BIAT - Boosting Intra-African Trade” adopted by the Assembly of the African Union during its 18<sup>th</sup> Session of January 2012; as well the development of the NPCA-coordinated continental programmes such as PIDA (Infrastructure), CAADP (Agriculture) and AIDA (Industry).

In addition, in light of the capacity constraints of the RECs, the AUC and the NPCA, the preconditions for successful implementation of the MIP should also be considered as part of the process. In particular, an “Enabling Capacity Building Program for the Implementation of the MIP and the Regional Integration Agenda” will be considered in the activities, projects and programs of the MIP.

Furthermore, number of RECs have also successfully initiated programs/projects and set-up regional integration support institutions. These good/best practices are to be captured and their dissemination facilitated as part of the “MIP and Regional Integration Implementation Facilitation Process”. Where relevant and critically important, good/best practices will also be sourced outside the RECs and the Continent and disseminated to AUC, RECs and MS.

Last, from the point of view of its implementation, an agreed-upon division of labour will be considered between the AUC/NPCA, RECs, MS and even the private sector (PS), civil society organization (CSO) and NGOs.

The following will review the likely changes, adaptation and re-orientation to be considered in the re-articulation of the “revised MIP” along with its facilitation programs and activities to be financed by the African Integration Fund.

## 6.3. Progress in the Regional Integration Agenda

### Regional Integration Progress at RECs’ Level

RECs' LEVEL PROGRESS AREAS (SELECTED INDICATORS)	Fully Achieved (in bold) or Significant Progress Realized	Not Achieved
Coordination of activities (including macro-economic convergence)	AMU, EAC, ECCAS, ECOWAS, SADC	COMESA, CEN-SAD, IGAD
Free movement of people	<b>AMU, EAC, ECOWAS</b>	CEN-SAD, COMESA, ECAS, IGAD, SADC,
Trade facilitation (NTBs & OSBP)	COMESA, <b>EAC, ECOWAS</b> , SADC	AMU, CEN-SAD, ECCAS, IGAD
Right of establishment and residence	EAC, <b>ECOWAS</b>	All RECs
FTA (import tariff/quotas eliminated between countries)	COMESA, <b>EAC</b> , ECOWAS, SADC	AMU, CEN-SAD, ECCAS, IGAD
Customs Union (common external tariff)	COMESA, EAC, ECOWAS, SADC	AMU, CEN-SAD, ECCAS, IGAD
Common market	EAC	All RECs (but EAC)
Monetary union	-	All RECs
Political union	-	All RECs
The eight RECs recognized by the African Union (AU), which form the “pillars” of the African Economic Community, are moving towards implementing the Abuja Treaty at different speeds.		
<b>EAC</b> , the most advanced in the regional integration process among the eight RECs, established a Customs Union in 2005 and signed a Common Market Protocol in 2010. With a High Level Task Force established to oversee the preparation and negotiation of a Protocol on the Free Movement of Persons, Labor, Services, Right of Establishment and Residence, which are key elements of the process to establish an EAC Common Market. The next phase of the integration will see the bloc enter into a Monetary. The negotiations for the East African Monetary Union, which commenced in 2011, and fast tracking the process towards East African Federation all underscore the serious determination of the East African leadership and citizens to construct a sustainable East African economic and political bloc.		
<b>ECOWAS</b> , the less donor-dependent among the major RECs thanks to its import levy, has made significant progress in its FTA and plan to launch a customs union in 2015. ECOWAS have registered major practical achievements and is leader in areas such as: free movement of people with the ECOWAS passport as well as and right of residence/establishment, peacekeeping and regional security, political governance, regional infrastructures (three corridors, fiber optic project) and regional investment/businesses (creation of a regional airline company (ASKY); a regional development bank (EBID) out of the upgrading of ECOWAS Cooperation, Compensation and Development Fund and a political risk insurance agency to be merged with ATI which was initiated by COMESA). ECOWAS has also set-up/articulated various regulatory and policy harmonization bodies/framework in Agriculture, Energy, Industry, Mining, Education, Legal Matters and Economics & Financial Policy. ECOWAS intends to build its second monetary zone by 2020; and merge it with the 7-country monetary CFA zone.		
<b>COMESA</b> launched its customs union in June 2009 and is one of the key drivers of the Tripartite FTA with SADC and EAC. The REC is very active in the promotion of trade and investment among the member countries and the promotion of COMESA as one investment destination. COMESA Adjustment Facility (CAF) is already operational with an objective of compensating countries for loss of income on account of regional integration. COMESA Infrastructure Fund (CIF) has also been established and is being operated by the PTA bank.		
<b>SADC</b> has made progress in building its free trade areas (FTA) and only two countries have sort derogation from implementing some of their tariff commitments. The REC plans to launch a customs union in 2013. But NTBs still remain prevalent among SADC countries. SADC is working on two major initiatives: the setting-up of a Regional Development Fund and the attraction of investment needed to implement its Regional Infrastructure Development Master Plan (RIDMP) developed in August 2012.		
<b>ECCAS</b> launched its FTA in 2004, but is facing enormous challenges in its practical application. The REC has developed a comprehensive “Transport Infrastructure Development Master Plan” and a “Regional Food Security Development Program”		
<b>AMU</b> made some progress in the areas of free movement of people and the creation of a common financial institution, the Investment and International Trade Bank of the AMU.		
<b>IGAD</b> is moving slowly and is still in the early stages of cooperation among its member States. <b>CEN-SAD</b> future may be uncertain with the passing-away of its main sponsor and driver, President Khadaffi of Libya.		

### Progress on Continental Programs

## PROGRESS ON CONTINENTAL PROGRAMS

### PIDA – Program for Infrastructure Development in Africa

The technical prerequisites (readiness of the human resource base - infrastructure consultants, infrastructure economists, PPP financial engineers, readiness/existence of a pool of African EPC or contractor firms, readiness of African SMEs/SMIs capable of participating in the projects to be undertaken) as well as the base of creditworthy private African sponsors for the implementation of PIDA are not yet met. However a plan to mobilize such resources is developed.

Mobilizing funds for the implementation of PIDA continues to be a challenge.

### CAADP – Comprehensive African Agriculture Action Program

While some progress has been registered towards the targets set out in the Maputo Declaration on Agriculture and Food Security in Africa allocating at least 10 per cent of annual budget to the sector and generating a 6% annual sector GDP growth; a business model for a pragmatic development of the Agriculture sector around the objectives of food security, value addition/agro-processing and export performance is yet to be developed and implemented. Resources mobilization is a challenge.

### AIDA – Accelerated Industrial Development of Africa

A program model for implementation of AIDA is yet to be articulated

In addition, some critical prerequisites such as the availability of human resources base - consultant base and technical expertise capable of articulating and implementing advanced/pragmatic industrial/manufacturing, export and, SMI development policies, strategies and programs are yet to be met.

There is a serious need for the African Continent to introduce and adopt “Advanced Manufacturing Tools and Techniques” namely in the following areas: Lean manufacturing and flexible manufacturing; manufacturing management; innovation and technology management; technology acquisition and financing; standard, conformance and certification support; networking with global knowledge and innovation centers.

### BIAT - Boosting Intra-African Trade

The framework was adopted by the Assembly of the AU during its 18<sup>th</sup> Session of January 2012. However, its success/achievement depends largely on success on the following fronts namely: Trade facilitation/NTB, transport infrastructure (PIDA), private sector and competitive supply capacity (CAADP, AIDA, PSD & SME) development, women trade facilitation, among others. Furthermore, an implementation plan for the BIAT is yet to be articulated.

### C-FTA - Continental Free Trade Area

Realizing the C-FTA seems to be a reachable but somehow distant objective as it depends largely on the realization of regional FTAs. However the “Tripartite COMESA-EAC-SADC Agreement, signed in 2008, that commits to work towards a large 500 million population and 27-country FTA by 2014 is encouraging though implementation has experienced delays.

- Progress on the “Tripartite FTA COMESA- SADC-EAC”, which objectives are to reach the FTA Agreement by June 2014, presents as follows as of October 2013:
  - Liberalization of tariff: the modalities for all negotiations have been agreed upon
  - Industrial pillar: the negotiations are on-going and each party has completed its offer to other parties
  - Infrastructure pillar: negotiation on-going and each partners have completed its offer
  - Movement of business people: negotiation on-going and 90% of EAC offer to COMESA completed
  - June 2014 is the deadline for completing all negotiations

## 6.4. Free Movement of People

AMU, EAC and ECOWAS have made significant strides in the area of free movement of people, but CEN-SAD, COMESA, ECCAS, IGAD and SADC are still facing challenges in this regard.

ECOWAS stands out in the area of free movement of people among all the REC. The ECOWAS regional passport is a good example of a common regional travel document used as a means to improve the free movement of people. The passport, bearing the ECOWAS emblem on the cover, can be used to travel internationally, and is currently used in Benin, Guinea, Liberia, the Niger, Nigeria and Senegal. Since 1st January 2013, Rwanda is issuing visas on arrival for all African nationals. In the EAC, Kenya and Rwanda are implementing a bilateral agreement to allow citizens from each country to freely establish in the other. The agreement also waives all work permit fees. Kenya is implementing a similar agreement with Uganda.

The President of Kenya, Rwanda and Uganda met in June 2013 and agreed on a fast-tracked integration process “Trilateral Decision Kenya-Rwanda-Uganda” with focus, among others, on four regional integration objectives: (i) establishment of a single market territory, (ii) a single visa system for travellers across the three countries, (iii) a single identification card, (iv) an integrated oil pipeline system with a division of labour for implementation of the decisions taken. This decision is welcomed by most development partners and political/economic observers as it deepens regional integration and triggers emulation within the EAC and beyond.

Despite the progress made, several obstacles are hampering and even undermining the integration process in Africa. The movement of people is faced with a number of problems, including those related to infrastructure, especially road transport, such as the very high number of roadblocks erected by security forces as well as illegal barriers and insecurity on the roads. Countries usually invoke security as the main reason for delaying the implementation of decisions on the free movement of persons which have been taken at the regional level.

## **6.5. Macroeconomic Convergence**

RECs are at different stages of integration in their quest for macroeconomic convergence and integration of their monetary policies and adoption of a common external tariff.

COMESA has developed a Multilateral Fiscal Surveillance Framework, adopted an Action Plan for Financial System Development and Stability and designed an assessment framework for financial system stability. The COMESA Monetary Institute was established in 2011 in Nairobi, Kenya, in order to undertake preparatory work for implementing all the stages of the COMESA Monetary Cooperation Program. COMESA has also operationalized a Regional Payment and Settlement System.

Preparatory work for the transition to an EAC monetary union is ongoing, and negotiations for a protocol on the subject are at an advanced stage. A review of EAC macroeconomic convergence criteria is towards completion.

According to a road map adopted, ECOWAS is planning to launch a second monetary zone by 2015 and merge it with the CFA (Communauté Financière d’Afrique) zone to create a larger monetary zone by the year 2020. The West Africa Monetary Institute was created for that purpose.

## **6.6. Investment Promotion and Competition Policies**

ECOWAS has completed the feasibility study for an Investment Guarantee Agency from a political risk

insurance (PRI) point of view. ECOWAS has also articulated a strategy to develop the Reinsurance sector of the region. These two projects follow the establishment of the ECOWAS Bank for Investment and Development (EBID) a decade ago from the upgrading of the ECOWAS Cooperation, Compensation and Development Fund. The three projects were implemented with the view to further develop the long-term finance infrastructure of the REC and increase the region capacity to finance new projects and absorb new risks in the oil, gas and mining (OGM) sector namely; thereby, maximizing local content in the financial sector while attracting investment. Following extensive discussions between ECOWAS and African Trade Insurance Corporation (ATI); and, as a result of the leadership of ECOWAS and COMESA, the decision to merge the planned ECOWAS agency with the COMESA-initiated ATI has been taken. This will provide the new PRI institution with the size, the capital base and the geographic diversification potential required in the PRI business. ECOWAS is also working in three areas: creation of a common investment market, investment promotion and financial market integration by leveraging the experience of its sister institution, the West Africa Economic and Monetary Union (WAEMU). ECOWAS also host the Association of West African Chamber of Commerce & Industry at its headquarters in Abuja with the view to establishing a dialogue platform with the private sector and further engage the business sector of the region's in its decisions and programs.

A COMESA Regional Investment Agency has been created and is located in Cairo, Egypt. Its role is to coordinate and strengthen the activities of the COMESA national investment promotion agencies. Four COMESA investment forums have been held, aiming at promoting the COMESA area as an investment destination and creating business linkages between COMESA and non-COMESA businesses.

EAC has a model investment code in place, and plans are under way to upgrade it into legislation or a protocol promoting the Community as an investment destination. The East African Business Council is the apex body of business associations in the private sector in the five East African countries (Burundi, Kenya, Rwanda, the United Republic of Tanzania and Uganda). It has published the East African Business Directory, the first and most comprehensive business directory in East Africa.

SADC finalized a protocol on finance and investment in 2006, which entered into force in April 2010.

ECCAS is working to put in place a regional strategy on investment promotion and establish a guarantee fund for small and medium-sized enterprises.

Few RECs have elaborated competition policies. Generally, they are those which have either established customs unions and common markets or are moving towards that stage.

## **6.7. Trade and Intra-African Trade Development**

### **6.7.1. African External Trade Pattern**

In January 2012 African Heads of States adopted a framework to further develop intra-African trade and fast-track the establishment of a continental free trade area (C-FTA) under a the framework “Boosting Intra-African Trade” (BIAT).

Intra-African trade presents opportunities for sustained growth and development for the Continent. It has the potential to reduce vulnerability to global shocks, contribute to economic diversification, enhance export competitiveness and create employment.

Spurred by global growth, and consequently demand for Africa’s primary products, strong regional economic growth, increasing integration into global economies as well as high commodity prices, African trade grew faster over the course of the 2000s than any other region except China.

The European Union and the United States are Africa’s key export markets but China, Brazil, India and other emerging economies have dramatically increased their share of the continent’s exports.

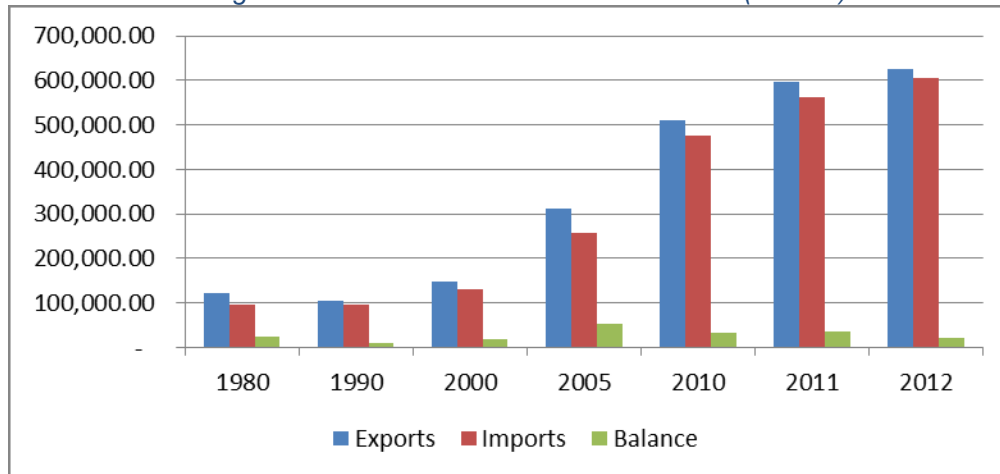
From 2000 to 2011 Africa’s exports almost quadrupled in value, from USD 148.6 billion a year to USD 581.8 billion, according to UNCTAD figures. Two trends are noticeable. First, the European Union and the United States saw their share of Africa’s exports fall – from 47% in 2000 to 33% in 2011 in the case of Europe and from 17% to 10% for the United States. Second, the emerging economies increased their trade. China increased its share of African exports from 3.2% in 2000 to 13% in 2011; India from 2.8% to 6%; Brazil from 2% to 3% and the Russian Federation from 0.2% to 0.3%. Emerging economies took 8% of Africa’s exports in 2000. This had mushroomed to 22% in 2011.

There were three key drivers to the change in Africa’s markets. The price of the resources, particularly oil, which are the main export, increased over the decade boosting the value of the exports. This trend is bound to continue since new oil deposits have been discovered in Ghana with estimated oil reserves of about 1.8 billion barrels and Uganda with about 2 billion barrels. Other African countries with recent oil discoveries include Kenya, Ethiopia, Sierra Leone, Sao Tome and Principe. China became an avid consumer of Africa’s primary commodities. In 2000, the value of Africa’s exports of primary commodities (excluding fuel and food) was USD 15.6 billion and China accounted for 4.8% of the export market. By 2011, China’s market share was 28.8% of total primary commodity exports (excluding fuel and food) of about USD 70 billion.

It is important to note, however, that despite the changes the European Union and the United States remain the most important export markets for Africa.

It is also worth mentioning that Africa’s trade is overly dependent on a narrow range of primary products. In 2010, fuels and mining products constituted 66 per cent of Africa’s total merchandise exports. Furthermore, the share of manufacturing in both intra-African trade and in trade with the rest of the world have been declining since 1996, reflecting the fact that African countries have experienced significant de-industrialization since the 1990s.

Figure 3: Evolution of African External Trade (volume)



Source: UNCTAD

### 6.7.2. Addressing Africa's Poor Regional Trade Performance

However, despite steady growth of their international trade over the past 10 years, African countries have not made significant progress in boosting intra-African trade. Over the period 2007 to 2011, the average share of intra-African exports in total merchandise exports in Africa was 11 per cent compared with 50 per cent in developing Asia, 21 per cent in Latin America and the Caribbean and 70 per cent in Europe. Furthermore, available evidence indicates that the continent's actual level of trade is also below potential, given its level of development and factor endowments.

**There are several reasons for the weak regional trade performance in Africa.** First, one of which is that the approach to regional integration on the continent has so far focused more on the elimination of trade barriers and less on the development of the productive capacities necessary for trade. While the elimination of trade barriers is certainly important, it will not have the desired effect if it is not complemented with policy measures to boost supply capacities. **S e c o n d l y** , the limited role of the private sector in regional integration initiatives and efforts has also contributed to the weak trade performance of the continent. Although trade agreements are signed by Governments, it is the private sector that understands the constraints facing enterprises and is in a position to take advantage of the opportunities created by regional trade initiatives. Hence, platforms to engage with the private sector should be put in place and more space for the private sector to play an active role in the integration process created. Thirdly, African countries impose more non-tariff barriers on trade between themselves than on trade with third countries. Efforts at harmonizing **technical regulations and standards, Sanitary and Phyto-sanitary (SPS) measures as well as rules of origin (RoO)** have been timid adding to the costs of doing business. Hence, the following should be paid attention in the regional integration process to spur regional trade:

1/. **Re-adjust the Regional Integration Approach:** Balance the linear approach to regional integration, which focuses primarily on the elimination of trade barriers, with a more development-based approach to regional integration, which pays as much attention to the building of productive capacities and private sector development as to the elimination of trade barriers.

2/. **Develop Productive Capacity:** Promote productive capacity for regional and global trade through the articulation of comprehensive private sector development (PSD) policies, strategies and programs in support of regional integration around:



Promoting and investment climate and business enabling environment for PSD  
Pragmatic industry development, namely, value chain promotion  
Export capacity development  
Entrepreneurship and SME development

In the process of building this productive capacity, one should take into account the fact that firm size and the level of efficiency matter for exports and for boosting intra-African trade. Hence, the fact that African countries have large informal economies and the average size of African manufacturing firms is relatively small should be addressed through appropriate incentive to formalization and SME growth through investment incentives.

**3/. Remove NTB:** Consolidate the efforts undertaken towards removing non-tariff barriers

**4/. Increase Investment in Trade-Related Infrastructure:** It is essential for African countries to increase investment in trade-related infrastructure and other trade facilitation measures to reduce red tape, transaction costs and expedite the movement of goods, services and people across borders. From that perspective, it is worth mentioning that the “Aid for Trade” initiative which was launched by Trade Ministers at the Hong Kong Ministerial Conference in 2005 has successfully mobilized additional resources from donor governments, regional development banks and multilateral agencies to invest in trade capacity building.

**5/. Implement the BIAT Agenda:** Articulate an implementation plan for the “ Boosting Intra-African Trade” Agenda primarily around the above.

In the process, the productive capacity and enhanced PSD development agenda could be articulated with the C-FTA agenda which key thrusts are summarized below:

## **Box 2 : Key Policy/Strategic Agenda and Steps for the Realization of the Continental Free Trade Area (C-CFA)**

### **1. Objectives of the C-FTA**

Create a single continental market for goods and services, with free movement of business persons and investments, and thus pave the way for accelerating the establishment of the Continental Customs Union and the African customs union.

Expand intra African trade through better harmonization and coordination of trade liberalization and facilitation regimes and instruments across RECs and across Africa in general.

Resolve the challenges of multiple and overlapping memberships and expedite the regional and continental integration processes.

Enhance competitiveness at the industry and enterprise level through exploiting opportunities for scale production, continental market access and better reallocation of resources.

## 2. Principles of the C-FTA

Process to be driven by the AUC, RECs and Member States, with close involvement of all stakeholders (private sector, civil society, voluntary organization).

Baseline studies taking into account (and building on) existing REC FTAs.

Reciprocity, which will entail that there are no free riders.

Substantial liberalization established on a tariff-free, quota-free, and exemption free basis.

## 3. Timeline of the Realization of the C-FTA

### 2012-13:

- Baseline studies, negotiations, consensus building, protocol.

### 2014- 17:

- Start a phased liberalization of trade in goods, start liberalizing tariffs, rules of origin, customs procedures and simplifying customs documentation, transit procedures, non-tariff barriers, trade remedies, technical barriers to trade and sanitary and phyto-sanitary measures.
- Liberalization would focus on products where tariffs are currently at zero duty, while sensitive products are dealt with later.
- Launch efforts to improve production capacity development and competitiveness.

### 2017-19:

- Preparations for a Continental Customs Union in 2019 in line with the Abuja Treaty.
- Liberalize trade in services – with tourism, financial services, transport and communications among possible frontrunners.
- Service sectors with some liberalization already launched could be further deregulated alongside a liberalization in goods. (e.g. trade-related transport services, tourism, financial services such as cross-border banking).

NB: a programmatic links with CAADP, AIDA and PIDA should be established in the process.

6/. **C-FTA Agenda:** From a C-FTA perspective, the following should be considered as priority regional integration program/project activities:

**Tripartite Free Trade Area COMESA-EAC-SADC:** The three RECs are vigorously pursuing the tripartite FTA arrangement, launched in 2008, which will unify their combined market space of over 500 million people (27 countries), thus providing a strong springboard and impetus towards realizing the continental FTA by 2017. At their second summit, held in Johannesburg, South Africa in June 2011, the heads of State and government of the three RECs signed a Declaration Launching the Negotiations

for the Establishment of the Tripartite Free Trade Area, and adopted a road map for establishing the tripartite FTA as well as a set of negotiating principles, processes and an institutional framework. The tripartite FTA will comprise three pillars: (a) market integration, (b) infrastructure development and (c) industrial development. The movement of business persons will be negotiated on a separate track. The interest raised by the announcement of this bold decision and the setting-up of the Steering Committee, the various Technical Committees and the division of labour for implementation among the three RECs, meaningful progress is yet to be registered.

Progress on the “Tripartite FTA COMESA- SADC-EAC Agreement”, which objective is to reach the FTA Agreement by June 2014, presents as follows as of October 2013:

- Liberalization of tariff: the modalities for all negotiations have been agreed upon
- Industrial pillar: the negotiations are on-going and each party has completed its offer to others
- Infrastructure pillar: negotiation on-going and each partners have completed its offer
- Movement of business people: negotiation on-going and EAC offer to COMESA near completion
- June 2014 is the deadline for completing all negotiations

Hence, programs, projects and institutions that facilitate the realization of the Tripartite Agreement should be supported by the AIF.

**C-FTA project implementation unit and work plan:** Likewise, it is urgent to articulate the C-FTA project implementation unit, work plan and start implementing its project activities as well as the monitoring and evaluation plan.

**7/. Effective Monitoring and Accountability Systems:** The AUC and the RECs have to set up effective transparency and accountability systems which would enable businesses, civil society and individuals to take stock and evaluate progress made towards achieving the goal of boosting intra-African trade and ultimately realizing the C-FTA. In particular, the AUC should play a more active role in monitoring progress and providing advice and guidance when required.

## 6.8. Energy and Infrastructure

### 6.8.1. Africa’s Massive Infrastructure Gap

Progress in closing the infrastructure gap of Africa has been made in the past decade, but many challenges remain and infrastructure services in SSA mainly remain highly inadequate. A lack of financial resources is only part of the story.

**Inadequate Infrastructure coverage:** Despite progress in recent years, the region with the greatest infrastructure challenge remains Sub-Saharan Africa. It lags behind other low-and middle-income countries in infrastructure coverage for paved roads, telephone mainlines, and power generation capacity. The Africa Infrastructure Country Diagnostic reports that for these three key infrastructures, Africa has been expanding stocks much more slowly than other developing regions, implying a widening gap over time.

*Table 5: Performance in Infrastructure Coverage - Africa*

Normalized units	Sub-Saharan Africa	Other Developing Countries
Paved road density	31	134
Total road density	137	211

Mainline telephone density	10	78
Mobile telephone density	55	76
Internet density	2	3
Generation capacity	37	326
Electricity coverage	16	41
Improved water	60	72
Improved sanitation	34	51

Source: AICD 2009.

Note: Road density is in kilometers of road per thousand square kilometers; telephone density is in lines per thousand population; generation capacity is in megawatts per million population; electricity, water and sanitation coverage is in percentage of population.

In 1970 Sub-Saharan Africa had almost three times as much generating capacity per million people as South Asia, a region with similar per capita income. Three decades later, in 2000, South Asia had left Sub-Saharan Africa far behind: it now has almost twice the generation capacity per million people. Similarly, in 1970 Sub-Saharan Africa had twice the mainline telephone density of South Asia, but by 2000 the two regions had drawn even.

**Efficiency Gap:** Africa already devotes significant resources to infrastructure, but not all of those resources are being effectively used. Large sums are lost to inefficiency. Among the most important issues to be tackled are below-cost tariffs, ill-targeted subsidies, weak governance and regulatory frameworks, systematic inefficiencies, and inadequate sector policies and planning capacities. By comparing Africa with international best practice, AICD quantified the major inefficiencies and identified policy measures to redress them. Key measures include prioritizing budget allocations, raising budget execution, improving revenue collection, reducing overstaffing, increasing cost recovery, ensuring adequate maintenance, and reducing distribution losses. Those steps could cut Africa's infrastructure spending requirements by \$17 billion each year.

Africa's infrastructure providers waste \$7.5 billion a year on inefficiencies such as overstaffing, distribution losses, under-collection of revenue, and poor maintenance. Owing to social and political pressures, infrastructure services are typically sold at prices well below the full capital costs of production, a habit with a price tag of \$4.7 billion a year. Although funding for infrastructure falls short, some countries appear to be over-funding some forms of infrastructure by as much as \$3.3 billion a year. More thorough execution of capital budgets could raise effective investment in infrastructure by \$1.9 billion a year.

**From a revenue collection point of view,** the three key components of hidden costs affecting infrastructure need to be looked after and their challenges taken care of - poor bill collection rates, excessive losses resulting from inefficient operations or theft from networks, and tariffs set below cost-recovery rates

Governance and financial management of state-owned enterprises (SOE) are receiving increasing attention, including appropriate incentive and control mechanisms to strengthen performance and reduce the risk of misallocation of funds. Reforms span benchmarking approaches, corporatization, and improvements in internal governance.

Overall, AICD finds that addressing existing system inefficiencies would almost halve the amount of funding required for Sub-Saharan Africa to close its infrastructure gap.

**Diseconomies of scale for many small countries:** Geography and population patterns play a role in the particularly challenging situation of infrastructure in Africa. The low economic density of the continent makes transport networks and power grids, which exhibit economies of scale and density, more

expensive to build and maintain. According to one report, the national power systems in 21 of 48 Sub-Saharan countries fall below the minimum efficient scale of 200 megawatts for electricity generation. As a result, their operating costs are nearly double those found in the continent's larger power systems.

***Institutional weaknesses:*** New roads, power plants, and irrigation systems will not yield lasting results without the right institutions and regulations. Sound sector policies, effective regulation, and greater competition are needed to ease Africa's infrastructure constraints. Access, service quality, and operational efficiency—all are easier to achieve when relevant institutions function as they should. AICD examined various institutional models in use in Africa, efforts to strengthen institutions that affect infrastructure, and the effect of those efforts on the performance of providers of infrastructure services.

Africa's institutional framework for infrastructure is no more than halfway along the path to best practice. Private sector participation in infrastructure has had a difficult history in Africa, but in some sectors it has led to significant investment and performance improvements. Reforming governance of dominant state-owned enterprises is a high priority, and incentive-based performance contracts and external audits appear to be effective measures. Developing independent regulatory agencies in Africa has been challenging, and to date there is little evidence of a positive impact on performance.

Overall, a comprehensive, transparent and efficient public-private partnership (PPP) regime for the various infrastructure sub-sectors is lacking in the large majority of SSA countries.

#### **6.8.2. Program for Infrastructure Development in Africa (PIDA)**

The Program for Infrastructure Development in Africa (PIDA) contains a framework for meeting infrastructure demand in each sector up to 2040 (2020 for information and communication technologies). It has components addressing projected infrastructure gaps and bottlenecks based on supply and demand forecasts, institutional inefficiencies and options for identifying, preparing and funding projects. The program is organized on the basis of short-term and medium-term targets running up to 2020 and 2030, as well as long-term projections to meet demand to 2040. The list of projects and programs for short-term implementation is included in a Priority Action Plan. PIDA is currently estimated to cost more than \$360 billion. The overall capital cost of delivering the Priority Action Plan from 2012 up to 2020 is expected to be nearly \$68 billion, or about \$7.5 billion annually for the next nine years.

In addition to the fact that mobilizing funds for the implementation of PIDA continues to be a challenge, many institutional prerequisites (project implementation agencies, industry association-based supply chain organizations, training institutions, financial institutions, etc.) and technical prerequisites (readiness of the human resource base, readiness/existence of a pool of African EPC - Engineering, Procurement & Construction - or contractor firms, infrastructure consultants, infrastructure economists, inventory and readiness of Africans capable of participation in the projects to be undertaken) as well as the base of creditworthy private African sponsors for the implementation of PIDA are not yet met.

However a plan to mobilize such resources is being developed; and RECs and development partners' infrastructure projects seem to be quite aligned to PIDA; though implementation level seems marginal in relation to the scale of PIDA.

Overall, pending the mobilization of funding through the African Development Bank “Africa50 Fund” and AUC’s major fund raising and/or financial intermediation initiatives (alternative sources of financing, African Investment Bank), the PIDA program should work on the following:

- Articulate a comprehensive implementation plan for PIDA including the following: 1/. articulate a minimal implementation plan for the short-term; 2/. develop a comprehensive PPP/Infrastructure project development unit for the AU/NPCA and develop their mirror institutions at regional and national levels; effect a demand/supply match for the products and services required for the implementation of PIDA; namely prepare the African private sector with the view to maximize local content in the large projects to be implemented.
- Undertake an intelligence work on best-practice countries on PPP/infrastructures, specialized PPP/infrastructure services providers and successful cross-border/regional and national PPP/infrastructures projects.
- Work on the institutional requirements for the implementation of PIDA both on a continental and sub-regional levels: model PPP unit, project implementation agencies, industry association-based supply chain organizations, subcontracting sector organizations, training institutions, financial institutions and solutions.
- Work on the technical requirements: readiness of the human resource base, readiness/existence of a pool of African EPC or contractor firms, infrastructure consultants, infrastructure economists, inventory and readiness of African capable of participating in the projects to be undertaken.
- Articulate a broad PPP regime and sub-sector-specific (energy, renewable energy, road transport, rail transport, airport, port, oil/gas pipelines, water, sanitation, waste collection, etc.) regimes.
- Articulate a comprehensive FDI, JV and partnership development framework for the projects planned.
- Develop a blue-print approach to PPP project implementation.
- Consider value chain development and cluster development for selected projects and environment.
- Articulate business linkage program model and management framework for the PPP/infrastructure sector with the view to involving local SME and maximizing local content in the projects undertaken.
- Develop sub-sector specific database system namely on pricing and cost structure to support bidding processes
- Work on PPP/infrastructure projects documentation requirements and bidding process management.
- Define a monitoring and evaluation system for the implementation of PIDA around the results/impact framework of: (a) Adoption of world-class generic PPP regime as well as transport mode-specific and industry-specific PPP regime; (b) increased public investment in backbone and interconnection infrastructure and relevant soft infrastructure; (c) (f) the promotion of regional/cross-border infrastructure project through co-investment and JV namely (d) enhanced financial resource mobilization capacity through institutional engineering/creation, project-

specific financial engineering, JV and strategic partnership with emerging and industrial countries; innovation and enhanced political commitment from member states; (e) increased private participation in infrastructure project; (f) local content maximization in infrastructure through successfully implemented business/SME linkage programs (MNCs); (g) infrastructure technology capability development roadmap and implementation framework.

The above are suggested as priorities under the infrastructure and PIDA programs to be supported by the AIF if warranted.

## 6.9. Agriculture and Rural Development

### 6.9.1. The Unrealized Potential of Africa's Agriculture

For the large majority of African countries, the agricultural sector represents both a potential and a challenge. Agriculture is one of the key engine, if not the central engine of growth for the quasi totality of countries as well as the main source of employment and revenues for the large majority of populations (up to 60 -65% for the large majority of countries), namely rural ones. But, despite its huge potential, not only is the agriculture sector characterized by low productivity and competitiveness, the sector also has not yet been able to contribute to poverty reduction in a significant way, to provide the growing population of many African countries with food security, and to spur industrial development through agro-processing namely.

### 6.9.2. Initiatives at REC's Level

Meanwhile RECs have initiated regional agricultural policies or set-up institutions to support the agriculture sector:

**ECOWAS:** In order to accelerate the implementation of the ECOWAS agricultural policy, the Council of Ministers has adopted key strategic regulations. A strategic plan for the development of the livestock sector has also been prepared and adopted, as an important aspect of ECOWAS agricultural policy at the national and regional levels in the animal resources sector.

**SADC:** Meanwhile, SADC is continuing with the monitoring and implementation of the Dar es-Salaam Declaration on Agriculture and Food Security, as well as the Regional Indicative Strategic Development Plan on Food Security and Natural Resources. SADC is also setting up a Seed Security Network to facilitate the creation of a regional seed market. It is also facilitating the introduction of a harmonized seed system in all SADC member States.

**COMESA:** The Alliance for Commodity Trade in Eastern and Southern Africa is a specialized agency of COMESA.

**IGAD:** IGAD has developed a Regional Disaster Risk Management Program and is currently initiating the establishment of a regional disaster fund and developing a map and atlas of the main hazards that cause disasters in the IGAD region.

**EAC:** An EAC Food Security Action Plan for 2011-2012 was developed and approved by an EAC summit in April 2011. EAC has taken several initiatives to facilitate and accelerate the development of the agricultural sector.

**ECCAS:** ECCAS is implementing the "Regional Food Security Program" and a Common

### 6.9.3. Comprehensive African Agriculture Action Program (CAADP)

Some progress has been registered towards the targets set out in the Maputo Declaration on Agriculture and Food Security in Africa allocating at least 10 per cent of annual public-sector budgets to agriculture and achieving at least 6 per cent annual growth in the sector. Recent statistics show that 9 countries stand out as having reached or surpassed the 10 per cent target, 9 others are spending between 5 and 10 per cent and 29 have devoted less than 5 per cent of their total budgets to agriculture. The number of countries that have signed CAADP compacts has risen to 29, 21 of which have completed the formulation of CAADP-based country investment plans, which have also been independently reviewed (UN-ECA, 2013).

Financial resources mobilization is a major challenge for the implementation of CAADP. But it is only part of the story. Despite the relative progress registered with CAADP, a business model for a pragmatic development of the Agriculture sector around the objectives of **food security, value addition** and **export performance** is yet to be developed and implemented. In addition, an articulation between CAADP and the priority programs initiated by the RECs and member countries should be established to promote synergy and cooperation between the three. More specifically, the following should be considered for CAADP in “smart” deliverables if the continental program is to yield meaningful results:

- Review CAADP implementation plan and develop an improved one with regional/national business plan around “smart” objectives of: food security, value addition/processed agricultural products/commodities, and regional/international trade of agricultural products.
- Articulate a comprehensive implementation plan for CAADP that target equally Government, the private sector and the NGO sector.
- Articulate a minimal implementation plan for the short-term around objectives of: industrial investment, value addition/processing, technology transfer and technology capability development, value chain development, industry-wide certification/standard development, technology capability development.
- Develop a comprehensive agri-business project development unit for the AU/NPCA and develop their mirror institutions at regional and national levels.
- Effect a demand/supply match for the products, services, technology and knowledge resources required for the implementation of CAADP.
- Undertake an intelligence work on best-practice countries on agribusiness industry development (Brazil, New Zealand, Israel, Malaysia, India, Netherlands), specialized agribusiness and specialist agri-business services providers and successful cross-border/regional and national agri-business projects.
- Work on the institutional requirements for the implementation of CAADP both on continental and sub-regional levels: project implementation agencies, industry associations and supply/distribution chain organizations, subcontracting sector organizations, training institutions, technology transfer and technology extension institutions, agri-business sector advisory/extension programs and institutions, national/regional innovation system in the agribusiness sector, regional/national MTQS institutions, financial institutions, etc.



- Work on the technical requirements for a successful implementation of CAADP: readiness of the human resource base, readiness/existence of a pool of agri-business sector advisors/consultants, agri-business economists, inventory and readiness assessment of African capable of participating in the projects to be undertaken.
- Promote an enabling environment for the agri-business sector, including comprehensive concession regime for plantations, land tenure and women rights thereof for the agri-business sector.
- Articulate a comprehensive FDI, JV and partnership development framework for the agri-business sector as well as flagship projects to be implemented.
- Develop a blue-print approach to agri-business sector project implementation in a cluster-like and value chain development approach.
- Consider value chain development and cluster development around selected anchor infrastructure projects and/or large agro-business firms.
- Implement manageable, yet performance-oriented and modular agro-business SME support program (per group of SMEs and in partnership with relevant industry/business associations) around the objectives of: agro-business start-ups creation; agro-business SME growth programs; agro-business export development; agro-business SME technology upgrading around QHES (quality, health, environment and safety) standards, and technology and management innovation capability).
- Articulate a blue-print business linkage program model and management framework for the agribusiness sector with the view to involving local SMEs, smallholders and maximizing local content and inclusion in the projects undertaken.
- Define a monitoring and evaluation system for CAADP around the results/impact framework of food security, processed agricultural commodities, intra-African trade, and export performance.

The above are suggested as priority programs and projects for the Agriculture and Rural Development Program, under the MIP and other priority program, in coordination and synergy with the initiatives of the RECs in the field.

## 6.10. Accelerated Industrial Development of Africa (AIDA)

Since its adoption in 2008, the AIDA program has experienced little implementation. Indeed, a program model for the implementation of AIDA is yet to be articulated. In addition, some critical prerequisites such as the availability of a skilled human resource base at AUC/NPCA level, as well as a consultants and technical expertise base capable of articulating and implementing pragmatic industry, export and SMI development policies, strategies and programs, as pillars of AIDA, are not yet in place and need to be realized.

Hence, the following should be implemented:

- Articulate a comprehensive implementation plan for AIDA based on the priority sectors agreed upon: Mineral Resources, Agribusiness, Pharmaceutical.
- Articulate a minimal implementation plan for the short-term around “smart” objectives of: industrial investment, value addition/processing/beneficiation, local content development, technology transfer and technology capability development, value chain development, industry-wide certification/standard development, technology capability development, and SME development and export capacity development.
- Develop a comprehensive industrial project development unit for the AUC/NPCA and develop their mirror institutions at regional and national levels.
- Effect a demand/supply match for the products and services required for the implementation of AIDA.
- Undertake an intelligence work on best-practice countries on industry development, specialized agro-processing/manufacturing/mining beneficiation and specialist industrial services providers and successful cross-border/regional and national industrials projects.
- Work on the institutional requirements for the implementation of AIDA both on a continental and sub-regional levels: project implementation agencies, industry association-based supply/distribution chain organizations, subcontracting sector organizations, training institutions, technology transfer and technology extension institutions, MTQS institutions, manufacturing advisory programs/institutions, national/regional innovation system, financial institutions, etc.
- Work on the technical requirements: readiness of the human resource base, readiness/existence of a pool of manufacturing advisors/consultants, manufacturing economists, inventory and readiness of African capable of participating in the projects to be undertaken.
- Promote an industry-specific enabling environment.
- Articulate a comprehensive FDI, JV and partnership development framework for the project planned.
- Develop a blue-print approach to industry sector development.
- Consider value chain development and cluster development for selected projects and environment.
- Implement manageable, yet performance-oriented and modular SMI support program (per group/cluster of industrial enterprises and in partnership with relevant industry/business associations) around the objectives of: industrial start-ups creation; SMI growth programs; industrial export development; industrial technology upgrading for SMIs around QHES (quality, health, environment and safety) standards, and technology and management innovation capability).
- Articulate business linkage program model and management framework for the Industrial sector with the view to involving local SME and maximizing local content in the projects undertaken.
- Define a monitoring and evaluation system for the implementation of AIDA around the results/impact framework of: (a) increased public investment in enabling physical infrastructure

and relevant soft infrastructure; (b) local content and value addition maximization in agribusiness and oil, gas and mining (OGM) sector through the processing of agricultural commodities and the beneficiation of mineral resources; (c) value chain creation/development for selected industrial sectors; (d) intra-African trade and export performance in industrial products; (e) successfully implemented business/SME linkage programs in partnership with major multinational corporations (MNCs); (f) industrial technology capability development roadmap and implementation framework; (g) connection to dynamic international production networks; and (h) the promotion of regional/cross-border industrial ventures through co-investment and JV namely.

The above could be considered as priority for AIDA/3ADI to be supported by the AIF.

For the purpose of efficiency, resources pooling, coordination and synergy there is a need to initiate integrated AIDA, CAADP, PIDA and BIAT programs.

## 6.11. Social Affairs

The implementation of well-articulated and well-targeted Regional Social Programs should be at the center of the AUC regional integration program and be implemented parallel to market, physical and economic integration agenda. Indeed youth employment and unemployment simply represent the single biggest risk many African countries are faced with from a political risk/unrest potential point of view. Secondly, women employment is both a key lever of economic growth but, more importantly, a social stabilizer given women's role on African social structure. But, beyond employment, our future depends on education and health; and both Culture and Sport yield significant economic potential for our economies and appear to be among the most efficient integration factors we have come across so far.

Hence, the Social Sector appears as a central pillar of the MIP and a key beneficiary of the AIF.

Priority social programs and social program implementation facilitation elements include the following:

- The need to reposition the Social Policy Framework and, in the process, articulate a Social Governance Framework/Architecture that will lay the foundation for the planning and implementation of regional social programs.
- Building on the above point on employment, the need to review and implement with meaningful resources (strategic, logistics, financial resources) the Employment Pact for Youth & Women (EPYW).
- The need for enhanced/joint coordination/planning of the AUC actions and those of the RECs on the social front, through a formalized framework, to prevent duplication and leverage synergy opportunities. This will enable each party to know what the other is doing and will do, hence, articulate his programs consequently.
- The need to have development partners align their programs or, at least, coordinate them further with those of the AUC and RECs.
- The need for the AUC to host a Social Affairs Focal Point from the RECs or one that can address social issues along with other issues.

- Last, but not least, the need to address more vigorously the funding needs of the Social Sector, namely in relation to the perceived donors' disinterest in the financing of the AUC social programs.

## **6.12. Peace, Security and Political Affairs**

The political risk profile of Sub-Saharan Africa improved considerably over the 2000s. However, from 2009 to 2013, North Africa (Tunisia, Egypt, Libya), West Africa (Côte d'Ivoire, Republic of Guinea, Guinea Bissau, Mali), and Central Africa (Central African Republic) experienced violent politics and/or election-related political unrests or severe constitutional disruptions including three "Coups" attempts. At least two to three other countries are still facing an internal armed rebellion while volatile political environments prevail in several other countries that happen to be post-conflict countries. To make matters worse, terrorism threats, the whole Continent is facing, has materialized with two very disruptive terrorism-related attacks in West and Eastern Africa.

Furthermore, Africa is characterized by a relatively large number of frontier countries with relatively fragile political governance institutions that need to be enhanced through the consolidation of transparent democratic system, accountable public management system and the fight against inequalities and corruption. However, these need to be complemented by competent Governments that are able to deliver quality social services and development. Unfortunately, a number of African countries do not display yet these characteristics.

Overall, despite the improving growth story, Africa remains somehow exposed from a political risk standpoint on four fronts: (i) political governance and election-related unrest; (ii) youth unemployment-related unrest; (iii) cost of living and service gap-related civil disturbances (food, oil, utility and housing); and (iv) terrorism. These risks, that prevent the region from attracting the foreign direct investment and intra-Africa cross border investment needed to support its socio-economic development objectives, should be addressed proactively by the AUC.

### **6.12.1 Political Affairs**

The African Governance Architecture (AGA) is the overall political and institutional framework for the promotion of democracy, governance and human rights in Africa. The AGA seeks to achieve its objectives of achieving good governance, democracy and human rights by: (a) Formalizing, consolidating and promoting closer cooperation between AU organs/institutions and other stakeholders; (b) establishing a coordinating mechanism of regional and continental efforts for the internalization and implementation of African Governance Agenda; and (c) enhancing the capacity of AU organs/institutions in the promotion, evaluation and monitoring of governance standards and trends.

Implementing the AGA will be the key focus of the AU Department of Political Affairs (DPA) in the near term.

### **6.12.2. The Peace and Security**

The Peace and Security Department of the Commission of the African Union (AU) provides support to efforts aimed at promoting peace, security and stability on the continent. The objectives of the department include the following:

- Implementation of the Common African Defence and Security Policy (CADSP);

- Operationalization of the Continental Peace and Security Architecture (APSA) as articulated by the Protocol relating to the establishment of the AU PSC, including the Continental Early Warning System (CEWS) and the African Standby Force (ASF);
- Support to efforts to prevent, manage and resolve conflicts;
- Promotion of programs for the structural prevention of conflicts, including through the implementation of the AU Border Program (AUBP);
- Implementation of the AU's Policy Framework on Post-Conflict Reconstruction and Development (PCRD); and
- Coordination, harmonization and promotion of peace and security programs in Africa, including with the Regional Economic Communities (RECs)/Regional Mechanisms (RMs) for conflict prevention, management and resolution, the United Nations (UN) and other relevant international organizations (IOs) and partners.

The prevention of conflict and its effective treatment through the operationalization of APSA is the overriding priority of the AU going forward.

### 6.13. African Charter on Statistics and Strategy for the Harmonization of Statistics in Africa

The use of good-quality, reliable and comparable statistics is imperative for any Continent-wide monitoring and evaluation process and for policy planning.

The African Charter on Statistics, which urges providers, producers and users of statistical data to collaborate more closely and effectively in order to enhance the quality and usefulness of statistical information, was adopted by African Heads of State and Government in February 2009. To date, the Charter has been signed by 22 countries but ratified by only 6. The Strategy for the Harmonization of Statistics in Africa was adopted by Heads of State and Government in July 2010, and is under implementation by stakeholders.

From a more thematic perspective, the paucity of the African statistical system in areas such as SME statistics, industrial statistics, unemployment rate statistics and other social data is known. Parallel to the above Harmonization works and the ratification of the Charter, **it is strongly suggested that all the eight RECs be mandated/tasked to develop a comprehensive statistical data base of their SME and large business sector by sector, size and location along with an attempt to profile the informal sector.** Indeed, this will inform private sector development policies as well as provide more clarity on the capacity of the Continent in relation to the implementation of the continental programs such as CAADP, AIDA, PIDA and BIAT.

### 6.14. Capacity Building Program of the AUC, RECs and Member States

The ambitious regional integration, industrial/private sector, social sector and peace and security agenda of the AU and its partners RECs call for enhanced capacity to articulate and implement efficiently the programs and projects launched or being considered. In other words, the AUC, the RECs and member states need to master advanced and pragmatic PSD development policies, strategies and programs and their related facilitation activities (e.g. resources mobilization, project planning and

management discipline) through adequate capacity building programs.

#### **6.14.1. Advanced PSD and Integration Project Planning and Implementation Capacity**

The AUC, RECs, REC's organs/institutions, member states and key national institutions involved in the regional integration process should be capacitated namely with regard to the following:

- Institution capacity (human resources, logistics and systems) in the implementation of the priority regional integration and MIP agenda
- Functional capacity (knowledge and skills) in the implementation of the MIP and the priority regional integration agenda;
- Performance-based/advanced industry development policy, strategy and program;
- Performance-based/Advanced export development policy, strategy and program;
- Performance-based/Advanced entrepreneurship and SME development policy, strategy and program;
- Technical assistance program/project formulation, implementation, supervision, monitoring and evaluation and results management;
- Commercial investment project planning/development, structuring and negotiation in key industrial sector (OGM, infrastructures, agri-business, Education PPP, Health PPP, etc.)

#### **6.14.2. Resources Mobilization Capacity and Instruments Development**

Financial resources mobilization is a key challenge of the AUC and most RECs as it is not done in a disciplined and innovative way; leaving significant untapped opportunities. It is therefore important that the AUC and RECs be equipped with the knowledge base and tools needed for effective financial resource mobilization.

#### **6.14.3. Mainstreaming Regional Integration into the Institutional and Policy Framework of the Member Countries and Developing a Model Ministry in Charge of Regional Integration Matters**

Regional integration requires the participation of government, civil society, the private sector and development partners at all levels. But, while countries have designated ministries or departments in charge of regional integration, there is still often a lack of co-ordination between that service and other stakeholders. A number of decisions and protocols agreed at summits have not been adopted at national level because of inadequate consultations, a lack of information and other reasons. A 2012 survey by UNECA showed that some ministries were not aware of some agreed protocols which they were meant to implement. Some 43% of respondents reported that the level of consultations was weak, while the same percentage indicated that the levels were strong. Only 14% said consultations were very strong.

Many RECs and observers are concerned that the ministries in charge of integration are not necessarily the ones in charge at the AU level. This brings into question the level of awareness of the process of integration by the COMAI as their technical teams may be different from those at the RECs. This needs to be harmonized as the other problem linked to this is to what extent the ministers (either at REC or AU level) are able to jointly push for Pan African integration matters on the table of the national Plans.

Furthermore, while most countries have institutionalized a Ministry in Charge of Regional Integration Affairs, these Departments suffer from weak capacity, no to limited budget and a difficulty in showing their value-addition. Furthermore, most African countries still struggle to mainstream regional integration issues into the national planning system through specific policy and budget targets.

To manage these shortcomings, it is essential that the AUC in close coordination with RECs and member states assist in the mainstreaming of regional Integration into the institutional and policy framework of the member states. In the process, the AUC should also help develop a Model Ministry in Charge of regional integration matters (in terms of portfolio, policy target, and indicative budget target; along with his relationship with other sector ministers). These Ministries will then be in a better position to promote the regional integration agenda in their respective countries. Indeed, awareness creation on the benefits of integration, through an enhanced institutionalized mechanism, is very critical so that the member state can gain the goodwill of its citizens while making resource commitments in their budgets.

#### **6.14.4. Capacity building for Ministry of Justice and Constitutional Affairs**

The need to build the capacity of the Ministry of Justice and Constitutional Affairs to fast-track the transposition and domestication of regional commitments by Partner States has also been identified as a priority project that supports the regional integration agenda.

#### **6.15. Best Practice Sharing in the Management of the Regional Integration Process**

The different RECs have been involved in the design, operation and monitoring of many policy/strategy documents, PSD programs/projects, organs/institution, and trust funds or other development funds. The most successful of these realizations can be captured as best/good practices. The AUC, in close coordination with RECs and member states, will facilitate the setting-up of a platform and support mechanisms to inventory/capture, share and emulate these practices in order to move the regional integration process forward. Furthermore, the AUC should envisage the same best-practice sharing process with institutions outside the Continent.

Selected good/best practices worth sharing are reviewed in what follows:

**ECOWAS Passport - Free movement of people and the right of establishment:** Concerning the free movement of people and the right of establishment, the ECOWAS regional passport is one of the best examples of a common regional travel document used as a means to improve the free movement of people. The passport, bearing the ECOWAS emblem on the cover, can be used to travel internationally, and is currently used in Benin, Guinea, Liberia, the Niger, Nigeria and Senegal. As of 1 January 2013, Rwanda is issuing visas on arrival for all African nationals.

**Non-tariff barriers (NTB) reporting and monitoring mechanism:** On trade and market integration, for instance, COMESA, EAC and SADC are implementing an online non-tariff barrier reporting and monitoring mechanism designed to enable private-sector and public-sector operators to register

complaints about such barriers. To date, 329 complaints have been registered on the system, out of which about 227 (69 per cent) have been resolved. Likewise, ECOWAS has put in place national committees to deal with problems raised by NTBs and has set up complaint desks at the borders. The remaining RECs have yet to establish such systems.

**One-stop border post (OSBP):** OSBPs are used to minimize delays at cross border points on major transport corridors in the region, often caused by poor facilities, manual processes, lengthy and non-integrated procedures and poor traffic flow. Under the OSBP concept, all traffic stops once in each direction of travel, facilitating faster movement of persons and goods and allowing border control officers from the two States involved to conduct joint inspections. The concept has now been widely adopted in various RECs, including COMESA, EAC, ECCAS, ECOWAS and SADC.

**Regional Financial Systems - Payment systems: M-Pesa Branchless Banking System:** M-Pesa is a branchless banking service designed to enable users to complete basic banking transactions without the need to visit a bank. Customers can deposit and withdraw money from a network of agents that includes airtime resellers and retail outlets acting as banking agents. Currently, M-Pesa has over 10 million subscribers and carries out over 2 million daily transactions, facilitating over \$415 million per month in person-to-person transactions in Kenya alone. Using the public-private partnership model, M-Pesa is a significant best practice for regional financial systems that deliver affordable, safe and efficient financial services to cross-border traders, including those in the unbanked and rural population

**Tripartite Free Trade Area COMESA-EAC-SADC:** The “Tripartite” move involving COMESA, EAC and SADC, that commit to work towards a large 27-country and 500 million population FTA by 2014, should be strongly supported. Launched in 2008, the tripartite agreement EAC-COMESA-SADC commits the three regional integration bodies to establish a single Free Trade Area. This strong commitment supported by development partners has been welcomed by the AU Commission as it is a step further towards the realization of the Continental Free Trade Area (C-FTA). Other RECs are encouraged to pursue similar consolidation efforts to help advance the process towards a continental FTA, a continental customs union and an African common market. The Tripartite also helps solve the multiple membership of African countries to more than one RECs.

**COMESA Road Funds and Road Development Agencies:** In order to ensure proper maintenance and management of the current and growing road infrastructure assets, the COMESA countries have undertaken reforms in road sector management and funding (BP). Most of them have set up road funds and road development agencies in order to maintain both the regional and national road networks, including the Democratic Republic of the Congo, Djibouti, Ethiopia, Kenya, Malawi, Rwanda, the Sudan, Uganda, Zambia and Zimbabwe. The main source of funding for road maintenance is the fuel levy, while construction and rehabilitation are funded from government budget allocations, borrowing from development banks and funds from cooperating partners.

**ECOWAS National Road Transport and Transit Facilitation Committees:** ECOWAS has established national road transport and transit facilitation committees with membership taken from all key public and private sector actors in trade and transport facilitation in all member States to ensure the free flow of trade and transport.

**EAC's East African Legislative Assembly (EALA) and East African Court of Justice (EACJ):** The establishment of the East African Legislative Assembly (EALA) and the East African Court of Justice (EACJ) are models in Africa in terms of regional legislative oversight and jurisprudence. The



operationalization of the institutions to manage the implementation of the Customs Union and Common market has created the impetus for a robust Community.

**Other best-practices include:**

From ECOWAS:

Brown card: a regional car/accident insurance system that facilitates car driving/free movement across the region

ECOWAS conflict prevention framework

ECOWAS regional airline company (ASKY)

ECOWAS Fund for Co-Operation, Compensation and Development

ATI-ECOWAS PRI Agency Merger

From COMESA:

COMESA Adjustment Facility (CAF)

COMESA Infrastructure Fund (CIF)/ Infrastructure fund design and operations

Design and operations of the Tripartite Trust Account

Regional Multi-disciplinary Center of Excellence

From SADC:

SADC Regional Development Fund / design, governance, modus operandi of the fund

From ECCAS:

Articulation of the Regional Food Security Program

From WAEMU (UMOA) and CEMAC (CAEMU)

WAEMU's tax on import/export aimed at supporting political economy issues arising from the regional integration process

WAEMU and/or CAEMU Monetary Union

Trade Mark East Africa (TMEA)

Trade Mark East Africa (TMEA) "Model Trade Facilitation Program and NTB removal through OSBP namely" and "Model Upgrading Program in Support to National Revenue Authority and Customs".

## **6.16. Typology of the MIP and Priority Regional Integration Program/Project Activities**

### **Typology of Activities to be Supported by the AIF**

Appendix 9 provides a profile and categorization of the program/project activities of the MIP and other priority regional integration projects to be supported by the AIF. We can classify these program/project activities in the following clusters of potential intervention areas:

#### **Information & Knowledge Cluster**

- Knowledge generation and dissemination
- Statistics, database and information system
- Public relations and promotion
- Best practices capture and sharing
- Success story dissemination

### **Energy, Transport Infrastructure, ICT Infrastructure & PSD Cluster**

- Industry (infrastructure, agriculture, manufacturing, services sectors) policy, strategy, program and project analysis, formulation, implementation, and evaluation
- PSD and SMME/Entrepreneurship development policy, strategy, program and project analysis, formulation, implementation, and evaluation
- Economic/sector studies and development plans
- Institutional capacity building
- Pre-investment support

### **International Trade, Regional Trade and Market Integration Cluster**

- Trade Development, FTA, Customs Unions, Common Market
- Investment promotion, monetary union, regional financial market development
- Trade finance and access to trade finance
- Institutional capacity building of the AUC, RECs & member countries, regional organs and specialized institutions of AUC and RECs

### **Peace, Security and Political Affairs Cluster**

- Peace & security
- Political affairs and governance
- Political Union

### **Social Affairs Cluster**

- Education
- Health
- Youth and women employment

### **Cross-cutting Issues**

- Science and technology infrastructure development
- Women, gender and youth
- Environment

### **AIF Support Mechanisms**

These program and project activities will be supported by the AIF through a variety of support mechanisms including the following:

**Grant support:** Fund transfer to qualified regional bodies that meet stringent eligibility criteria for the implementation of a specific project against agreed upon deliverables and execution schedule.

**Technical assistance support:** Tradition technical assistance in areas such as: (a) reforms needs assessment and reforms implementation and evaluation; (b) policy, strategy and program formulation,

implementation and monitoring and evaluation; (c) knowledge capture and dissemination, etc.); (d) statistical database design, statistical surveys and statistical information capture and dissemination.

**Advisory services support:** Advisory services support will be targeted at two categories of activities: (a) Project pre-investment support in the form of project development, project bankability readiness support, and project investment readiness support, support for funding mobilization campaign for already finalized bankable/PPP project (investment memo preparation, roadshow support, investors' mission) ; and (b) support for resources mobilization activities for AUC, RECs, regional organs.

**Institutional support:** Institutional support will be offered only to AUC, RECs and regional organs of RECs and member states in priority regional integration areas. The support will be targeted at activities such as: (a) management, organizational and planning system design/improvement; (b) specific projects/events that advance considerably the regional integration agenda (request for support to regional organs will be validated first by the RECs before it is evaluated by the AIF); and (c) study tour and learning facilitation at best-practice institutions/projects.

**NB:** At this stage of the project/report, the AIF will not finance commercial projects. The AIF will get involved only in the pre-investment phase of commercial projects. The setting-up of a "Capitalization Fund" along with the "Project Development Fund" in a "Blending" like approach as part of the windows of the AIF fund may be considered during the stakeholders/validation workshop.

## 7.0 THE AFRICAN INTEGRATION FUND

### 7.1 Rationale for a Dedicated Funding Vehicle for the MIP and the Priority Regional Integration Programs and Projects

#### 7.1.1. Economic rationale

Despite steady growth of their international trade over the past 10 years, African countries have not made significant progress in boosting intra-African trade which stood only at around 11% of Africa's total external trade; far from the levels achieved by other geo-economic regions.

It is widely reported that the low-level of intra African trade is a missed growth and development opportunity for African countries. Several studies have indicated that, if African countries were to increase their share in global trade by only 1 per cent would represent an **additional annual income**

**of over \$200 billion** which is approximately five times more than the amount the continent receives as Official Development Assistance. A steady source of income would help underpin the transformation of African economies and enable them to compete globally, as well as enable them to deal effectively with crippling poverty

In addition, with their small economies, a number of African countries face stiff competition on international markets, do not enjoy economies of scale in scale-intensive industrial sectors, and have less bargaining power at international bodies such as the World Trade Organization and negotiating economic partnership agreements.

Furthermore, as indicated earlier, intra-African trade has the potential to reduce vulnerability to global shocks, contribute to economic diversification, enhance export competitiveness and create employment.

### 7.1.2. Financial and Risk Mitigation Rationale

The Obasanjo-led High-Level Panel on Alternative Sources of Funding of the AU (HLPASF) has revealed the unsustainability of the present AU's funding system that is both frustrating to both the AUC and its staff, does not give a good image of the Continent, and presents the dual risk of depending at 66% on the financial contribution of only five countries (South Africa, Nigeria, Algeria, Egypt and Libya), and at 95% on external development partners for the implementation of its programs; member states contribution just 5% of program budget. Furthermore, regarding the Operational Budget, even though Member States finance this wholly, the problem of arrears and untimely payment by some Member States creates problems for the Union's smooth functioning

Tables 6 and 7 below provide ample illustration of the African Union's increasing dependency on external funding.

*Table 6: Sources of Funding of the Program Budget of AU and its organs  
(in US\$ million)*

Sources	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)
Member States	13.4 (27)	14.7 (31)	11.3 (16)	11.2 (8)	10.2 (7,1)	7.6 (4.8)	5.4 (3.3%)
Partners	36.3 (73)	32.4 (69)	57.4 (84)	133.7 (92)	134.2 (92,9)	151.7 (95.2)	155.4 (96.7%)
Total	49.7 (100)	47.1 (100)	68.7 (100)	144.9 (100)	144.4 (100)	159.3 (100)	160.7 (100)

Source: HLPASF Report (2013) quoting successive AU annual Budgets

*Table 7: Sources of funding of the overall Budget (Programs + Operations) of AU and its organs*

*(in US\$ million)*

Sources	2007 (%)	2008 (%)	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)
Member States	87.8 (71)	107.6 (77)	106.9 (65)	116.8 (47)	122.6 (48)	122.4 (45)	122.9 (44)
Partners	36.3 (29)	32.4 (23)	57.4 (35)	133.7 (53)	134.2 (52)	151.7 (55)	155.4 (56)
Total	124.1 (100)	140 (100)	164.3 (100)	250.5 (100)	256.8 (100)	274.1 (100)	278.2 (100)

Source: HLPASF Report (2013) quoting successive AU annual Budgets

### 7.1.3. Slow Progress in the Implementation of the Abuja Treaty

A summit of AU leaders in January 2012 endorsed a new action plan to boost trade between the continent's countries on the basis, among others, of the closer links being built between COMESA, EAC and SADC. The summit noted the slow progress of implementing the Abuja Treaty and set a target of 2017 to establish a Continental Free Trade Area (C-FTA) to bring together Africa's small and fragmented economies into a single market. The global economic crisis has increased pressure on Africa to speed up its integration and be ready for new challenges and the proposed C-FTA would significantly boost this effort.

However, the progress towards the realization of the objectives of the Abuja Treaty remains slow given the prevailing regional development challenges and the pressures exerted by the international environment on African countries.

Hence, speeding-up the regional integration process, through a dedicated financing vehicles (i.e. the AIF) among others, is of vital importance to the future of many African countries and to the Continent as a whole.

### 7.1.4. Benefits of the AIF

In addition to the above rationale, the setting-up of the AIF will yield the following benefits to the regional integration cause:

**Enhanced regional integration pace:** The primary benefit of the AIF lies in the fact it supports the implementation of the MIP and the priority regional integration programs and projects which move forward the implementation of the Abuja Treaty, hence the C-FTA agenda that leads to the AEC (African Economic Community).

**Facilitation of other resources mobilization activities:** The AIF and its impact on the regional integration process make other resources mobilization initiatives that support the regional integration process more attractive. Indeed, success on alternative resources mobilization (member states contribution, commercial/structured/PPP finance) depends largely on evidence of progress on the regional integration agenda and the MIP in particular).

**Fast-tracked regional integration process:** The alternative resources mobilization vehicles being planned (additional levies on member states revenues, AIDF & ACGM of the NPCA, Africa50 Fund of the AfDB) will take (36 – 60 months) time to materialize due to the strong political implications and/or the technical, legal and financial complexity of the vehicles being considered. The AIF, which involves a relatively smaller scale, could be implemented in a time frame of 18 to 24 months with adequate leadership, hard-working and sufficient development resources.

**Bridge financing:** The AIF will serve as a bridge financing for activities, projects and programs for which the financial resources mobilization is delayed or takes time to materialize.

**Synergetic and complementary financing:** In all circumstances, the AIF will be complementary to all other available funds or resources mobilization processes (e.g. existing Thematic Funds, NEPAD IPPF, RECs Funds, etc.) with which it will seek synergy.

**Support to other resources mobilization efforts:** The AIF will support the resources mobilization effort of RECs, the AUC itself. In particular, it will assist in Thematic Fund structuring and mobilization and support, where relevant, capacity building and project development-related funding mobilization efforts of the NPCA.

## 7.2 Alternative Funding Options for the MIP

Alternative funding options for the MIP include the following:

- Official development assistance (ODA): (a) grant fund or (b) technical assistance fund
- Thematic trust funds
- Multi-donor trust fund (MDTF): (a) One umbrella fund with various fund pillars or (b) one of a number of existing regional and continental-type of funds

## 7.3 Multi-donor Trust Fund (MDTF) as the Preferred Funding Model for the MIP

Among the ODA solutions and the many variants of trust funds available (single-donor trust fund, multi-donors trust fund, thematic trust fund, and umbrella trust fund), the multi-donor trust fund (MDTF) which will be a multi-donor, multi-recipient umbrella facility to mobilize and deploy trust fund resources, appears to be the most suitable on the ground of its many benefits for the AUC and the RECs listed below:

### **Benefits of the MDTF<sup>6</sup>**

**Reform:** Articulations of coordinated donor strategies and action plans will have a positive effect on the capacity of the AUC, RECs and member states to undertake the reforms envisaged.

**Coordination:** It facilitate donor coordination and harmonization.

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<sup>6</sup> Based on Helpdesk Research Report: Trust Funds in Fragile and Low Capacity States. By GSD –RC (Governance & Social Development Resources Center at: <http://www.gsdr.org/docs/open/HD740.pdf>

Ownership: It will help boost AUC and RECs ownership of their programs and projects. It allows the AUC and RECs to fund their priority needs (versus situations where donors fund their own projects).

Mobilizing resources: It encourages a range of multilateral donors, bilateral donors and private sector actors to commit resource.

Transaction costs: It has the potential to cut transaction costs and administrative burdens

Simplifying procedures: It provides straightforward disbursement and recording procedures.

Accountability and information: It may create separate institutions for supervising and auditing assistance, boosting accountability and improving access to information.

Tackling cherry-picking: It will help to ensure that donors do not cherry-pick their favorite projects and ensure that unfashionable yet critical projects of the regional integration process are funded.

Absorbing political risks: It helps to absorb political risks for bilateral donors of working with a recipient organization or government directly.

Policy dialogue: It provides a platform for policy dialogue amongst donors and between donors and the AUCs and the RECs.

### **Potential Limits of the Trust Fund**

While a large number of donor studies highlight the potential benefits associated with trust funds, most empirical case studies find that trust funds have generated disappointing results especially failure to translate theoretical advantages into practical success. This failure to translate theoretical advantages into practical success is caused by a number of factors, which include poor design, a lack of flexibility on behalf of donors and fund administrators, poor contextual understanding, a failure to generate proper ownership, and donors' failure to commit funds to trust funds or to prioritize harmonization over strategic issues.

## **8.0 STRUCTURE, MANAGEMENT AND OPERATIONS OF THE FUND**

### **8.1. Critical Design and Structuring Elements for the AIF**

**Funding adequacy**: Effective trust funds require a sufficient share of external aid flowing via the trust fund. This remains valid for the AIF.

**Trust Fund Coverage**: The AIF will be a focused MDTF and will not be too broad in its coverage – It will not try to cover every area and will not fund very large investment projects. The AIF will make sharp separation between the investment function of the trust fund (which will be restricted only to pre-investment support; be confirmed by the stakeholders), on the one hand, and the grant and technical assistance function on the other. Furthermore, the AIF will be established as an umbrella MDTF. This can encompass – at a maximum – the following expenditures: start-up costs for the fund including investment; overheads; investments that support the regional integration process namely in PSD (except large flagship projects); technical assistance project; institutional support projects for regional organizations namely and grant funding in support of critical regional integration agenda.

**Recipient ownership and donors comfort:** A unified, realistic and comprehensive MIP budget can help to build: an agreed program and ownership by AUC, RECs and member states; donors' commitment; and transparency.

In addition, efforts should be made early on to establish a consensus about donors' respective roles and responsibilities. Furthermore, the AIF will provide incentives to donors through a trade-off between developing a coherent program and providing donors with leeway to meet their own priorities and objectives. Indeed, too little consideration of the latter may lead to underfunding.

**Quality of the administrator:** Effective trust funds require an administrator with experienced and locally resident staff with the authority to adapt procedures to local conditions. In the case of the AIF, this will imply recruiting staff that have a thematic and regional understanding of the integration progress at both continental and sub-regional levels.

**Funds need to be flexible and responsive:** The best Trust Funds are those that adopt a flexible approach to working with government, even where capacity is initially very weak. This usually requires a dedicated administrator, with the authority to change plans in accordance with shifting ground conditions. The steering committee should meet regularly to authorize such adaptation. Furthermore, trust funds design should be tailored to local conditions rather than simply following a generic international mode.

**Efficiency, absorption capacity and results management:** Early planning is critical to ensure the trust fund becomes operational quickly. In the process, rapid-onset, intensive capacity building should be a priority to make sure that the staff of the fund are well equipped to deliver on their mandate. Likewise, risk analysis should be prioritized and mitigation plan put in place. In the special case of the AIF, the Fund managers need to have a better understanding of African regional integration process, progresses and challenges, related technical assistance project profile and requirements, human resources capacity, local context and costs involved. Comprehensive brainstorming, inception meetings and on-boarding activities with the AUC, the RECs and key regional integration pillars task managers will be critical in the process. Furthermore, trust fund administrators should not introduce overly complex management systems which might overburden AUC, RECs and member states capacity.

There is a need to focus on objectives and meaningful results rather than instruments and approaches, namely for: 1/ The realization of regional integration milestones (Customs Union, FTA, Common Market, C-FTA); and 2/ The achievement of meaningful results in the areas of Intra-Africa trade promotion, agriculture development, industry development and SME development. This will require timely and realistic planning based on a proper needs assessment and well program and project engineering to realize the desired results.

## 8.2. Structuring the African Integration Fund

### 8.2.1. Type of Fund

The African Integration Fund (AIF) will be a '**Multi Donor Trust Fund**' (MDTF) designed to receive contributions from more than one donor, private sector organizations, member states and the African Union Commission; that is held in trust by an appointed administrative agent. Secondly, the fund will be structured as a **multi-donor, multi-recipient umbrella facility** to mobilize and deploy trust fund resources. Thirdly, the AIF will be a **pooled fund** in that it will involve all donors, private sector organization and other donors who jointly agree to finance the MIP on the basis of commonly agreed objectives and reporting formats. The program



would be managed by one of the donors or a third party. There would be **no earmarking of funds from individual donors**.

To maximize the feasibility of the AIF in a Trust Fund format, the following will be taken into account: (a) accessible information on disbursements; (b) a transparent selection process of projects; (c) visibility of individual donors ensured; (d) adequate consultations to agree on sectors and types of projects to be supported and program priorities to ensure proper ownership; (e) sound steering capacity during implementation with the involvement of regional and national stakeholders.

### 8.2.2. Mission, Goals and Financing Modalities of the Fund

**Mission:** The mission of the fund is to help fast-track the regional integration process through, among others, the implementation of the Minimum Integration Program (MIP) of the African Union Commission. In the process, the AIF will complement existing multilateral and regional financial vehicles that support the regional integration process.

**Goals and objectives:** The goals and objectives pursued, through the operationalization of the AIF, are to achieve each of the six stages of the Abuja Treaty within the fixed time frame while also stemming the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect.

**Financing modalities:** Based on the nature of the MIP and other priority regional integration programs and projects, the financing modalities to be used by the AIF will include grants, technical assistance and loans/investments in certain circumstances

### 8.3. Size of the Fund

The below [table](#) illustrates the size, cost structure and project structure of the fund.

The total funding requirement for a 4-year program stands at: **US \$ 350 million**  
Broken-down as follows:

MIP and other Priority Regional Integration Projects:	US\$ 320 000 000
Enabling Capacity Building Projects:	US\$ 21 000 000
Best-practice/knowledge capture and dissemination:	US \$ 2 000 000
Success story dissemination:	US \$ 2 000 000
AIF Set-up & Operating Cost:	US \$ 5 000 000

*Table 8: Sizing the Fund: Project Cost, Management & Overhead Cost, Investment*

<b>MIP, Priority Regional Integration Programs/Projects and MIP Facilitation Programs/ Projects to be Supported by the African Integration Fund</b>	<b>Beneficiaries</b>	<b>Estimates (4-year, US \$)</b>
<b>I. Core MIP Programs</b>		
1. Free movement persons and Right of Establishment	RECs, MS	8 000 000
2. Trade (Tariff barriers, Non-Tariff Barriers, Rules of Origin, FTA, Customs Union, Common Market, C-FTA)	RECs, AUC/BIAT, C-FTA, MS	225 000 000
3. Macro-economic Convergence, Investment, Monetary Union	RECs, AUC, MS	8 000 000
4. Private Sector Development	RECs ; EUC, MS, PS	8 000 000
5. Industry	RECs, AUC, NPCA/AIDA, MS, PS	6 000 000
6. Infrastructure & Energy	RECs, AUC, NPCA/PIDA, MS, PS	6 000 000
7. Agriculture & Rural Development	RECs, AUC, NPCA/CAADP,MS, PS, NGOs	6 000 000
8. Science and Technology	AUC, RECs, MS, PS	2 000 000
9. Social affairs	RECs, AUC, NGOs	20 000 000
10. Political Affairs, Peace & Security	RECs, AUC, MS, CSO	8 000 000
11. Statistics (Harmonization Project + Continental SMME Sector Survey/Statistics)	RECs, AUC, MS	11 000 000
13. Gender, Youth & Women	RECs, AUC, MS, NGOs	4 000 000
14. Support to regional programs: formulation, resource mobilization, installation, project development	RECs, AUC, NPCA, MS	5 000 000
<b>II. Enabling Capacity Building Programs in Support of the MIP and the Regional Integration Process</b>		
<u>1. Advanced PSD and Integration Project Planning and Implementation Capacity</u>		
Institution capacity in the implementation of the MIP and the regional integration agenda	RECs, AUC, MS	7 000 000
Functional capacity (knowledge and skills) in the implementation of the MIP and the regional integration agenda	RECs, AUC, MS	1 000 000
Performance-based/advanced industry development policy, strategy and program	RECs, AUC, MS	4 000 000
Performance-based/Advanced export development policy, strategy and program	RECs, AUC, MS	2 000 000
Performance-based/Advanced entrepreneurship and SME development policy, strategy and program	RECs, AUC, MS	4 000 000
Technical assistance program/project formulation, implementation, supervision, M&E and results management	RECs, AUC, MS	1 000 000
Commercial project planning/structuring (OGM, infrastructures, agri-business, Education PPP, Health PPP, etc.)	RECs, AUC, MS	2 000 000
<u>2. Resources Mobilization Capacity and Instruments Development</u>	RECs, AUC	2 000 000
<u>3. Mainstreaming Regional Integration and Developing a Model Ministry in Charge of Regional Integration Matters</u>	RECs, AUC, MS	1 000 000
<u>4. Developing the capacity of the Ministries of Justice/Institutional Affairs in Transposition/Domestication of Regional Laws</u>		
<b>III. Best Practice Sharing in the Management of the Regional Integration Process</b>	RECs, AUC	2 000 000
<b>IV. Success Story Dissemination</b>	RECs, AUC	2 000 000
<b>V. AIF Set-up &amp; Running Cost – Overhead, Investment, Operating Expenses + Secretariat Cost – 4-year</b>	-	5 000 000
<b>Total</b>		<b>350 000 000</b>

## Overhead and Operating Costs

**Personnel requirements:** The AIF's personnel requirements in terms of numbers and skill levels along with their estimated costs are indicated in the table below:

*Table 9: Overhead Costs per Year\**

Human resource requirements (incl. Secretariat-related Cost)	Unit	Unit Cost (US\$)	Total Cost (US \$)
Director	1	150 000	200 000
Manager – Res. Mobilization, Donors, AUC & Stakeholders' Relationship	1	120 000	120 000
Manager - Trade, Customs, FTA, Common Market, Monetary Integration	1	120 000	120 000
Manager – Industry & Private Sector Development	1	110 000	120 000
Manager – Agriculture & Rural Development	1	110 000	110 000
Manager – Peace, Security, Political Affairs	1	110 000	110 000
Manager – Monitoring & Evaluation, Statistics, Reporting	1	110 000	110 000
Manager - Administration and Finance	1	110 000	110 000
Officer – Monitoring & Evaluation, Statistics and Reporting	2	110 000	220 000
Officer - Audit & risk management officer	2	100 000	200 000
Officer - Finance & accounting officer	3	60 000	180 000
Officer - Administration officer	3	60 000	180 000
Officer - Human resources officer	2	60 000	120 000
Officer – IT	1	60 000	60 000
Executive assistant	1	50 000	50 000
Administrative assistants	7	20 000	140 000
Drivers	4	15 000	60 000
<b>Total</b>	<b>33</b>	<b>-</b>	<b>2 200 000</b>

(\*): Includes housing allowances for senior staff.

It is anticipated that 50% of the staff will be recruited the first year, 25% the second year and 25% the third year.

**Operating expenses:** The Agency's operating expenses (including those of the Secretarial Services) are indicated in the table below :

*Table 10: Operating Expenses*

	Year 1	Year 2	Year 3	Year 4
Promotional & public relations expenses	150 000	100 000	100 000	100 000
Recruitment expenses	100 000	50 000	10 000	10 000
Travel and related expenses	150 000	100 000	100 000	100 000
Office supplies related expenses	20 000	25 000	30 000	30 000
Energy, water, telecom, internet expenses	100 000	110 000	120 000	120 000
Transport expenses (oil and auto repair/maintenance)	20 000	25 000	35 000	35 000
Office maintenance and cleaning expenses	50 000	50 000	50 000	50 000
Security expenses	20 000	20 000	20 000	20 000
Consulting and technical assistance expenses	500 000	500 000	500 000	500 000
Reporting and printing	75 000	75 000	75 000	75 000
Office rental expenses	120 000	120 000	120 000	120 000
Miscellaneous	50 000	50 000	50 000	50 000
<b>Total</b>	<b>2 335 000</b>	<b>1 125 000</b>	<b>1 210 000</b>	<b>1 210 000</b>

**Investment:** The Fund capital investment requirements present as follows:.

*Table 11 : Investment Requirements*

	Unit	Unit Cost (US\$)	Total Cost (US\$)
Transport equipment 1 (4x4)	2	80 000	160 000
Transport equipment 2	2	50 000	100 000
Transport equipment 3	2	20 000	40 000
Office furniture and fixtures *	33	5 000	165 000
Computer and communication system	30	1000	30 000
Staff & partners training / capacity building	15	75 000	1 125 000
<b>Total Investment</b>	-	-	<b>1 620 000</b>

(\*) Include furniture and fixtures for various offices and reception areas, board rooms, conference room and meeting rooms

## 8.4. Operations and Management of the Fund

### 8.4.1. Hosting and Administration of the Fund

There are number of operational arrangements that need to be addressed to operationalize the funds. They are reviewed in what follows.

***The need to find a host/manager for the Fund:*** In theory, the AUC could manage the fund directly. However, there are many specialized functions and a level of experience involved in the management of the fund that only established development finance institutions can demonstrate.

***Functions in the management of the AIF:*** The host/manager's common role includes the provision of financial intermediary services, as trustee of the funds, but the host will also be engaged in other capacities as well.

Trustee function: As trustee, the host/manager will provide an agreed set of customized financial services that include, but are not limited to: receiving funds from contributors, holding funds, investing liquid assets pending cash transfer, transferring funds to recipients or other agencies for implementation, and reporting to the contributors or governing body on the funds.

Implementing agency function: The host may additionally be involved in a second capacity as an implementing agency. As implementing agency, the host will be responsible for appraisal and/or supervision of projects or programs financed by the AIF.

Administration & Secretarial function: In a third capacity the host will be responsible for providing program administration or secretariat services.

Donor function: In a fourth capacity the host could even be a donor (e.g. the AfDB contributing to the AIF)).

***Eligibility criteria for hosting the AIF:*** The fund will be hosted at one institution subject to mutual agreement as well as that potential host institution meeting relevant eligibility criteria in the form of

passing the test of “EU Six-pillar Assessment”. In other words, the AUC should obtain evidence of the existence and proper operation within the host, of the following the '6-pillar assessment'<sup>7</sup>:

- Transparent **procurement and grant procedures**, which are non-discriminatory and exclude any conflict of interests and which are in accordance with the provisions of Titles V and VI of the Financial Regulation and of the rules applicable to the EDF;
- An effective and efficient **internal control system for management of operations**, which includes effective segregation of the duties of authorizing officer and accounting officer or the equivalent functions;
- An **accounting system** that enables the correct use of EU funds/EDF resources to be verified and the use of funds to be reflected in the EU/EDF accounts;
- An **independent external audit**;
- **Public access to information** of the level provided for in EU regulations; and
- **Annual ex-post publication of beneficiaries of funds** deriving from the Budget/EDF, having due regard to the requirements of confidentiality and security.

**Credibility and donors comfort:** Even if the potential host institution meets the six-pillar assessment criteria, for a MDTF, the host should have the credibility and provide the comfort to potential multilateral donors (WBG, AfDB, UN System) and bilateral ones (USAID, DfID, AFD, GIZ, etc.) and potential private sponsors that their fund will be properly managed and accounted for.

**Potential host institutions:** Based on the above, institutions that could be potential hosts of the AIF include the following:

Regional institutions

African Development Bank

Development Bank of South Africa

Regional Development Banks (EBID, CADB, EADB, PTA Bank)

African Investment Bank (that is being planned)

Established private sector bodies that meet the eligibility requirements.

Non-regional institutions:

World Bank Group

Un system

Based on the above, it should be stressed that there will be an added advantage, from a credibility and risk management point of view, to have the fund hosted by institutions such as the African Development Bank, the World Bank Group or the UN System that, not only have established experience in managing trust funds; but also provide comfort to other bilateral and multilateral donors in the following areas of accountability, professional management and risk management requirements for trust funds:

- Greater alignment of the host with their own lending and technical assistance policies
- Multiyear budget framework that reflects all sources and uses of financial resources (including

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<sup>7</sup> The EU six-pillar assessment is conducted to determine the eligibility of a given recipient to receive and manage EU grant and other technical assistance fund.

external resources) and the associated deliverables and results.

- Improved data analysis
- Improved risk management, and
- Increased cost recovery.
- Donor funding and foreign exchange risk management continue to be strengthened and
- Operational risks that can be addressed through the mainstreaming of trust fund risk assessments with the host business processes
- Fiduciary risk management: Private agents could be hired to verify payments and transactions to minimize fiduciary risk.

Furthermore, an institution such as the WBG has also pushed for its Board engagement and oversight of the group trust fund portfolio which has substantially increased. It now entails annual reporting through Technical Briefs (with a full-fledged update every two years) and regular reporting in the context of Quarterly Business Reviews and Medium-Term Strategic Framework reports.

#### **8.4.2. Capital preservation and liquidity**

To preserve capital and liquidity, the AIF will invest its cash and liquid assets portfolio in highly rated fixed and floating rate instruments issued by, or unconditionally guaranteed by, governments, government agencies and municipalities, multilateral organizations, and high quality corporate issuers; these include asset-backed securities (ABS) and mortgage-backed securities (MBS), time deposits, and other unconditional obligations of banks and financial institutions. Diversification in multiple dimensions ensures a favorable risk return profile. AIF will manage the market risk associated with these investments through a variety of hedging techniques including derivatives, principally currency and interest rate swaps and financial futures.

Investment in debt securities are typically in the form of bonds and notes issued in bearer or registered form, securitized debt obligations (e.g. asset-backed securities (ABS), mortgage-backed securities (MBS), and other collateralized debt obligations) and preferred shares, which are mandatorily redeemable by the issuer or puttable to the issuer by AIF through the host institution.

AIF 's liquid assets will be invested in four separate portfolios:

- Money market instruments and bank deposits
- Principally global government bonds, ABS, MBS, and high quality corporate bonds (generally to be swapped into 3-month US dollar LIBOR)
- US Treasuries, ABS, and other sovereign and agency issues

#### **8.4.3. Procedures for accessing the fund**

Procedures for accessing the fund by AUC, RECs, regional organs and member states will include the following:

- Calls for proposals,
- Tendering
- Direct grants
- Project funding request

#### 8.4.4. Procedure for Approval of Projects and Project Eligibility Criteria

##### Stream 1: Traditional project request for AIF funding:

Project between 30-50M USD to be approved by AIF Project Committee

Project between 50M - 100M USD to be approved by the Project Committee

Project between 100M - 200 USD to be approved by the Project Committee of AIF but through the Central Procurement Office of the host institution.

##### Stream 2: Call for proposal

Calls for proposal will be considered for identified project concept that will advance the process of regional integration in a decisive way.

The lower and upper limit per project to be implemented through calls for proposal is: 100M-250M USD.

##### Eligibility criteria

Project eligibility criteria include geographical (based on the eight RECs recognized by the AU) and sectoral criteria (i.e. according to the identified priority of the revised MIP and its facilitation activities and the leverage effect on the identified regional programs such as BIAT, PIDA, CAADP, AIDA) as well as a set of criteria relating to the development impact and sustainability of the proposed project, including:

- Project contribution to the advancement of the regional integration process
- Project contribution to increasing intra-African trade
- Project contribution to poverty reduction and/or youth and women employment creation
- Project contribution to economic development

We propose the following criteria to identify actions to be undertaken for support by AIF interventions.

<i>Table 12: Project Eligibility Criteria</i>	
<b>Criterion at the policy level</b>	<b>Promotes</b>
Is the activity within a priority area in the broad agenda for regional integration set by the AUC and RECs ?	Ownership and impact
<b>Criteria at the planning level</b>	
Does the activity not overlap with the different programs of support by AUC, RECs, international co-ordinating partners that are currently running, or are in the pipeline?	Efficiency and coordination
Does the activity not overlap with actions foreseen to be implemented by AUC and RECs under their normal program support?	Efficiency and coordination
<b>Criteria at the technical level</b>	
Is the activity carried by an AUC organ, REC organ or Member State' body with the capacity to implement or will it need substantial assistance?	Feasibility
Does the project have clearly specified objectives and, possibly, quantified ones ? Have the KPI of the project defined? Can the progress of the project be monitored adequately? Has baseline information properly defined and captured for the activity? Has the overall M&E framework defined comprehensively?	Monitoring of results
<b>Project size criterion</b>	
Does the project meet the size criterion?	Disciplined financial management
<b>Regional balance criterion</b>	
Will regional balance be preserved by approving this project?	Regional balance

#### 8.4.5. Disbursement Channels

The AIF will consider a variety of disbursement modalities such as calls for proposals, tendering, direct grants that will be chosen with flexibility according to the aims of the pool-fund, the activities envisaged and the targeted groups of actors.

Identified suitable disbursement channels include: direct disbursement to RECs (for cross border initiatives), direct disbursement to Member States (for national projects that will have an impact on regional integration), and disbursement to Member States through RECs (whereby RECs would take on the character akin to a Regional Development Agency [RDA] serving as an interlocutor between the central funding body and Member States, and responsible for disbursements monitoring and evaluation, and reporting back to the central funding body.

#### 8.4.6. Monitoring and evaluation

##### M&E Process and Framework

The Monitoring & Evaluation of funded projects (fund disbursements and execution) is a critical component of a trust fund management process. Indeed, an effective and efficient M&E system may result in improved monitoring of progress, greater transparency while laying the basis for reporting to both the general public, the beneficiaries and donors.



Poor M&E process may lead to some donors suspecting that stakeholders are taking advantage of the poor project review process, and their loss of trust in the fund. Once this happens, funding from major donors such as the EC may drop considerably.

#### Building blocks of the AIF M&E Function

The M&E function should pay particular attention to the following:

In addition to its rationale and objectives, each program, project and activity funded will be ex-ante approved against a baseline information that will capture comprehensively, objectives targeted to be articulated in “smart” terms and the definition of the key performance indicators (KPI) against which to assess/measure success.

A maximum of two KPI will be defined by program, project and activity financed

The format, process, frequency and responsibility for output, outcome and result communication, collection and reporting will be defined upfront at program or project approval stage

#### Results Management and Communication

It is critically important that the AIF, the AUC, RECs, member states and donors have an agreed upon and clear understanding of what ‘managing for results’ means. In particular, once the objectives and performance indicators necessary for managing effectively for results are defined; systems and practices should be put in place to make sure that the AIF will deliver on the anticipated results.

At the recipient-level (AUC, REC, member countries), the AIF managers should focus on ensuring that trust-fund activities achieve their results.

At the donor-level, the AIF managers should focus on managing and understanding donor expectations on results and then ensuring that results are achieved and communicated.

There is a need to balance accountability with learning. Learning is especially critical for funds that are used to finance innovative activities in areas where a rapid and flexible response is needed such as the regional integration process where results may sometimes depend on political commitments outside the control of the fund managers.

However, it is important to stress that technical assistance being fundamentally a knowledge business that is competence and experience-based, the key determinant of success is to have the right management leadership at the AIF. In other words, the top management of the AIF should be recruited based on merits and through an open and competitive process.

#### Independent evaluation

Undertaking independent monitoring & evaluation, to be engaged directly by the Governing body is seen as positive by both recipients, donors and the general public.

#### Project Completion Report, Best Practice Capture/Dissemination and Exit Strategy

The M&E function will also have the responsibility of capturing and disseminating “good and best practices”; of supervising the Project Completion Report and defining its framework; and the hand-over of M&E to key recipient (AUC or RECs) in case of exit.

## 8.5. Governance of the Trust Fund

MDTF designs should be as simple as possible. Where feasible, **single-fund MDTFs** are the simplest to manage, but may not be optimal under all conditions. If MDTF funding is for budget support only, a **two-tier governance structure** consisting of a **Council** and a **Management Committee** should be sufficient. If the MDTF is to provide project funding, a **Project Committee** or **Executive Committee** should be established to provide flexible, directive support for quick project approvals.

The Governance structure of the AIF will consist of the following organs:

### **Steering Committee**

The AIF will be a Multi-Donors Trust Fund (MDTF) overseen by a Steering Committee. The Steering Committee provides written advice to the Executive Committee. It will be composed of an equal number of representatives from donors and the African Union Commission (AUC), RECs and selected AUC organs.

### **The Executive Committee & The Project Approval Committee**

The Executive Committee of Donors is the decision-making body of the Trust Fund. It includes three categories of members: (i) the voting participants, i.e. the donors; (ii) the non-voting participants which can be, potential donors that have not yet contributed; (iii) the Manager of the Trust Fund, and the Secretariat of the Trust Fund, both of which have a non-voting status. As the governing body of the Trust Fund, the Executive Committee is responsible for all key decisions.

In the specific case of the AIF, the Executive Committee will serve as Project Committee too. The **Project Committee** approves all grant and technical assistance project requests in the light of a set of agreed eligibility criteria. The approval of grants and technical assistance project can be given at any meeting of the Executive Committee, or following an annual presentation of consolidated lists of grant and/or technical assistance requests. Approval will be granted based on a Cover Sheet drawn up for each individual projects, that contains key information and other relevant information contained in the financing proposal prepared by the recipient.

The Executive Committee can make extensive use of the internal controls and the M&E mechanisms of the AIF.

### **The Trust Fund Manager**

The Trust Fund Manager is responsible for the financial management, accounting and treasury operations of the AIF. It holds the AIF's financial records and accounts.

It is worth mentioning to the benefit of the AIF that MDTF staff have developed a number of "good practices" that address different operational problems, such as having the Operations Manual as a "living document" on the fund's website which has allowed the fund to show how it has adjusted its operational policies as decisions are taken.

Furthermore, the fact that many MDTFs do not have a clear capacity development policy has also been pinpointed as a weakness to address. Indeed, this lack of vision for capacity building may reduce effectiveness. Hence, capacity development should be a central concern the AIF, and some agreed-

upon principles should to be in place from the beginning to anticipate of the content and priority of the process.

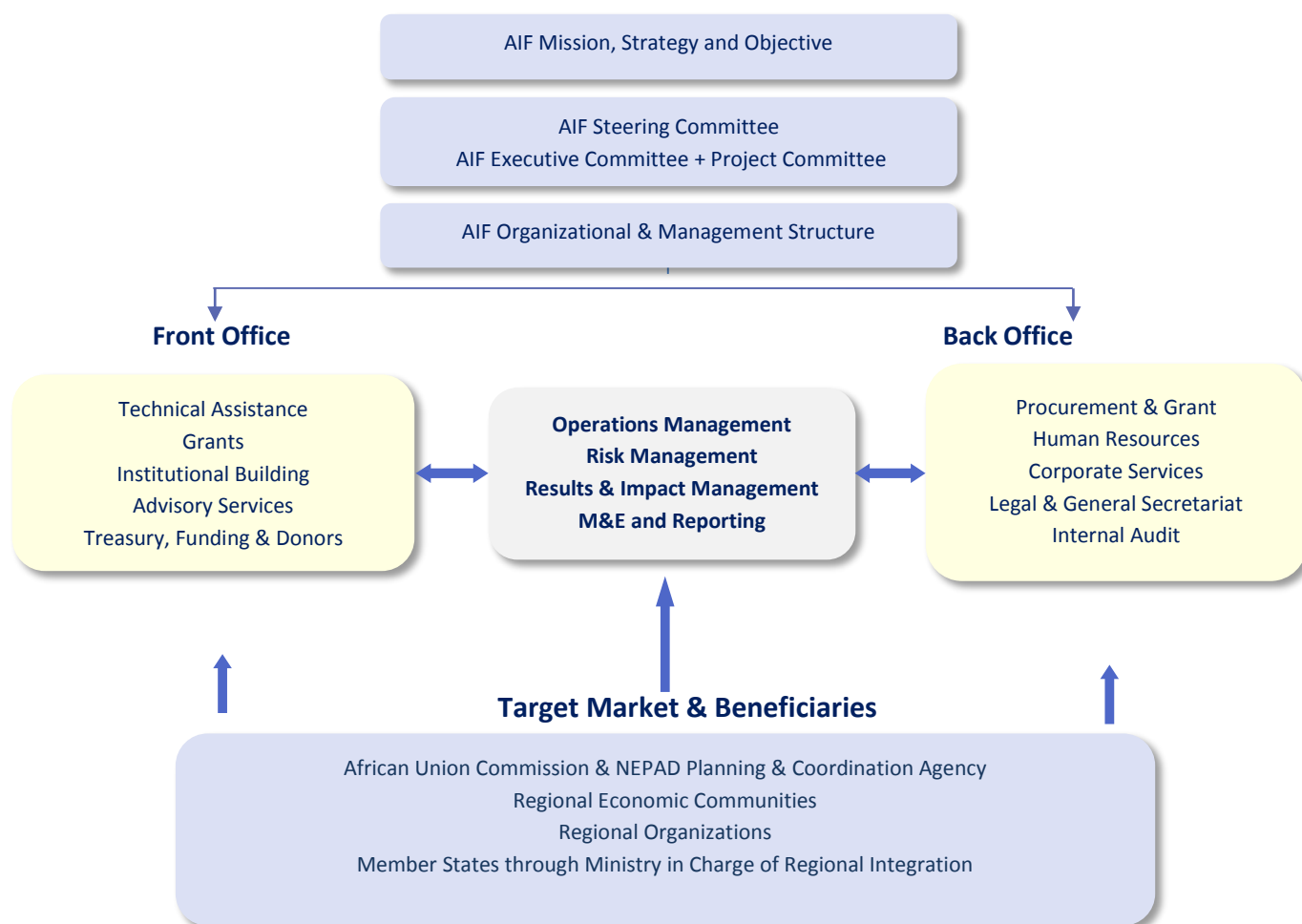
### **The Secretariat**

The Secretariat assists the Executive Committee. The Secretariat attends all Executive Committee and Project Committee meetings, as well as other meetings involving the Executive Committee. It coordinates, therefore, the overall AIF governance process and acts as a permanent contact center for stakeholders interested in the activities of the AIF.

A portion of the Administrative Fees is used by the Fund Manager to establish a Secretariat and the recruitment of adequate staff and the renting of office space equipment and running cost. The Secretariat is administered by the Fund manager.

It is also anticipated that the Board of the Host institution be engaged and oversees how the trust fund it manages perform. This host institution involvement could entail annual reporting through Technical Briefs (with a full-fledged update every two years) and regular reporting in the context of Quarterly Business Reviews and Medium-Term Strategic Framework reports. Likewise, the Executive Committee can develop the same communication channels with the Steering Committee.

*Figure 4: AIF Governance and Management Framework*



## 8.6. Relationship to Other Related Funds

The AIF will develop synergy and complementarities with other related funds established by the AUC and the RECs through relevant engagement. This will involve the articulation of the most suitable relationship between AIF and other existing and potential funds at regional levels (COMESA, EAC, SADC, ECOWAS) and continental levels (e.g. CAADP Trust Fund, Gender Fund, the Peace Facility etc.).

The AIF will also explore the potential relationship of the fund to local government structures at a national level.

It is worth mentioning that, at member state level, AIF-funded projects will be implemented via the relevant Ministry in charge of regional integration matters.

## 9.0 RESOURCE MOBILIZATION STRATEGY

### 9.1. Context of the Resource Mobilization Strategy for the AIF

#### 9.1.1. Challenges Faced by the AUC and RECs

The AUC, RECs and the NPCA face significant resources mobilization challenges to finance their expanding portfolio of regional integration programs/projects. Both depend largely on external donors' support for program/project implementation and partly for their operations cost (except ECOWAS to a certain extent). As a result, many continental and regional integration programs and projects remain unfunded.

#### 9.1.2. Resources Mobilization Initiatives in Support of Regional Integration

Financial resources mobilization has become a key focus for most stakeholders of the regional integration process (AUC/NPCA, RECs, MS, AfDB).

Most RECs have developed or are in the process of developing a resources mobilization strategy and some of them have already set-up special funds to support the regional integration process.

The AUC is exploring alternative resources mobilization strategies with the studies undertaken by the NEPAD Heads of State and Government Orientation Committee (**NHSGOC**) on “**Internal Resources Mobilization Potential**” of the AUC. This follows the already approved project of the **African Investment Bank** which is being planned. As part of the Joint Strategy EU-AUC and the incoming 11<sup>th</sup> EDF (2014 -2020), the EC (European Commission) has committed to support the Regional Integration “Pan-African Program” for Euro 1 Billion against the African MS counterparty contribution of a certain percentage that is being negotiated. The AUC is leading those negotiations.

The NPCA/UN-ECA is exploring alternative resources mobilization strategies, namely to finance PIDA via two hypothetical vehicles: **AIDF** - African Infrastructure Development Fund and **ACGM** – African Credit Guarantee Mechanism.

Furthermore, the AfDB has announced the launching of the **Africa50 Fund** which will leverage African central bank foreign reserves (5%), African pension funds through locally-issued infrastructure bonds to finance the investment needs of PIDA namely. A target of USD 50 billion is to be raised under this fund.

#### 9.1.3. Increased International Interest for the African Continent

The growth story, the improved investment climate and business environment, the immense OGM (oil, gas and mining) resources base, the growing population and consumer base and the planned continental investment programs through PIDA, CAADP, AIDA and the like, have attracted heightened interest from political authorities, corporations and investment funds from the West, BRICS, GCC countries and the 1<sup>st</sup> and 2nd generation of Asian Tigers.

Two levels of interest are being expressed towards the Continent. First, interest to get a share of the African growth and investment opportunities through EPC (engineering, procurement, construction) deals and financial investments can be noticed through FDI, bilateral investments, portfolio investment and the surge in the number of private equity firms targeting the African region. Secondly, strategic positioning and contracts to guarantee security in the sourcing of OGM and other commodities through long-term sourcing arrangement with African firms and governments have never been as high.

The outlook on Africa is optimistic and its narrative is changing from a developing continent in need of aid to one offering opportunity for growth and prosperity. Many African countries are seeking emerging-economy status within the next two decades, which will be achievable through sustained near double-digit growth. These high aspirations call for new governance models to capitalize on opportunities and address challenges. Africa is working to identify quality-growth models that can increase competitiveness and employment, while reducing poverty. The regional integration agenda is one of the platform to realize such aspirations.

Hence from a partnership and resource mobilization standpoint (both commercial and concessional), there has never been such an opportune moment for the Continent to capitalize on these developments. In this regard, no institution is better placed than the AUC and its partner institutions such as RECs to leverage these opportunities by diplomatic, political and commercial means; and secure funding that will help fast-track the regional integration process and implement strategic development projects.

## **9.2. Resources Mobilization Principles and Tools**

### **9.2.1. The AIF as a Catalyst, Synergy Partner and Bridge Financing Vehicle**

The AIF and its resource mobilization strategy will be articulated, positioned and implemented by taking into account AUC, RECs, NPCA and AfDB resources mobilization initiatives. The AIF will also take cognisance of AUC and RECs' existing funds. Furthermore, the AIF will attempt to articulate clear synergistic links and complementarities with these existing and planned financial vehicles while coordinating activities with some resources mobilization initiative such as those suggested by the High-Level Panel on Alternative Sources of Funding of the AU.

### **9.2.2. Compliance with Donors' Standards and Norms**

International donors generally subscribe to strict bidding rules, financial management and reporting requirements to which local partners find it difficult to comply. Some donors are developing simplified procedures for local groups to bid on projects and secure funds while also working to improve local capacity in proposal writing, project monitoring, evaluation and reporting, and financial management. The AIF and its partner implementation partners will draw from the experience/requirements from/of leading donors and implementers on how to build this capability, attract more funding and manage the acquired funds efficiently.

Furthermore, international donors are steadily moving toward a model where projects are designed, planned and implemented by local governments, local partners and local professionals, but these donors will expect local entities to perform to a global standard. A process of adaptation will play out on both sides of the equation: International groups will increasingly leverage local partners to improve project delivery and reach, but local organizations have an opportunity to heed global best practices and learn to apply them effectively to local contexts and conditions. From that perspective, the AIF and its implementation partners will endeavor to exchange with their international partners towards the achievement of a mutual satisfaction in their development partnership.

### 9.2.3. Resources Mobilization Channels

The resources mobilization strategy for the AIF will leverage a combination of channels; including the following:

- Diplomatic channels
- Political channels
- Development cooperation channels
- Corporate social investment channels
- Commercial finance and financial market channels

### 9.2.4. The AIF Resources Mobilization Options and Opportunities

There are potentially six sources (at least) for the AIF resource mobilization with different levels of probability for success, different prerequisites for success, different types of conditionality or eligibility criteria and different resources acquisition instruments and strategies. They include:

**Traditional donors' sources:** Traditional donors can be grouped in two tiers: **Tiers I group** involves major multilateral donors operating in Africa (AfDB, WBG, IsDB, EU) and major bilateral donors (USA, UK Aid/DfiD, Germany's GIZ/KfW, France AFD/PROPARCO, Japan JICA, Canada CIDA/IDRC). **Tiers II groups** include other European-based bilateral donors. Traditional donors' resources include: grant funds, technical assistance funds, project development funds and other blending-type of funding resources (e.g. the EU-Africa Infrastructure Trust Fund), and the development finance system of the countries involved. Traditional donors' resources mobilization could also be targeted at mobilizing resources from established global funds (i.e. in environment and green economy, health, etc.).

**Emerging donors' resources:** Emerging donors group includes **BRICS** (Brazil, Russia, India, China & South Africa) countries, **GCC** (Gulf Cooperation Council) countries and **1<sup>st</sup> and 2<sup>nd</sup> Generation of "Asia Tigers"** (Korea, Singapore, Malaysia, etc.) and their bilateral cooperation and investment vehicles. Emerging donors' resources mobilization can be done via the following instruments: (a) FDI-linked, (b) export credit/DFI-linked (c) sovereign fund and investment fund-linked, and (d) "solidarity" type concessional fund.

**Member states contribution:** Resources mobilization through increased and rationalized member states' contributions can be envisaged in the framework of the suggestion of the President

Obasanjo-led High-Level Panel on Alternative Sources of Funding of the AU. *However, this option is not considered in the short-term as many pre-requisites are still to be addressed.*

**Commercial/finance sources:** Commercial/financial market resources mobilization are done through financial institution engineering, project development and project financial engineering along with relevant support services such as project bankability and investment-readiness support.

**Private sector sources:** Private sector resources mobilization can be done via a branded corporate social responsibility/investment initiative that guarantees a high level of visibility for the private companies targeted/involved.

**Philanthropic sources:** Philanthropic resources mobilization can be done via a high-level engagement with the relevant sources facilitated through relevant networking and/or intermediation resources and a guarantee of the visibility of the relevant philanthropic organization

### 9.3. Implementing the AIF Resources Mobilization Strategy

#### 9.3.1. Traditional Donors' Resources Mobilization Strategy

Donor coordination is facilitated through negotiated strategic frameworks, which articulates a shared vision, action plan and productive division of labor; and through common needs assessments. In a multi-donor resources mobilization framework, it is suggested to have a prior high-level engagement and secure commitment with the targeted key donors individually before organizing a donors' meeting or pledge conference.

Traditional development partners can provide four types of funds:

- Grant funding
- Technical assistance fund
- Blending-type of funding that has the potential to attract and/or provide sweetener to commercial finance
- Commercial finance fund in the forms of debt fund, private equity/capitalization fund and/or risk-sharing facilities

To mobilize financial resources from development partners, the AIF will use the traditional instruments of engagement which include:

- Memoranda of understanding
- Contribution agreements
- Partnership fund vehicle
- Partnership agreements
- Thematic working groups with development partners

#### Box3: Summary CSF Donor/Concessional Fund Mobilization

- 0/ Image of Recipient (AUC and RECs)
- Knowledge and competence
  - Efficiency/bureaucracy perception
  - Good governance and corruption perception



However, for leading development partners (EU, WBG, AfDB, DfID, USAID, GIZ, AFD), carefully planned high-level preparatory meetings can maximize a chance for success for the resource mobilization strategy.

Furthermore, securing financial commitment from major donors could trigger further commitment from other multilateral/bilateral donors.

Furthermore, the resource mobilization strategy towards established donors will also explore the following:

- Tapping into global funds : Green-economy related, HIV Aid-related
- Tapping into thematic facilities: e.g. EU's "Aid-for-Trade"
- Funding Agreement with established Fund : project development fund, technical assistance fund

In the mobilization of the AIF resource, the AUC and its consultant should be mindful of the following: Donor meetings are useful, but too often, they focus on technical issues and fail to facilitate policy dialogue. Un-coordinated donor funding can be subject to disbursement delays and are unlikely to replace single donor funding. Furthermore, the MDTF should provide donors with incentives in the form of leeway to meet their own priorities and objectives without compromising the need for a coherent program. Too little consideration of the specific donors' needs may lead to underfunding.

Pledging conferences have been criticized for non-delivery or late delivery of funds and a donor-driven agenda. Pooled funds, as it is envisaged for AIF, can correct for these shortcomings and foster greater coordination.

### 9.3.2. Emerging Donors Resources Mobilization Strategy

Two classes of emerging donors will be targeted primarily by the AUC for the AIF (1<sup>st</sup> and 2<sup>nd</sup> Generation of Asian Tigers could be considered only on an opportunistic basis):

- BRIC countries and
- GCC countries.

The BRIC and GCC countries present three potential sources of finance for the AIF:

- **Bilateral cooperation fund** provided through their regular cooperation channels in the form of grant, technical assistance fund or development project finance fund
- **FDI fund**: Emerging companies from these countries increasingly invest in foreign countries as part of their internationalization strategy. Furthermore, the involvement of these firms could facilitate access to their national DFI export credit or other financing facilities
- **Sovereign wealth fund or other dedicated investment vehicles** that invest into commercially viable regional capital investment projects or regional investment vehicles in Africa.

#### Box 4: Summary CSF BRIC Resources Mobilization

##### China

Understand China investment vehicles and policy banks for Africa

- CADE – China Africa Development Fund

To mobilize financial resources from the Emerging Donors Group, the AIF will leverage the following instruments:

- Official cooperation channels
- Economic diplomacy with high-level engagement by AUC
- Structured JV partnership with companies from BRIC or GCC countries to access export credit and/or development finance from institutions in those countries
- High-level invitation to invest in AIF/AU commercial fund
- Solidarity-type vehicles can be leveraged from a political/diplomatic perspective
- For the GCC region, additionally, the potential of Islamic Finance (as a financing solution/asset class) could be leveraged through asset-based funding in sectors such as Agriculture, Industry, Infrastructure and Trade Finance.

### **9.3.3. Internal Resources Mobilization through Enhanced and Rationalized Member States Contribution**

The report of the High-Level Panel on Alternative Sources of Funding of the AU (HLPASF) led by President Obasanjo, commissioned by the NEPAD Heads of State and Government Orientation Committee (NHSGOC) on “Internal Resources Mobilization Potential” of the AU, has established the considerable resources mobilization potential of the AU via member state increased and rationalized contribution as well as private sector contribution.

Following extensive consultation and impact studies on the economies on member states, the High Level Panel invited the Assembly to adopt the two options identified, namely:

- **US\$2.00 hospitality levy** per stay in a hotel; and;
- **US\$10.00 travel levy on flight tickets** originating from Africa and going to destinations outside or coming to Africa from outside Africa.

It is anticipated that these two resources mobilization options will generate a total revenue of **762 million US Dollars per year for the African Union**.

Furthermore, the High Level Panel proposed the following:

- Allow a transition period of one year for Member States to adjust their fiscal and other legal instruments to fast-track the operationalization of these options;
- Mandate the AUC to prepare an implementation strategy to operationalize the two options and report back to the July 2014 Assembly of Heads of State and Government;
- Agree that an AU Foundation should be established to accommodate the private sector, individuals and any other donations or contributions.
- Decide that the implementation of the two identified options of funding shall enter into force for the 2015 budgetary year

For information, the total revenue generated through the initial four options identified by the High Level Panel present as follows:

Options	Amount in US Dollars
Tax in imported consumer goods (0.2%)	964 million
Tax on insurance premium (0.2%)	98 million
Tax on air tickets ( US\$ 5)	324 million
Tax on tourist arrivals (US \$ 1 per tourist)	62 million

The table suggests that the combination of the above two options (generating US \$ 762 million) plus the tax on imported consumer goods option (generating US \$ 964 million) will generate a combined revenue in **excess of US**

**Dollars 1.7 billion per year** that could amply finance the AUC yearly operations and projects; and possibly contribute to RECs' budget significantly. Incidentally, the AIF could be fully financed via such options; meaning that a significant share of the MIP and other priority regional integration programs could be financed without depending on donors' volatile funding.

***However, evidence as well as the above suggestions of the High Level Panel, so far, indicates that these options would not be operational before two to three years at the earliest.***

In conclusion, in the short term, the AIF will not explore this resource mobilization route that should be coordinated at the highest possible level of the AUC and the AU. Furthermore, once applied; to ensure member state timely contribution, enforcement mechanisms should be considered along the following; based on the gravity of the situation: non-voting right, no recruitment of citizen from the country, no recruitment of consultant from the country concerned, and no participation of citizen of the country to the different committee of the AU and the AUC.

### 9.3.4. Commercial Resources Mobilization

MIP and other regional integration programs, projects and activities that require commercial finance include:

- Energy and transport infrastructure finance
- Large industrial project finance in Agriculture, Industry & Services
- SMME finance (debt, equity, risk-sharing)
- Regional trade finance

Commercial finance resource mobilization for the AIF can be done via a number of initiatives and programs; including the following:

- Setting-up a financial institution (e.g. African Investment Bank; PRI Agency; Risk Sharing Facilities; SME Banks, MFI; etc.)
- Private equity, capitalization or debt fund design and structuring
- PPP funding capture through relevant project design and structuring
- FDI attraction
- Angel investors' network development
- Promoting capital markets

Tools that facilitate commercial finance capture include:

- Promoting the enabling environment from the point of view of: (a) a legal/judicial, regulatory and policy framework; (b) institutional infrastructure (i.e. training and technical assistance institutions, initial financial support, etc.); (c) information infrastructure (accounting standards, credit bureaus, rating agencies).
- Co-financing with donors and other investment funds
- Providing project development, project bankability and investment readiness services to relevant sponsors; including for investment fun that support the MIP and the regional integration Agenda.

#### Box 5: Summary CSF PPP Funding Mobilization for Infrastructure Projects

##### PPPFramework

Policy, regulatory, legal and institutional framework for PPP in infrastructure

Generic PPP regime

#### 9.3.5. Private Sector Resources Mobilization

MDTFs may also, in theory at least, be able to attract new investors, particularly those from the private sector.

Private sector corporations are basically motivated by the corporate social investment (CSI) benefits they could get from participating in a given sponsorship or endowment fund support program.

As a part of its overall resources mobilization campaign, the AIF will design a special CSI Compact/Program grounded on a comprehensive branding strategy towards targeted corporations in the following sectors:

- Oil & Gas Sector
- Mining Sector
- Hotel Sector
- Financial Sector
- Telecommunications Sector
- Selected MNC with substantial operations across Africa

### **9.3.6. Philanthropic Resources Mobilization**

Philanthropic financial resources mobilization will be targeted at selected global organizations/foundations, namely, in the social (health and education) sector, the social entrepreneurship sector, the entrepreneurship sector for micro-enterprises and small businesses; as well as for job creation matters.

Philanthropic resources mobilization strategy will be based on:

- Intelligence work of the foundations to be targeted;
- Networking that ensures high-level contact and engagement with the identified foundation; and
- Partnership with credible international organizations such as those of the UN System (ILO for job creation matters; WHO for health matter; etc.)

A list of the top philanthropic organizations is provided in Appendix 4.

### **NB: The Potential. Efficiency-based Management of Program and Project Funds**

Critics have been addressed at some AUC and RECs program fund being spend up to 60% to 80% on travel, hotel and per diem expenses with a mere 40% to 20% invested in the regional integration or PSD activities being supported.

It is therefore suggested, that bodies and organs involved in the administration of program funds adopt efficiency-based management of project resources through the combination of the above:

- Rethinking of program/project execution model at AUC and RECs' levels
- Adopting performance-based project activities
- Capping of travel, hotel and per diem expenses in project/program budget
- Leveraging of information and communication tools such as Visio-conference, Skype conference, Telephone conference in the execution of certain project activities.

A re-engineered project development model for the AUC and the RECs will generate additional project funds through savings while signalling (towards donors and development partners) enhanced governance commitment which can facilitate further resource mobilization.

Figure 5

**African Integration Fund  
Resources Mobilization Strategy**

**Traditional Donors  
Resources  
Mobilization**

**Emerging Donors  
Resources  
Mobilization**

**Member States  
Resources  
Mobilization**

**Commercial  
Finance  
Mobilization**

**Private Sector  
Resources  
Mobilization**

**Phylanthropic  
Resources  
Mobilization**

Resource potential	High	Medium-high	High	Medium	Low-medium	Low-medium
Activities to finance	General budget support TA program & project Project development Infrastructure project PSD project Social project Peace & security	Institutional support Program & project Project development Infrastructure project Social projects Technology transfert	<u>Coordination function</u> Operations Fora & Summits Capacity building Information campaign <u>Development function</u> Program & project	Infrastructure project Industrial project Agri-business project Service sector project Innovation Entrepreneurhip SMME	Social program Microfinance fund Environmental progr. SMME Technology transfert Innovation	Social program Social entrepreneurship Microfinance fund Entrepreneurship SMME
Success factors	Donor intelligence <b>Good governance</b> Technical capacity Efficiency Track record <b>Alignment with donor</b> Coordination with RECs	Donor intelligence <b>High-level engagement</b> JV partner Project development <b>Bankability of projects</b> <b>Credible local sponsors</b> Coordination with RECs	<b>Political commitment</b> Sanction/incentive Collection system Fin. syst innovation Cap. Mark. Developmt Coordinat. with RECs	<b>Financial intelligence</b> <b>Good PPP regime</b> Good investment climate Project development <b>Bankability of projects</b> <b>Credible sponsors</b> <b>Risk backing/sharing</b> Coordination with RECs	<b>Branded CSI initiative</b> <b>Visibility of PS firm</b>  <b>High-level engagement</b> Implementat. Partners Coordinat. with RECs	Org.I intelligence <b>Visibility of org.</b> <b>Networking</b> <b>High-level engagement</b>
Instruments	Quality proposal MD Trust fund Thematic trust fund Program fund Project fund Partnership agreemt. Contribution agreemt. DFI partnership	Bankable project Credible sponsor Risk backing/sharing Joint venture project Structured funding Export credit Development diplomacy Political leveraging Non-formal channel	African Union Charter Contribution level Tax/revenue collection Capital flight initiative Debt conversion Regional savings Reserves & pensions Diaspora resources FI partnership Central bank partners	FDI/FPI promotion Project development fund Capitalization fund Guarantee fund Fund of funds Blending solutions Structured finance Bankable project DFI partnership FI creation & Cap Mrkt.	CSI compact Sector targeting	Quality proposal Fund of funds UN system partnership
Inst. Upgrading	Skills Upgrading	Staff Performance Contract	Audit & Control	Productivity & Accountability	Result-orientation	



## 10.0 ROLLOUT AND IMPLEMENTATION PLAN

### 10.1 Approach to the Operationalization of the Fund

The rollout of the AIF project is based on the following assumption from a resources mobilization point of view:

Phase 1: Partners-based resources mobilization strategy: 2014 -2017

Phase 2: Domestic resources mobilization based on enhanced member states contribution

The roll-out and implementation plan of the AIF, which will be continental, involves the following steps:

- Adoption of the AIF project by the relevant AU bodies
- Mobilization of the AIF planning and resources mobilization team and the definition of the implementation work plan
- Mobilization the funding required to undertake agreed-upon resources mobilization activities
- High-level engagement with the selected host of the AIF and discussions and agreement on the fund's mission, objectives and operations.
- Execution of the resources mobilization strategy and actual mobilization of the resources
- Formation of the governance bodies of the AIF and appointment of their team
- Logistical resources mobilization
- Recruitment of the manager/director of the fund and the key operational and support staff
- Appointment of the external auditor for the fund
- Coordination workshop involving key stakeholders
- Business development field-missions of the AIF operations team at the AUC, the RECs and selected member states
- Launching ceremony for the AIF
- Start of operations of the AIF

## 10.2 Rollout and Implementation Timetable

Figure 6: Project Rollout and Implementation Schedule

Activities	Year 1 (2014)				Year 2 (2015)			
	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
Adoption of the AIF project by AUC instances								
Mobilization of implementation Resources								
AUC-host institution discussion/agreement								
Execution of resources mobilization strategy								
Governance body creation & members appt.								
Logistic resources mobilization								
Recruitment of Fund Director & Team								
Appointment of external auditor								
Stakeholders' coordination workshop								
AUC, REC and MS business dev. field missions								
Launching ceremony								
Start of operations								

The roll-out and implementation plan could be concluded in a time horizon of 18 – 24 months with serious commitment from the AUC leadership and the early availing of the resources needed to conduct the resource mobilization campaign. An early engagement with key strategic partners (host institution, anchor donors) is also key.

The execution of the roll-out and implementation plan of the AIF will require a budget/funding level of US \$ 100 000 (largely for resources mobilisation activities) allocated as follows:

Proposals and Trust Fund Request Preparation:	US \$ 5 000
BRIC missions for two :	US\$ 10 000
GCC missions for two:	US\$ 10 000
Missions at major donors for two:	US\$ 10 000
Missions at philanthropic organizations for two:	US\$ 7 000
Promotion/communication for private sector sponsorship:	US \$ 10 000
AUC-Private sector companies' meeting:	US \$ 3 000
Donors meeting:	US\$ 5 000
Resources mobilization consultancy:	US \$ 40 000
Contingency:	US\$ 5 000
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<b>Total Resources Mobilization Expenses:</b>	<b>US\$ 100 000</b>

NB: The resources mobilization expenses can be mobilized internally or from a partner donor.

## 11.0 CRITICAL SUCCESS FACTORS AND RISKS

### 11.1. Critical Success Factors

The critical success factors for the AIF to achieve its objectives include the following:

**Funding adequacy:** Successful resource mobilization is a prerequisite for a successful fund.

**Credibility of host:** The credibility and competence of the host is a prerequisite for successful donors' buy-in into the project and their financial commitment.

**Ownership and priority definition:** Ownership of the project by the intended recipients and the definition of priority projects and their objectives are a prerequisite for success.

**Capacity of the operational team and competence of the recipient:** Financial management capacity, risk management capacity and technical assistance and grant management competence are the key success factors for the AIF and its ability to achieve its objectives and goals. The project management of the recipients are critical to the success of the operations.

### 11.2. Risks and Risk Mitigation

The main risks of the AIF and their management systems are described in what follows:

**Funding risk:** To be successful, a trust fund should, at least, guarantee an adequate level of funding. Funding risk will be management start with the design of the fund that is flexible, and attractive enough to targeted donors, the quality of the host institution or fund manager, and

**Operational risk:** Operational risk is managed through the securing of a credible and competent host/fund manager and the mainstreaming of trust fund risk assessments with the host business processes. Operational risk is also managed through the recruitment of competent staff and their continuous training.

**Fiduciary risk:** fiduciary risk will be managed through a strong internal audit system, a transparent procurement and grant management process, and the occasional hiring of private agents to verify payments and transactions.

## APPENDIX 1

### SELECTED TRUST FUND RELATED GLOSSARY

#### Official Development Assistance

Official Development Assistance (ODA) is defined as those flows to developing countries on the DAC List of ODA Recipients and to multilateral development institutions

#### Grant

Funds made available to an external recipient or the Bank for implementation of development activities that carry no repayment obligation when utilized for the agreed activities. Grant amounts are included in Commitment figures and Disbursements. Grant amounts are not included in Outstanding Balances considering that grant funds disbursed are not repayable

#### Trust Fund

A financing arrangement set up with contributions from one or more donors. A Trust Fund can be country specific, regional, or global in its geographic scope; it can be free-standing, i.e., financing a set of pre-defined activities, or it can be on a programmatic basis.

A 'Trust Fund' or 'Multi Donor Trust Fund' (MDTF) is a multi-agency funding mechanism, designed to receive contributions from more than one donor (and often also the recipient government or recipient organization), that is held in trust by an appointed administrative agent. There are many different types of trust fund, operating at a sector-wide, national, regional and global level. A Trust Fund also be free-standing, i.e., financing a set of pre-defined activities, or it can be on a programmatic basis.

#### Administration Agreement

Agreement between a DFI (World Bank or AfDB) and a donor specifying a Trust Fund's purposes and scope of activities. An administration agreement also defines the nature of the Bank's relationship with the donor and spells out, among other things, the arrangements governing the use of funds, progress and financial reporting, cost recovery fee, auditing, and disclosure of information.

#### Grant Agreement

Agreement between a DFI administering a fund (World Bank or AfDB) and an external recipient of a trust fund, which governs the use of the donor's grant. The agreement spells out the respective responsibilities of the Bank and the recipient.

#### Recipient-Executed Trust Fund

A Trust Fund Grant that is provided to a third party under a grant agreement, and for which the DFI administering the fund plays an operational role – i.e., the DFI normally appraises and supervises activities financed by these funds

#### A 'Trust Fund' or 'Multi Donor Trust Fund' (MDTF)

Trust funds are one of the funding channels for development assistance/finance which typically can be of three nature for poor developing countries: ODA (e.g. traditional IDA or AfDF-type fund), financial intermediary fund and trust fund.

**Regular trust funds** represent bilateral aid channeled through non-core contributions to the multilateral system (so-called *multi-bi aid*), which roughly accounts for 11 percent of Official Development Assistance (ODA) disbursements, as noted in the IEG report. As these funds are recorded as bilateral aid, they more

likely complement rather than compete with multilateral channels. Trust funds can be of different types, operating at a sector-wide, national, regional and global level.

### **Pooled Trust Fund**

In a pool funding mechanism, two or more donors jointly finance a program or action on the basis of commonly agreed objectives and reporting formats. The program would be managed by one of the donors or a third party. There would be no earmarking of funds from individual donors.

The current financial regulation (FR) allows the European Commission to contribute to pool funds when these are managed by either a Member State Agency or an International Organization that has been assessed to meet internationally accepted standards in relation to inter alia accounting, internal control, auditing and procurement.

In order to assess the feasibility of pool funding in a particular context, the following criteria should be considered: cost-effectiveness, added value, donor agreement as well as the flexibility of EC rules.

### **Umbrella Trust Fund**

An umbrella trust fund is a trust fund scheme that exists as a single legal entity (a single fund) but has several distinct thematic funds.

### **Financial Intermediary Funds**

Trust funds that involve financial engineering or complex financial mechanisms, or where the Bank provides a specified set of administrative, financial, or operational services.

### **Trust fund typology and Classification**

Classification 1: Pooled trust fund and non-pooled fund

Classification 2 : Recipient-executed trust fund (RETF) and Bank-executed trust fund (BETF)

Classification 3: Umbrella trust fund and Thematic trust fund

Classification 4: Trust funds managed under Global and Regional Partnership Programs (GRPPs)

Classification 5: Investment trust fund and Recurrent cost trust fund

## APPENDIX 2

### DEVELOPMENT PARTNERS

#### BILATERAL COOPERATION AGENCIES – EUROPEAN & OECD

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##### TIERS 1 COUNTRIES

**European Union** - EuropeAid Development and Cooperation ; European Investment Bank (**EIB**)

**United States** - United States Agency for International Development (**USAID**) the Inter-American Foundation(**IAF**), and the Millennium Challenge Corporation (**MCC**) African Development Foundation (**ADF**), Overseas Private Investment Corporation (**OPIC**), Obama 7 Bn Africa Infrastructure Initiative.

**United Kingdom** - Department for International Development (**DFID**)

**France** - Department for International Cooperation and French Development Agency (**AfD**)

**Germany** - Federal Ministry for Economic Cooperation and Development, Kreditanstalt für Wiederaufbau (**KfW**), and Deutsche Gesellschaft für Internationale Zusammenarbeit (**GIZ**)

**Japan** - Ministry of Foreign Affairs: Official Development Assistance; Japan International Cooperation Agency (**JICA**), and Japan Bank for International Cooperation (**JBIC**)

**Canada** - Canadian International Development Agency (**CIDA**) and International Development Research Centre (**IDRC**)

##### TIERS 2 COUNTRIES

**Australia** - Australian Agency for International Development (**AusAID**)

**Belgium** - Ministry of Foreign Affairs, Foreign Trade and Development: Belgian Policy Plan for Development Cooperation, Belgian Technical Cooperation - **BTCCTB**

**Denmark** - Danish International Development Agency (**DANIDA**)

**Finland**- Department for International Development Cooperation (**FINIDA**)

**Italy** - Ministry of Foreign Affairs: Italian Development Cooperation Programme

**Luxembourg** - **Lux-Development**

**Netherlands** - Ministry of Development Cooperation (has its own minister but is a part of the Ministry of Foreign Affairs)

**Norway** - Ministry of Foreign Affairs: International Development Program and Norwegian Agency for Development Cooperation (**NORAD**)

**Spain** - Spanish Agency for International Development Cooperation (**AECID**)

**Sweden** - Swedish International Development Cooperation Agency (**Sida**)

**Switzerland** - Swiss Agency for Development and Cooperation(**SDC**), Helvetas

**Turkey** - Turkish International Cooperation and Development Agency (**TİKA**)

## **BILATERAL COOPERATION AGENCIES & POLICY FINANCIAL INSTITUTIONS – BRICS , GCC AND EMERGING ASIA**

### **BRIC**

China – Official Development Assistance ; China Africa Development Fund (**CADF**) ; Development Bank of China (**DBC**) , China Eximbank (**Eximbank**)

Brazil - Agência Brasileira de Cooperação (**ABC**); Banco Nacional de Desenvolvimento Econômico e Social (**BNDES**)

India – Official Development Cooperation ; Techno-Economic Approach for Africa-India Movement (**Team 9**); India Eximbank

### **GCC**

Saudi Arabia - Saudi Fund for Development (**SFD**)

Kuwait - Kuwait Fund for Arab Economic Development (**KF**)

Qatar – Quatar Foundation (**QF**)

UAE – Abu Dhabi Investment Authority (**ADIA**)

### **EMERGING ASIA**

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Korea - Korea International Cooperation Agency

Malaysia – Official Development Cooperation

## MULTILATERAL OR INTERNATIONAL

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African Development Bank (**AfDB**)

European Investment Bank (**EIB**)

Islamic Development Bank (**IsDB**)

United Nations Conference on Trade and Development (**UNCTAD**)

United Nations Development Programme (**UNDP**)

United Nations Industrial Development Organization (**UNIDO**)

World Bank Group (**WBG**)

World Food Programme (**WFP**)

World Health Organization (**WHO**)

World Trade Organization (**WTO**)

## NON-GOVERNMENTAL ORGANIZATIONS

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Business Council for Peace

CARE (relief agency), originally "Cooperative for American Remittances to Europe", and later "Cooperative for Assistance and Relief Everywhere"

Centre for Safety and Development

HOPE International Development Agency

International Development Enterprises

International Red Cross

Oxfam

Save the Children

World Vision International



**APPENDIX 3**  
**LIST OF SELECTED SOVEREIGN WEALTH FUNDS (as of 2011)**

Country	Abbreviation	Fund	Assets \$Billion	Inception	Origin
UAEmirates, Abu Dhabi	ADIA	Abu Dhabi Investment Authority	627	1976	Oil
China	SAFE	SAFE Investment Company	567.9**	1997	Non- commodity
Saudi Arabia	SAMA	SAMA Foreign Holdings	532.8	n/a	Oil
China	CIC	China Investment Corporation	482	2007	Non- commodity
Kuwait	KIA	Kuwait Investment Authority	296	1953	Oil
Singapore	GIC	Government of Singapore Investment Corporation	247.5	1981	Non- commodity
Singapore	TH	Temasek Holdings	157.5	1974	Non- commodity
Qatar	QIA	Qatar Investment Authority	115	2003	Oil
UAE, Abu Dhabi	MDC	Mubadala Development Company	48.2	2002	Oil

China	CADF	China-Africa Development Fund	5.0	2007	Non-commodity
Angola	FSA	Fundo Soberano de Angola	5.0	2012	Oil
Nigeria	NSIA	Nigerian Sovereign Investment Authority	1	2011	Oil

Source: <http://en.wikipedia.org/>

# APPENDIX 4

## LIST OF WEALTHIEST PHILANTHROPIC ORGANIZATIONS (2012)

Rank	Organization	Headquarters	Endowment (\$USD)
1	Stichting INGKA Foundation	Leiden, Netherlands	\$36.0 billion
2	Bill & Melinda Gates Foundation	Seattle, Washington	\$34.6 billion
3	Wellcome Trust	London, UK	\$22.1 billion
4	Howard Hughes Medical Institute	Chevy Chase, Maryland	\$16.1 billion
5	Ford Foundation	New York City, New York	\$11.0 billion
6	J. Paul Getty Trust	Los Angeles, California	\$10.5 billion
7	Mohammed bin Rashid Al Maktoum Foundation	Dubai, UAE	\$10.0 billion
8	Robert Wood Johnson Foundation	Princeton, New Jersey	\$9.0 billion
9	Li Ka Shing Foundation	Hong Kong, China	\$8.3 billion

Rank	Organization	Headquarters	Endowment (\$USD)
10	The Church Commissioners for England	London, UK	\$8.1 billion
11	William and Flora Hewlett Foundation	Menlo Park, California	\$7.4 billion
12	Kamehameha Schools	Honolulu, Hawaii	\$7.3 billion
13	Lilly Endowment	Indianapolis, Indiana	\$7.28 billion
14	W.K. Kellogg Foundation	Battle Creek, Michigan	\$7.26 billion
15	Robert Bosch Foundation	Stuttgart, Germany	\$6.9 billion
16	Garfield Weston Foundation	London, UK	\$6.5 billion
17	David and Lucile Packard Foundation	Los Altos, California	\$5.8 billion
18	John D. and Catherine T. MacArthur Foundation	Chicago, Illinois	\$5.7 billion
19	The Pew Charitable Trusts	Philadelphia, Pennsylvania	\$5.6 billion
20	Gordon and Betty Moore Foundation	Palo Alto, California	\$5.4 billion
21	Knut and Alice Wallenberg Foundation	Stockholm, Sweden	\$5.3 billion
22	Andrew W. Mellon Foundation	New York City, New York	\$5.26 billion

Rank	Organization	Headquarters	Endowment (\$USD)
23	William Penn Foundation	Philadelphia, Pennsylvania	\$4.4 billion
24	The Leona M. and Harry B. Helmsley Charitable Trust	New York City, New York	\$4.1 billion
25	Tulsa Community Foundation	Tulsa, Oklahoma	\$3.8 billion
26	The California Endowment	Los Angeles, USA	\$3.7 billion
27	Rockefeller Foundation	New York City, New York	\$3.51 billion
28	Realdania	Copenhagen, Denmark	\$3.5 billion
29	Calouste Gulbenkian Foundation	Lisbon, Portugal	\$3.5 billion
30	The Kresge Foundation	Troy, Michigan	\$3.0 billion

[http://en.wikipedia.org/wiki/List\\_of\\_wealthiest\\_charitable\\_foundations](http://en.wikipedia.org/wiki/List_of_wealthiest_charitable_foundations)

## APPENDIX 5

### INNOVATIVE RESOURCE MOBILIZATION MECHANISMS

#### Principles of innovative financing mechanisms

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Innovative financing mechanisms can be assessed regarding the following principles:

**Scaling-up:** Innovative financing mechanisms should significantly increase funding in order to bridge the financing gap necessary to achieve the MDGs.

**Additionality:** Since these mechanisms were created to fill this gap, innovative financing mechanisms cannot replace Official Development Assistance nor will they be sufficient if certain countries decide to renounce the commitments that they have made.

**Complementarity:** The role of innovative financing mechanisms is to raise new funds for existing organizations and not to add new actors and complexities to the development landscape.

**Sustainability:** In order to have a significant and sustainable impact on the MDG's, innovative financing mechanisms should have the objective and ability to finance long-term programs in coordination with other countries. Finally, innovative financing mechanisms should be designed to comply with the other principles of the 2005 [Paris Declaration on Aid Effectiveness](#) and the 2008 Accra Agenda for Action.

**The Leading Group** distinguishes six major categories of innovative financing for development according to the nature of their activities:

- **Taxes based on globalized activities:** set up & coordinated by a group of countries which jointly manage allocation of funds (air-ticket levy –UNITAID, FTT, CTT).
- **Guarantee mechanisms:** influence the way resources are allocated over time (IFFim) or create economic incentives (AMCs, GAVI).
- **Market mechanisms** (auctioning of resources with quotas & a fraction of such resources used for development: e.g. CO2 auctioning – see Germany).
- **Voluntary contributions:** from individuals, companies or consumers (Millennium Foundation, (PRODUCT)RED)
- **Debt-management mechanisms (debt swaps):** with 'debt to health' and 'debt to nature' (e.g. Debt2Healt)

•**International lottery mechanisms** : (internationally coordinated private lotteries, lotteries organized by States themselves, States contributing a fraction of tax revenue, etc.). – still in progress.

OECD distinguishes three major categories of innovative financing for development according to financial characteristics:

•**New Public Revenue Streams**: new taxes, dues, obligatory charges raised by one or more governments or supranational revenue generating authorities (UNITAID, FFT, CTT), fall under ODA as collected on national territory

•**Debt-based instrument and front-loading**: reduce the debt and debt service burden of developing countries to allow higher availability of funding (Debt2Health)

•**Public-Private Incentives, Guarantees and Insurances**: mechanisms that use public funds to create investment incentives for private sector actors (AMCs, GAVI, IFFIm); new insurance types, facilities to manage e.g. catastrophic and weather risks.

•**Voluntary mechanisms ?**: (PRODUCT)RED, Millennium Foundation/Massivegood) fall under ODA as collected on national territory

•Emission trading fall under ODA

## **APPENDIX 6**

### **WORLD BANK AND AFDB-MANAGED TRUST FUNDS THAT COVER AFRICA**

#### **I. WORLD BANK : DIRECTORY OF PROGRAMS SUPPORTED BY TRUST FUNDS, As of March 31, 2012**

##### **AFRICA**

- . African Capacity Building Foundation (ACBF)
- . Africa Catalytic Growth Fund (ACGF)
- . African Climate Change Program (AFRCC)
- . African Program for Onchocerciasis Control Phase II (APOC II)
- . Belgium Poverty Reduction Partnership Program (BPRP)
- . Booster Program for Malaria Control in Africa (BPMLRI)
- . Comprehensive Africa Agriculture Development Programme (CAADP)
- . Comprehensive Africa Agriculture Development Programme – Pillar IV Institutions (CAADP4)
- . Cooperation in International Waters in Africa (CIWA)
- . Ethiopia Productive Safety Nets Partnership (EPSNP)
- . Italian Fund for Children and Youth in Africa (ICHYOA)
- . Learning for Equality, Access, and Peace (LEAP)
- . Liberia Reconstruction Trust Fund (LRTF)
- . Nile Basin Initiative Trust Fund (NBI)
- . Norwegian Pre- and Post-Primary Education Fund (NPEF)
- . Plan Africa (PLNAFR)
- . Sierra Leone Infrastructure Development Fund (SLIN)
- . South Africa Fund for Energy, Transportation (SAFETE)
- . Sub-Saharan Africa Transportation Program (SSATP)
- . TerrAfrica Leveraging Fund (TERRAF)
- . Transitional Demobilization and Reintegration Program (TDRP)
- . Uganda Joint Budget Support Framework Multi-Donor Trust Fund (JBSF)
- . UK DFID Support to Uganda's Development Plan (UG-DP)

##### **CONCESSIONAL FINANCE AND GLOBAL PARTNERSHIPS**

- . Adaptation Fund (AF)
- . Pilot Advance Market Commitment for Vaccines against Pneumococcal Diseases (AMC)
- . Avian and Human Influenza Trust Funds Facility (AHI)
- . Bank-Netherlands Partnership Program (BNPP)
- . Debt Relief Trust Fund (DRTF)
- . GAVI Fund Affiliate (GFA)
- . Global Environment Facility (GEF)



- . Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM)
- . Guyana REDD-Plus Investment Fund (GRIF)
- . International Finance Facility for Immunization (IFFIm)
- . Japan Social Development Fund (JSDF)
- . Least Developed Countries Fund for Climate Change (LDC)
- . Nagoya Protocol Implementation Fund (NPIF)
- . Policy and Human Resources Development Fund (PHRD)
- . Special Climate Change Fund (SCCF)

#### **DEVELOPMENT ECONOMICS**

- . Global Financial Inclusion Indicators Program (GFII)
- . International Comparison Program (ICP)
- . Knowledge for Change Program II (KCPII)
- . Living Standards Measurement Study Program (LSMS-ISA)
- . Statistics for Results Facility (SRTF)
- . Transparency and Competitiveness Trust Fund Program (DEC-TC)
- . Trust Fund for Statistical Capacity Building (TFSCB)

#### **EXTERNAL AFFAIRS**

- . Communication for Climate Change Program (CCC)
- . Communication for Governance and Accountability Program (CommGAP)
- . Parliament Network on the World Bank Program (PNOWB)

#### **FINANCE AND PRIVATE SECTOR**

- . Consultative Group to Assist the Poorest (CGAP)
- . Disaster Risk Financing and Insurance (CMIN). Financial Sector Reform and Strengthening Initiative (FIRST)
- . Information for Development Program (infoDev)
- . Stolen Assets Recovery Initiative (StAR)

#### **HUMAN DEVELOPMENT NETWORK**

- . DFID/World Bank Partnership for Education Development (PFED)
- . Education for All—Fast Track Initiative (EFA-FTI)
- . EFA FTI Education Program Development Fund (FTIE)
- . Global Alliance for Vaccines and Immunizations Program (GAVI)
- . Global HIV/AIDS Partnership (GAIDS)
- . Global Partnership for Disability and Development (GPDD) .
- . Health and Economic Development Program (HEDP)
- . Health Insurance Challenge Fund (HICF)
- . Health Results Innovation Trust Fund (HRITF)
- . International Health Partnership (IHP+)
- . Job Creation and Economic Growth (JOBCRT)
- . Pharmaceutical Governance Fund (PHGF)
- . Polio Buy-Down Program (POLIO)
- . Rapid Social Response Catalyst Program (RSRC)
- . Russian Education Aid for Development (READ)
- . Russia Financial Literacy and Education Trust Fund (FLIT)
- . Scaling Up Nutrition Program (SUN)
- . Strategic Impact Evaluation Fund (SIEF)
- . Human Resources for Health Program (HRH)

#### **OPERATIONAL POLICY AND COUNTRY SERVICES**

- . Fragility and Conflict Partnership: UN-WB (FCP)
- . Korea Trust Fund for Economic and Peace-building Transitions (KST)
- . Multi-Donor Nordic Trust Fund (NTF)
- . Partnerships and Knowledge Work in Fragile States (PKNOW)
- . State and Peace Building Fund (SPF)

#### **POVERTY REDUCTION AND ECONOMIC MANAGEMENT**

- . Debt Management Facility for Low-Income Countries (DMF)
- . Debt Reduction Facility (DRF)
- . Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (EIF) Trust Fund
- . Gender Trust Funds (GENTF) 128. Governance Partnership Facility (GPF)
- . Multi-Donor Trust Fund for Trade and Development (TRTA)
- . Public Expenditure Financial Accountability (PEFA)
- . Stolen Asset Recovery Initiative (StAR)
- . Trade Facilitation Facility (TFF)

#### **SUSTAINABLE DEVELOPMENT NETWORK**

- . Agriculture Finance Support Facility (ARFF)
- . Carbon Partnership Facility (CPF) and Carbon Asset Development Fund (CADF)
- . Cities Alliance Program (CITIES)
- . Clean Technology Fund (CTF)
- . Commodity Risk Program (CRISK)
- . Communities and Small-Scale Mining Initiative (CASM)
- . A Global Research Partnership for a Food Secure Future (CGIAR)
- . Carbon Funds (CF) – First Generation 160. Critical Ecosystem Partnership Fund (CEPF)
- . Energy Sector Management Assistance Program (ESMAP)
- . Extractive Industries Technical Advisory Facility (ETAF)
- . Extractive Industries Transparency Initiative (EITI)
- . Forest Carbon Partnership Facility (FCPF)
- . Global Food Crisis Response Program (GFCRP)
- . Global Agriculture and Food Security Program (GAFSP)
- . Global Environment Facility Implementing Agency (GEFIA)
- . Global Facility for Disaster Reduction and Recovery (GFDRR)
- . Global Gas Flaring Reduction Partnership (GGFR)
- . Global Partnership on Output-Based Aid (GPOBA) .
- . Global Program on Fisheries (PROFISH)
- . Global Road Safety Facility (GRSF)
- . Norwegian Trust Fund for Private Sector (NTF-PSI)
- . Ozone Trust Fund (OTF)

- . Multi-Donor Trust Fund for Poverty and Social Impact Analysis (PSIA)
- . Program on Forests (PROFOR)
- . Public-Private Infrastructure Advisory Facility (PPIAF)
- . Special Climate Change Fund (SCCF)
- . Strategic Climate Fund (SCF)
- . Trust Fund for Environmentally and Socially Sustainable Development (TFESSD)
- . Water and Sanitation Program (WSP)
- . Water Partnership Program (WPP)

#### **WORLD BANK INSTITUTE**

- . Carbon Finance Assist Program (CF-ASSIST)
- . Development Marketplace (DM)
- . Global Tiger Initiative (TIGERS)
- . The Robert S. McNamara Fellowships Program (MCNA)
- . South South Experience Exchange Trust Fund (SOUTH)
- . World Bank Institute Programs (WBI)

#### **GLOBAL PROGRAMS**

- . Infrastructure Development Collaboration Partnership Fund (DevCo)
- . Joint World Bank Group Facility for Investment Climate Advisory Services (FIAS).
- . Sustainable Business Advisory (SBA).
- . Global Corporate Governance Forum (GCGF)
- . Oil, Gas, and Mining Sustainable Community Development Fund (CommDev)
- . Global Index Insurance Facility (GIIF) .
- . Technical Assistance Trust Funds Program (TATF)

#### **IFC INVESTMENT TRUST FUND PROGRAMS**

- . Global Trade Liquidity Program (GTLP)
- . Microfinance Enhancement Facility (MEF)
- . Netherlands European Carbon Facility (NECF)
- . IFC-Netherlands Carbon Facility (INCF)
- . Financial Mechanisms for Climate Change Facility (FMCC)
- . Public-Private Sector Partnership Facility (PPSPF)
- . Canada Climate Change Program (CCCP)
- . Global Agriculture and Food Security Program – Private Sector Window (GAFSP-PSW)
- . SME Finance Innovation Program

#### **IFC ADVISORY SERVICES IN SUB-SAHARAN AFRICA**

- . Private Enterprise Partnerships Africa (PEP-Africa)

#### **JOINT-INITIATIVE**

- . African Management Services Company (AMSCO)

#### **MIGA**

- . Environmental and Social Fund for Africa (ESFA)

## **II. AFRICAN DEVELOPMENT BANK-MANAGED THEMATIC TRUST FUND**

NEPAD Infrastructure Project Preparation Facility (IPPF) : US\$ 13.6 million

African Water Facility (AWF): US\$ 5.9 million

Rural Water Supply and Sanitation Initiative Grants (RWSSI) : US\$ 11.4 million

Multi-Donor Water Partnership Program Fund (MWPP)

Japan Fund for African Private Sector Assistance (FAPA) : US\$ 16.8 million

Netherlands Water Partnership Program (NWPP) Fund : Euro 0.42 million

Micro Finance Trust Fund Euro 5 million

Migration and Development Trust Fund Euro 1.5

Congo Basin Forest Fund (CBFF) : Euro 28.1 million

**NB:** The AfDB also manages a significant number of bilateral trust funds.

## **APPENDIX 7**

### **RULES & REGULATIONS OF THE PARTNERSHIP FUND**

PREAMBLE

Regulation 1: Citation and Application

Regulation 2: Definitions

Regulation 3: Objectives of the EAC Partnership Fund

Regulation 4: Committee for the EAC Partnership Fund

Regulation 5: Work of the Committee

Regulation 6: Contributions to the EAC Partnership Fund

Regulation 7: Loans and Guarantees

Regulation 8: Conditions for Disbursements

Regulation 9: Procurement

Regulation 10: Accounting

Regulation 11: Audit

Regulation 12: Withdrawal from the EAC Partnership Fund

Regulation 13: Investment of Funds

Regulation 14: Entry into Force

Regulation 15: Review and Amendment

**APPENDIX 8**  
**SAMPLE TRUST FUNDS AND COFINANCING FRAMEWORK**  
**AGREEMENT**  
**&**  
**SAMPLE FUND ADMINISTRATION AGREEMENT**

**TRUST FUNDS AND COFINANCING FRAMEWORK AGREEMENT**

**between**

**THE EUROPEAN COMMUNITY, represented by the COMMISSION OF THE  
EUROPEAN COMMUNITIES**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND  
DEVELOPMENT,  
INTERNATIONAL DEVELOPMENT ASSOCIATION,  
INTERNATIONAL FINANCE CORPORATION and MULTILATERAL  
INVESTMENT GUARANTEE AGENCY**

**Dated \_\_\_\_\_, 2001**

FRAMEWORK AGREEMENT, dated \_\_\_\_\_, 2001 between the EUROPEAN COMMUNITY, represented by the COMMISSION OF THE EUROPEAN COMMUNITIES (the Commission), and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD), the INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA), the INTERNATIONAL FINANCE CORPORATION (IFC) and the MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA) (IBRD, IDA, IFC and MIGA being hereinafter referred to collectively as the World Bank Group), concerning trust funds and cofinancing.

Whereas the Commission and the World Bank Group entities have cooperated in the financing of development projects and programs and other activities of common interest both through trust funds and other means and have signed and may in the future sign memoranda of understanding regarding their cooperation in projects and programs concerning certain regions, which aim at setting principles and criteria for the selection of those projects and programs;

Whereas the Commission and the World Bank Group entities intend to continue their cooperation in the financing of development projects and programs and other activities of common interest (including under such memoranda of understanding) on the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto have agreed as follows:

## **ARTICLE 1**

### **General**

**Section 1.01.** This Agreement applies to all trust funds established after the date of this Agreement by the Commission with IBRD, IDA, IFC or MIGA, unless otherwise agreed in exceptional circumstances by the Commission and the relevant World Bank Group entity.

For the purposes of this Agreement multi-donor trust funds are trust funds where there is more than one donor and the funds are held in one trust fund; single-donor trust funds are trust funds where the European Community is the only donor.

**Section 1.02.** The different types of trust funds which may fall within the ambit of this Agreement include:

- (a) Trust funds other than those mentioned in (b) below that have long-term global or regional objectives and support a variety of recipient or IBRD or IDA activities, including specific investments, sector policy development, research, advisory services and other technical assistance activities;
- (b) Debt and debt service reduction trust funds that help recipients service their external obligations or reduce their debt to IBRD or IDA or other creditors;
- (c) Trust funds that provide cofinancing for a country-specific investment project or adjustment program assisted by IBRD or IDA;
- (d) Technical assistance trust funds that support recipient activities in a specific country such as preinvestment or feasibility studies, project preparation, capacity building, sector studies, or training;
- (e) Trust funds other than those mentioned in (a) above that support specific activities of IBRD or IDA such as operational work, research, policy and program analysis, economic and sector studies or training;
- (f) IBRD or IDA consultant trust funds and trust funds that support secondments;
- (g) Trust funds that support specific IFC/MIGA activities, such as preinvestment or feasibility studies, project preparation, capacity building, sector studies, training or advisory services, either through IFC/MIGA-executed technical assistance programs or through IFC/MIGA-executed project development facilities;
- (h) Trust funds that do not fall within one of the foregoing categories but that otherwise contribute to the achievement of the policy, program or institutional objectives of the relevant World Bank Group entity.

**Section 1.03.** The relevant World Bank Group entity shall administer the trust funds established with it under this Agreement in accordance with the terms of this Agreement. When so agreed hereunder in the case of a specific trust fund, it shall also manage the execution of the project or activities funded by the trust fund, either in its own name or on behalf of the recipient of the trust fund, as the case may be.

**Section 1.04.** This Agreement also applies to the cofinancing by the European Community after the date of this Agreement of projects and programs financed by IBRD or IDA in those cases that do not involve the establishment of a trust fund. This is more specifically covered in Article 5 hereof.



**Section 1.05.** The World Bank Group accepts that for each trust fund established hereunder, the Commission publishes on its website the name and address of the relevant World Bank Group entity, the purpose of the trust fund as well as the amount contributed and if relevant the percentage of cofinancing.

## **ARTICLE 2**

### **Establishment of Trust Funds**

**Section 2.01.** The Commission and the relevant World Bank Group entity will enter into a specific administration agreement for each trust fund provided by the European Community under this Agreement to such World Bank Group entity (an Administration Agreement).

**Section 2.02.** In the case of a multi-donor trust fund, such Administration Agreement will be, except for any provision specific to the trust fund and as the Commission and the relevant World Bank Group entity may otherwise agree, in the form attached to this Agreement as attachment 1 and

- where the trust fund has been established by a resolution of the Executive Directors of IBRD or IDA, incorporate the provisions of such resolution by reference; and
- where the trust fund has not been established by a resolution of the Executive Directors of IBRD or IDA, incorporate by attachment the standard provisions applicable to such trust fund as agreed between IBRD or IDA and the donors.
- where the terms and conditions of the trust fund have been approved by the Board of Directors of IFC or MIGA, incorporate such terms and conditions.

Except for such differences as are necessary to accommodate the requirements of the trust fund and the various donors or as otherwise required by the applicable resolution of the Executive Directors of IBRD or IDA, the foregoing, in so far as they pertain to the topics specified in attachment 2 will substantially incorporate the provisions attached to this Agreement as attachment 2 (the “Principles applicable to multi-donor trust funds”).

**Section 2.03.** In the case where the European Community is the only donor to the trust fund, such Administration Agreement will, except for any provision specific to the trust fund, be in the form attached to this Agreement as attachment 3 and will incorporate as an annex the standard provisions attached as attachment 4 (the “Standard Provisions applicable to European Community grants to single donor trust funds”).

**Section 2.04.** No member of the World Bank Group will have any responsibility to the Commission in respect of the responsibilities of any other member of the World Bank Group to the Commission under this Agreement.

### **ARTICLE 3**

#### **Efficient use of the funds**

**Section 3.01.** In order to provide flexibility in the administration of the funds provided under this Agreement so as to maximize the use of funds deposited with IBRD under this Agreement, IBRD may, on behalf of the World Bank Group entity or entities involved, utilize the funds deposited under this Agreement for one project or activity (the first project) to pay for expenditures needed under another project or activity (the second project) financed by the European Community under this Agreement, including those expenditures to be financed by the final payment to be made by the Commission in respect of such second project, in cases where it is not anticipated that the funds so deposited will be needed to pay for expenditures under the first project or activity within the next six month period.

**Section 3.02.** IBRD shall notify the Commission in writing before effecting any such utilization of funds, and may proceed with it if the Commission does not notify IBRD that it opposes it within five (5) working days after receipt of IBRD’s notice to the Commission. In those cases where IBRD does effect such utilization of funds, IBRD shall, on behalf of the World Bank Group entity or entities involved, then refund to the first project an equivalent amount as soon as it has been made available by the Commission for the second project.

**Section 3.03.** To the extent that interest income is not earned on the funds deposited for the first project as a result of the utilization of such funds for the second project, the IBRD, on behalf of the World Bank Group entity or entities involved, shall deduct from the funds deposited for the second project or from any investment income earned on the funds provided for the second project prior to their disbursement for the second project a corresponding amount and credit such amount to the funds for the first project.

## **ARTICLE 4**

### **Equal treatment of donors for multi-donor trust funds**

**Section 4.01.** In the case of a multi-donor trust fund, except as otherwise provided in the resolution or standard provisions for such trust fund or in the Administration Agreement for such trust fund, the same conditions will apply to all donors to the trust fund, including, without limitation, those pertaining to procurement and recovery of administrative costs.

Should the World Bank Group entity subsequently agree with any other donor to such trust fund conditions more favorable than those contained in the Administration Agreement for such trust fund, the relevant World Bank Group entity shall so inform the Commission and such more favorable conditions shall apply to the Administration Agreement for such trust fund.

## **ARTICLE 5**

### **Cofinancing not involving Trust Funds**

**Section 5.01.** The European Community may provide cofinancing for projects and programs financed by IBRD or IDA in cases that do not involve the establishment of trust funds. In such cases, the European Community will provide its cofinancing directly to the recipient of the European Community's financing. Procurement will follow the Commission's procedures. The Commission and IBRD or IDA, as the case may be, will cooperate with each other to ensure that the project or program will be implemented effectively and efficiently.

**Section 5.02.** IBRD or IDA, as the case may be, will invite representatives of the Commission to participate in missions relating to projects cofinanced by the European Community and keep the Commission informed of the findings of such missions. IBRD or IDA, as the case may be, and the Commission will keep each other informed of any significant modification of the terms of their respective agreements with the recipient for the project cofinanced and of the exercise of any contractual remedies thereunder.

## ARTICLE 6

### Administrative cost recovery

Except as the World Bank Group and the Commission may otherwise agree, the administrative cost recovery provisions included in the Administration Agreement for a trust fund established under this Agreement shall provide for compensation in accordance with the following:

- (a) for trust funds mentioned under Section 1.02(a) of the Agreement:  
5 % up to 30 million USD equivalent, or to be determined for each trust fund above that amount and, in the case of a multi-donor trust fund, either through a flat percentage rate or through the combination of a flat percentage rate and a budget for a management structure specific to the trust fund, as specified in the relevant resolution or standard provisions;
- (b) for trust funds mentioned under Section 1.02(b) of the Agreement:  
0%;
- (c) for trust funds mentioned under Section 1.02(c) of the Agreement:  
2% up to 30 million USD equivalent, or to be determined for each trust fund above that amount;
- (d) for trust funds mentioned under Section 1.02(d) of the Agreement:  
5 % up to 30 million USD equivalent, or to be determined for each trust fund above that amount;
- (e) for trust funds mentioned under Section 1.02(e) of the Agreement:  
5 % up to 30 million USD equivalent, or to be determined for each trust fund above that amount;
- (f) for trust funds mentioned under Section 1.02(f) of the Agreement:  
5 %;
- (g) for trust funds mentioned under Section 1.02(g) of the Agreement:  
5% for technical assistance trust funds;  
3.5% for IFC/MIGA executed project development facilities;
- (h) for trust funds mentioned under Section 1.02(h) of the Agreement:  
5 % up to 30 million USD equivalent, or to be determined for each trust fund above that amount.

The foregoing administrative cost recovery provisions shall also apply to additional amounts contributed by the Commission to trust funds established prior to the date of the first amendment to this Agreement, in those cases where such additional contributions are not included in the Administration Agreement for the trust fund; provided that any such additional contributions for a multi-donor trust fund mentioned in Section 1.02(a) of the Agreement shall remain subject to the cost recovery provisions included in the Administration Agreement for such trust fund. It is understood that the foregoing administrative cost recovery provisions for IBRD/IDA trust funds up to 30 million USD equivalent are for trust funds for which IBRD/IDA would provide standard trust fund administrative services, and that the compensation to be charged for any such trust funds where IBRD/IDA would not provide standard trust fund administrative services would be agreed on a case-by-case basis between the Commission and IBRD/IDA. It is understood that the above administrative cost recovery provisions are for the purpose of providing compensation to the World Bank Group for the cost of administering trust funds and not for the costs incurred by the World Bank Group in implementing trust fund activities. In those cases where the relevant World Bank Group entity incurs costs in implementing a trust fund or where the Commission and the World Bank Group entity agree that the World Bank Group entity is to provide administrative services beyond those that would normally be provided by the Bank, the Commission and the World Bank Group entity shall agree on the additional compensation to be paid to the World Bank Group entity for such costs.

The parties acknowledge that the Commission's applicable rules preclude the Commission paying compensation for the cost of administering trust funds in excess of 7 %.

## **ARTICLE 7**

### **Consultation**

**Section 7.01.** The Commission and each of the World Bank Group entities shall consult with each other from time to time as necessary on all matters arising out of this Agreement pertaining to them. The Commission and each of the World Bank Group entities shall hold consultative meetings not less than once a year in order to promote a regular exchange of information, as the case may be through existing consultation mechanisms.

**Section 7.02.** As part of such consultation each World Bank Group entity shall provide the Commission with updated lists of projects and activities financed under this Agreement including summary financial information thereon.

**Section 7.03.** The Commission and the World Bank Group entities may exchange officials through their respective secondment programs, including in order to assist in the administration of the projects or activities financed under this Agreement.

## **ARTICLE 8**

### **Effectiveness - Termination**

**Section 8.01.** This Agreement will be effective on the date of its signature by all parties.

**Section 8.02.** This Agreement shall have an initial term of three years after signature unless earlier terminated pursuant to Section 8.03. This agreement may be extended for further periods upon mutual agreement between the parties. Not later than six months prior to the end of each such term, the Commission and the World Bank Group entities shall consult each other regarding the extension of the Agreement for a further term.

**Section 8.03.** This Agreement may be terminated by the Commission in its entirety or in respect of any of IBRD/IDA, IFC or MIGA upon giving six (6) months' prior written notice to that effect to the affected World Bank Group entity. Any of IBRD/IDA, IFC or MIGA may terminate this Agreement with respect to themselves upon giving six (6) months' prior written notice to that effect to the Commission.

**Section 8.04.** Unless the affected parties agree on another course of action, any Administration Agreement entered into before the termination of this Agreement shall not be affected by such termination.

## **ARTICLE 9**

### **Communications**

All written communications in respect of this Agreement will be directed to the following addresses:

For the Commission:

Commission of the European Communities  
EuropeAid Co-operation Office  
Rue de la Loi, 200

1049 Bruxelles  
Belgique

Facsimile No. (32) 2.296.63.60

Attention: Director, Operational Support

For IBRD/IDA:

International Bank for Reconstruction and Development  
International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
U.S.A.

Facsimile No. (202) 477-7019

Attention: Manager, Trust Funds Strategy and Donor Relations  
Resource Mobilization and Cofinancing

For IFC:

International Finance Corporation  
2121 Pennsylvania Avenue, N.W.  
Washington, D.C. 20433  
U.S.A.

Facsimile No. (202) 974-4344

Attention: Director, Trust Funds Department

For MIGA:

Multilateral Investment Guarantee Agency  
1800 G Street, N.W.  
Washington, D.C. 20433  
U.S.A.

Facsimile No. (202) 522-2620

Attention: Director Finance and Chief Financial Officer

## **ARTICLE 10**

### **Dispute resolution**

The affected parties shall endeavour to settle amicably any dispute or complaint relating to the interpretation, application or fulfilment of this Agreement or any Administration Agreement, including their existence, validity or termination. In default of amicable settlement, any affected party may refer the matter to arbitration in accordance with the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States in force at the date of this Agreement.

The language to be used in the arbitral proceedings shall be English. The appointing authority shall be the Secretary General of the Permanent Court of Arbitration following a written request submitted by either party. The Arbitrator's decision shall be binding on all affected parties and there shall be no appeal.

Nothing in this Agreement shall be interpreted as a waiver of any privileges or immunities accorded to any party hereto by its constituent documents or international law.

The following attachments shall form an integral part of this Agreement:

1. Form of Administration Agreement for European Community grants to trust funds with more than one donor
2. Principles applicable to grants to multi-donor trust funds
3. Form of Administration Agreement for trust funds to which the European Community is the only donor
4. Standard Provisions applicable to European Community grants to single donor trust funds
5. Agreement on verification missions (for the purposes of Section 6.04 of the Administration Agreement applicable to European Community grants to multi-donor trust funds and of Section 6.04 of the Standard Provisions applicable to European Community grants to single donor trust funds)



EUROPEAN COMMUNITY, represented by the  
COMMISSION OF THE EUROPEAN COMMUNITIES

INTERNATIONAL BANK FOR RECONSTRUCTION AND  
DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL FINANCE CORPORATION  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

By: Romano PRODI

Date: November 8, 2001

By: James D. WOLFENSOHN

Date: November 8, 2001

**FORM OF ADMINISTRATION AGREEMENT  
FOR EUROPEAN COMMUNITY GRANTS TO TRUST FUNDS WITH MORE THAN ONE  
DONOR**

**ADMINISTRATION AGREEMENT Article 1  
Subject and amount of the Grant**

**Section 1.01.** In pursuance of the Trust Fund and Cofinancing Framework Agreement between the European Community, represented by the Commission of the European Communities (the Commission), and the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and the Multilateral Investment Guarantee Agency (collectively, the World Bank Group) dated \_\_\_\_\_, 200\_ (the Framework Agreement), the Commission hereby agrees to make available a grant (the Grant) of \_\_\_\_\_, to be administered by the [insert name of relevant World Bank Group entity] for the \_\_\_\_\_ (Trust Fund No and name)

**Section 1.02.** The [insert name of relevant World Bank Group entity] shall administer the Grant in accordance with the provisions of the Framework Agreement and of<sup>1</sup>

- the resolution for the trust fund adopted by the Executive Directors of the [insert name of the relevant World Bank Group entity] (the “Resolution”); or
- the attached standard provisions agreed between the [insert name of the relevant World Bank Group entity] and the donors (the “Standard Provisions”),<sup>2</sup>

except as otherwise provided herein.

**Section 1.03.** The Grant shall be used exclusively for the following purposes:

\_\_\_\_\_

<sup>1</sup> Choose the relevant option and delete the other. For Administration Agreements to be concluded with IFC any further terms and conditions may either be incorporated in the Administration Agreement (in which case Section 1.02 shall be deleted) or attached to it (in which case option 2 will be chosen).

<sup>2</sup> Attach only the standard provisions for the trust fund and not attachment 2 to the Framework Agreement.

## **Article 2**

### **Payment schedule and modalities**

**Section 2.01.** Payments shall be made as follows:

Option 1<sup>3</sup>:

The payment schedule shall be the same as for all donors to the trust fund as specified in the [Resolution/Standard Provisions].

Option 2, in case the [Resolution/Standard Provisions] do(es) not specify a payment schedule:

Option 2.1: applicable to trust funds with an anticipated duration of one year or less

An advance payment of \_\_\_\_\_, representing 100% of the total Grant amount shall be payable within 45 days following signature of this Administration Agreement and receipt by the Commission of a payment request.

Option 2.2: applicable to trust funds with an anticipated duration of more than one year

An advance payment of \_\_\_\_\_, representing 50% of the total Grant amount shall be payable within 45 days following signature of this Administration Agreement and receipt by the Commission of a payment request.

An intermediate payment <sup>4</sup> of \_\_\_\_\_, representing X% of the total Grant shall be made within 45 days following the receipt by the Commission of a payment request accompanied by written confirmation that 50% of the total funds available for the trust fund as of the date of this Administration Agreement (including the Grant) have been the subject of legal commitments and provided that the applicable requirements as regards submission and approval of reporting and planning documents as of the date of the request have been satisfied.

The final payment of \_\_\_\_\_, representing  $100 - (50 + X)\%$  of the total Grant shall be made within 45 days following the receipt by the Commission of a payment request accompanied by written confirmation that  $(50 + X)\%$  of the total funds available for the trust fund as of the date of this Administration Agreement (including the Grant) have been the subject of legal commitments and provided that the applicable requirements as \_\_\_\_\_

<sup>3</sup> Choose one of the options available and delete the paragraphs which are not applicable.

<sup>4</sup> For trust funds with anticipated durations of more than two years there may be more than one intermediate payment.

regards submission and approval of reporting and planning documents as of the date of the request have been satisfied.

**Section 2.02.** Reports shall be deemed approved if the Commission has not reacted within 45 days of receiving them. If the Commission does not intend to approve a report, as submitted, it shall revert to the World Bank Group entity specifying the additional information it requires within such deadline. The deadline for approving the report shall be suspended pending the receipt of the requested information.

If the Commission deems that a payment request cannot be met, it shall revert to the World Bank Group entity with a request specifying the additional information it requires within the 45-day payment period. The payment period shall be suspended pending the registration of a properly formulated payment request.

**Section 2.03.** All payments shall be made in Euro, to the following bank account:

Bank of America NT and SA  
Main Branch  
P.O. Box 407  
1 Alie Street  
London E1 8DE  
United Kingdom

Swift Bic Code: BOFAGB22  
Account Number: 165050-62952017  
Internal Route Code: BOFALO

Or to any other bank account notified by [insert name of the relevant World Bank Group entity] and accepted by the Commission.

### **Article 3**

#### **Completion date**

It is expected that an amount of the trust fund equal to the Grant funds will be fully utilized in accordance with the provisions of this Administration Agreement by \_\_\_\_\_ (the Completion Date). The [insert name of relevant World Bank Group entity] shall only disburse the Grant funds (i.e. the European Community's pro rata share of the funds remaining in the trust fund, including any investment income added thereto), for the purposes of this Administration Agreement after such date upon the prior written approval of the Commission.

## **Article 4**

### **Visibility**

All contracts or grant agreements entered into by the World Bank Group entity in relation to activities financed under the trust fund, all publications, training programmes, seminars or symposia financed under the trust fund, and all press releases or other information materials issued by the World Bank with respect to the trust fund shall clearly indicate that the activities in question have received funding from the European Community.<sup>5</sup>

## **Article 5**

### **Administrative costs recovery arrangements**

#### **Section 5.01.**

For IBRD/IDA

In order to assist in the defrayment of the costs of administration and other expenses incurred by IBRD/IDA in administering the trust fund, IBRD/IDA may recover such costs and expenses in accordance with the [Resolution/ Standard Provisions].

For IFC/MIGA

In order to assist in the defrayment of the costs of administration and other expenses incurred by IFC/MIGA in administering the trust fund, IFC/MIGA may retain from the amounts received from the Commission an amount equal to [insert the relevant percentage specified in the Framework Agreement] multiplied by the amounts received.

**Section 5.02.** No other administrative or staff cost of the relevant World Bank Group entity may be charged by the World Bank Group entity except as expressly agreed to by the donors.

**Section 5.03.** In the event the World Bank Group entity has not fully utilized the amounts deposited into the trust fund, the amount retained to cover administration cost shall be adjusted to be based on the actual amounts disbursed by the World Bank Group entity and the latter shall deposit back the difference into the trust fund.

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<sup>5</sup> Insert any specific visibility requirements for the European Community's contribution to the project or program.

## **Article 6**

### **Financial Audit and Control**

**Section 6.01.** Financial transactions and financial statements with respect to the Grant shall be subject to the internal and external auditing procedures laid down in the financial regulations, rules and directives of the World Bank Group entity. A copy of the audited financial statements with respect to the funds provided by the European Community to the World Bank Group entity hereunder shall be submitted to the Commission by the IBRD, on behalf of the World Bank Group entity.

**Section 6.02.** IBRD, on behalf of the World Bank Group entity, shall:

- (i) keep financial and accounting documents concerning the activities financed by the trust fund ; and
- (ii) make available to the competent bodies of the European Community upon request, all relevant financial information, including statements of accounts concerning the project or activity financed by the trust fund (whether executed by such World Bank Group entity or by a subcontractor).

**Section 6.03.** In conformity with its financial regulations, the European Community may undertake, including on-the-spot, checks related to the projects and activities financed by the trust fund.

**Section 6.04.** The foregoing shall be applied in accordance with the agreement on verification missions between the parties as attached to the Framework Agreement (attachment 5).

## **Article 7**

### **Communications and addresses**

The offices responsible for coordination of all matters related to this Administration Agreement are:

For [name of Commission]:

For the [insert name of relevant World Bank Group entity]: Payment

requests and the reports attached to them should be sent to:  
(address of the relevant financial/operational unit of the Commission)

## **Article 8**

### **Effectiveness and termination**

**Section 8.01.** The Administration Agreement will be effective on the date of its signature by all parties until two (2) years after the completion date.

Expenses financed under this Administration Agreement must have been incurred after the date of effectiveness of the trust fund.

**Section 8.02.** If, at any time, either party determines that the purposes of the Administration Agreement can no longer be effectively or appropriately carried out, this Administration Agreement may be terminated at the initiative of either party by giving the other party three (3) months' prior written notice to this effect.

Upon termination of the Administration Agreement, and unless the parties otherwise agree, any agreement entered into between the World Bank Group entity and any third party prior to receipt of the notice of termination of this Administration Agreement shall not be affected by the termination and the World Bank Group entity shall be entitled to continue to receive and disburse the Grant funds (i.e. the European Community's pro rata share of the funds deposited in the trust fund including any investment income added thereto) in respect of such agreements to the extent necessary in order to fulfill its obligations under such agreements as if the Administration Agreement had not been so terminated.

**Section 8.03.** Following the Completion Date, unless the Commission has otherwise agreed pursuant to Article 3, or the termination of the Administration Agreement or the trust fund, whichever is earlier, IBRD, on behalf of the World Bank Group entity, will promptly refund to the Commission the balance of the Grant funds (i.e. the European Community's pro rata share of the funds remaining in the trust fund including any investment income added thereto).

## **Article 9**

### **Commission liability**

Otherwise than for failure to perform its obligations set forth in the administration agreement or the relevant resolution or standard provisions for the trust fund, the Commission shall not under any circumstances whatever be liable for damages caused either to the World Bank Group entity or third parties, during the performance of the administration agreement. No claim can be submitted to the Commission for compensation or for restoration of any such damage or loss.

**Article 10**  
**Annexes**

**Section 10.01.** The following documents are annexed to this Administration Agreement and form an integral part thereof:

Annex I:        the Resolution or the Standard Provisions

Annex II:      Form of Request for payment

**Section 10.02** In the event of a conflict between the provisions of the Annexes and those of the Administration Agreement, the provisions of the Administration Agreement shall take precedence. In the event of a conflict between the provisions of Annex I and those of other annexes, the provisions of Annex I shall take precedence.

This agreement is drawn up in two originals, one for each party. It may be amended only by written agreement of the parties hereto.

European Community, represented by the  
Commission of the European Communities

By: \_\_\_\_\_  
Authorized Representative

Date: \_\_\_\_\_

[International Bank for Reconstruction and Development/  
International Development Association]  
[International Finance Corporation]  
[Multilateral Investment Guarantee Agency]

By: \_\_\_\_\_  
Authorized Representative

Date: \_\_\_\_\_



## **ATTACHMENT 2**

### **Principles applicable to multi-donor trust funds**

Except for such differences as are provided for in accordance with Article 2.02 of the Framework Agreement, the terms and conditions of the Resolution or Standard Provisions governing any trust fund, pertaining to the topics specified in this attachment, will substantially incorporate the provisions below.

#### **General obligations of the World Bank Group entity and liabilities**

The World Bank Group entity will administer the funds provided by the donor in accordance with the provisions of the administration agreement and the relevant resolution or standard provisions for the trust fund.

The World Bank Group entity will be responsible only for performing those functions specifically set forth in the Administration Agreement and this Attachment, and will not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in the Administration Agreement and in this Attachment will be considered a waiver of any privileges or immunities of the Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved.

#### **Deposit of funds and investment income**

Upon request from the World Bank Group entity, the donor shall deposit the funds to be administered by the World Bank Group entity for each project and activity to be financed by the donor in accordance with the payment schedule set forth in the relevant administration agreement, as amended from time to time.

When making deposits, the donor will instruct the bank with which the deposit is made to advise IBRD's Treasury Operations Department as to the amount and date of the deposit and the name and reference number of the activity for which the deposit is made (as set forth in the administration agreement). The donor will also send a copy of its instruction to the Chief of the Trust Funds Division in IBRD (fax no. 202-477-7163).

The funds deposited may be commingled with other trust fund assets administered by any World Bank Group entity but shall be kept separate and apart from the funds of each of the World Bank Group entities.

The World Bank Group entity may exchange any funds held hereunder for other currencies in order to facilitate their administration and disbursement.

IBRD shall, on behalf of the World Bank Group entity, invest and reinvest the funds provided by the donors hereunder pending their disbursement, in accordance with IBRD's policies and procedures for the investment of trust funds. The investment income shall be added to the amount of the trust fund and, to the extent provided for in the Resolution or Standard Provisions used for the same purpose or to defray the costs of administering the trust fund.

#### **Financial statements relating to the Trust Fund**

The World Bank Group entity shall maintain separate records and ledger accounts in respect of the funds deposited by the donor and disbursed by the World Bank Group entity for the project or activity.

Within ninety (90) days of each March 31, June 30, September 30 and December 31 during the term of the trust fund, IBRD on behalf of the World Bank Group entity, shall prepare an unaudited financial statement with respect to the funds deposited by the donors to the trust fund (including investment income attributable thereto) and forward a copy to the donors.

Each such unaudited financial statement shall be expressed in the currency in which the funds are maintained by the World Bank Group entity and shall refer to the name and number of the project or activity as set forth in the relevant administration agreement.

#### **Procurement**

The procurement of any goods, works or services to be financed by the trust fund shall be carried out in accordance with the applicable policies and procedures of the World Bank Group entity.

The administration and enforcement of all provisions of any agreement entered into between the World Bank Group entity and a third party that is financed by the trust fund shall be the responsibility solely of the World Bank Group entity and shall be carried out in accordance with its applicable procedures.

**FORM OF ADMINISTRATION AGREEMENT  
FOR TRUST FUNDS TO WHICH THE EUROPEAN COMMUNITY IS THE ONLY DONOR**

**ADMINISTRATION AGREEMENT Article 1  
Subject and amount of the Grant**

**Section 1.01.** In pursuance of the Trust Fund and Cofinancing Framework Agreement between the European Community, represented by the Commission of the European Communities (the Commission), and the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation and the Multilateral Investment Guarantee Agency (collectively, the World Bank Group) dated \_\_\_\_\_, 200\_ (the Framework Agreement), the Commission hereby agrees to make available a grant (the Grant) of \_\_\_\_\_, to be administered by the [insert name of relevant World Bank Group entity] for the \_\_\_\_\_ (Trust Fund No and name).

**Section 1.02.** The [insert name of relevant World Bank Group entity] shall administer the Grant in accordance with the provisions of the Framework Agreement and of the attached Standard Provisions.

**Section 1.03.** The Grant shall be used exclusively for the following purposes:

\_\_\_\_\_

**Article 2  
Payment schedule**

**Section 2.01.** Payments shall be made as follows:

Option 1: <sup>6</sup>applicable to trust funds with an anticipated duration of one year or less

\_\_\_\_\_

<sup>6</sup> Choose one of the options available and delete the paragraphs which are not applicable.

An advance payment of \_\_\_\_\_, representing 100% of the total Grant amount shall be payable within 45 days following signature of this Administration Agreement and receipt by the Commission of a payment request.

Option 2: applicable to trust funds with an anticipated duration of more than one year

An advance payment of \_\_\_\_\_, representing 50% of the total Grant amount shall be payable within 45 days following signature of this Administration Agreement and receipt by the Commission of a payment request.

An intermediate payment <sup>7</sup> of \_\_\_\_\_, representing X% of the total Grant shall be made within 45 days following the receipt by the Commission of a payment request accompanied by written confirmation that 50% of the total funds available for the trust fund have been the subject of legal commitments and provided that the applicable requirements as regards submission and approval of reporting and planning documents as of the date of the request have been satisfied.

The final payment of \_\_\_\_\_, representing  $100 - (50 + X)\%$  of the total Grant shall be made within 45 days following the receipt by the Commission of a payment request accompanied by written confirmation that  $(50 + X)\%$  of the total funds available for the trust fund have been the subject of legal commitments and provided that the applicable requirements as regards submission and approval of reporting and planning documents as of the date of the request have been satisfied.

**Section 2.02.** Reports shall be deemed approved if the Commission has not reacted within 45 days of receiving them. If the Commission does not intend to approve a report, as submitted, it shall revert to the World Bank Group entity specifying the additional information it requires within such deadline. The deadline for approving the report shall be suspended pending the receipt of the requested information.

If the Commission deems that a payment request cannot be met, it shall revert to the World Bank Group entity with a request specifying the additional information it requires within the 45-day payment period. The payment period shall be suspended pending the registration of a properly formulated payment request.

**Section 2.03.** The relevant World Bank Group entity shall notify the Commission the investment income earned on the Grant annually on [insert date]. IBRD, on behalf of the relevant World Bank Group entity, shall promptly refund such investment income to the Commission upon request.

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<sup>7</sup> For trust funds with anticipated durations of more than two years there may be more than one intermediate payment.

**Article 3**  
**Completion date**

It is expected that the Grant funds will be fully utilized in accordance with the provisions of this Administration Agreement by \_\_\_\_\_. The [insert name of relevant World Bank Group entity] shall only disburse the Grant funds for the purposes of this Administration Agreement after such date upon the approval of the Commission.

**Article 4**  
**Visibility**

[Insert any specific visibility requirements for the project or program.]

**Article 5**  
**Administrative cost recovery arrangements**

The [insert name of the relevant World Bank Group entity] may retain from the amounts received from the Commission an amount equal to [insert the relevant percentage specified in the Framework Agreement to be retained as compensation for administrative costs] multiplied by the amounts received.

**Article 6**  
**Communications and addresses**

**Section 6.01.** The offices responsible for coordination of all matters related to this Administration Agreement are:

For the Commission:

For the [insert name of relevant World Bank Group entity]:

**Section 6.02.** Payment requests and the reports attached to them should be sent to: (address of the relevant financial/operational unit of the Commission)

**Article 7**  
**Project information and reporting**

For the purposes of Section 5.01 of the Standard Provisions [an updated workplan / schedule of anticipated activities]<sup>8</sup> shall be provided with each report.

**Article 8**  
**Procurement**

The procurement of any goods, works or services to be financed by the trust fund shall be carried out in accordance with the applicable policies and procedures of the World Bank Group entity, the origin of the goods and the nationality of the companies and experts selected for carrying out the activities financed by the trust fund being determined by the parties to a specific Administration Agreement on a case by case basis.

The administration and enforcement of all provisions of any agreement entered into between the World Bank Group entity and a third party that is financed by the trust fund shall be the responsibility solely of the World Bank Group entity and shall be carried out in accordance with its applicable procedures.

**Article 9**  
**Annexes**

**Section 9.01.** The following documents are annexed to this Administration Agreement and form an integral part thereof:

Annex I: Description of the operation

Annex II: Standard Provisions applicable to European Community grants to single donor trust funds

Annex III: Budget for the operation

Annex IV: Form of Request for payment

**Section 9.02** In the event of a conflict between the provisions of the Annexes and those of the Administration Agreement, the provisions of the Administration Agreement shall take precedence. In the event of a conflict between the provisions of Annex II and those of the other annexes, the provisions of Annex II shall take precedence.

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<sup>8</sup> Delete the phrase which is not applicable.

This agreement is drawn up in two originals, one for each party. It may be amended only by written agreement of the parties hereto.

European Community, represented by the  
Commission of the European Communities

By: \_\_\_\_\_  
Authorized Representative

Date: \_\_\_\_\_

[International Bank for Reconstruction  
and Development/International  
Development Association]  
[International Finance Corporation]  
[Multilateral Investment Guarantee Agency]

By: \_\_\_\_\_  
Authorized Representative

Date: \_\_\_\_\_

**Standard Provisions applicable to European Community Grants to single donor trust funds**

The following provisions (hereinafter referred to as the “Standard Provisions”) will be applicable to all Administration Agreements entered into between a World Bank Group entity and the Commission when providing grants to such entity for a trust fund for which the European Community is the only donor.

**ARTICLE 1**

**General obligations of the World Bank Group entity and liabilities**

**Section 1.01.** The World Bank Group entity that is the party to the Administration Agreement (the “World Bank Group entity”) will administer the funds provided by the European Community in accordance with the provisions hereof and the Administration Agreement.

**Section 1.02.** The World Bank Group entity will be responsible only for performing those functions specifically set forth in the Administration Agreement and this Attachment, and will not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in the Administration Agreement and in this Attachment will be considered a waiver of any privileges or immunities of the Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved.

**Section 1.03.** Otherwise than for failure to perform its obligations set forth herein or in the Administration Agreement, the Commission shall not under any circumstances whatever be liable for damages caused either to the World Bank Group entity or third parties, during the performance of the Administration Agreement. No claim can be submitted to the Commission for compensation or for restoration of any such damage or loss.

**Section 1.04.** In cases where the World Bank Group entity is to provide the funds to a recipient, the World Bank Group entity shall, as administrator on behalf of the European Community, enter into a grant agreement with the recipient for the provision of such funds to the recipient for the purposes set forth in the Administration Agreement. The World Bank Group entity shall provide a copy of the grant agreement to the Commission. The World Bank Group entity shall be solely responsible for the administration of such



grant agreement and shall carry out such administration in accordance with its standard practices.

## **ARTICLE 2**

### **Deposit of funds and investment income**

**Section 2.01.** Upon request from the World Bank Group entity, the Commission shall deposit the funds to be administered by the World Bank Group entity in accordance with the payment schedule set forth in the Administration Agreement.

All payments shall be made in Euro, to the following bank account:

Bank of America NT and SA  
Main Branch  
P.O. Box 407  
1 Alie Street  
London E1 8DE  
United Kingdom

Swift Bic Code: BOFAGB22  
Account Number: 165050-62952017  
Internal Route Code: BOFALO

Or to any other bank account notified by [insert name of the relevant World Bank Group entity] and accepted by the Commission.

When making deposits pursuant to this Section 2.01, the Commission will instruct Bank of America NT and SA to advise IBRD's Treasury Operations Department as to the amount and date of the deposit and the name and reference number of the activity for which the deposit is made (as set forth in the Administration Agreement). The Commission will also send a copy of its instruction to the Chief of the Trust Funds Division in IBRD (fax no. 202-477-7163).

**Section 2.02.** Except as the Commission and the World Bank Group entity may otherwise agree and subject to Section 2.04, any funds so deposited by the Commission shall be maintained in Euro.

**Section 2.03.** The funds deposited pursuant to Section 2.02 above may be commingled with other trust fund assets administered by any World Bank Group entity, provided they may still be identified as such in the records of the World Bank Group entity but shall be kept separate and apart from the funds of each of the World Bank Group entities.

**Section 2.04.** The World Bank Group entity may exchange any funds held hereunder for other currencies in order to facilitate their disbursement.

**Section 2.05.** IBRD shall, on behalf of the World Bank Group entity, invest and reinvest the funds provided by the European Community hereunder pending their disbursement, in accordance with IBRD's policies and procedures for the investment of trust funds. The investment income shall be reimbursed to the Commission in accordance with the provisions of section 2.03 of the Administration Agreement or section 8.04 hereof.

### **ARTICLE 3**

#### **Administrative costs recovery arrangements**

**Section 3.01.** In order to assist in the defrayment of the costs of administration and other expenses incurred by the World Bank Group entity in administering the trust funds provided to it hereunder, the World Bank Group entity may retain from the amounts received by the World Bank Group entity from the Commission under the Administration Agreement an amount equal to the percentage specified therein multiplied by the amounts received.

In the event the World Bank Group entity has not fully utilized the amounts received from the Commission, the amount retained shall be adjusted to be based on the actual amounts disbursed by the World Bank Group entity and the latter shall deposit back the difference into the trust fund.

**Section 3.02.** In addition, the World Bank Group entity may retain from the European Community's contribution such amounts as are required to reimburse the World Bank Group entity for the cost of any external audits not required under the financial regulations, rules and directives of the World Bank Group entity and requested by the Commission. If such cost cannot be met from the foregoing, the World Bank Group entity shall so inform the Commission before commissioning the audit and the Commission shall pay the World Bank Group entity the amount required for such cost.

**Section 3.03.** No other administrative or staff cost of the relevant World Bank Group entity may be charged by the World Bank Group entity except as otherwise expressly agreed to by the Commission in the Administration Agreement.

## **ARTICLE 4**

### **Financial statements relating to the Trust Fund**

**Section 4.01.** IBRD, on behalf of the World Bank Group entity shall maintain separate records and ledger accounts in respect of the funds deposited by the Commission and disbursed by the World Bank Group entity pursuant to the Administration Agreement.

**Section 4.02.** Within ninety (90) days of each March 31, June 30, September 30 and December 31 during the term of the Administration Agreement, IBRD on behalf of the World Bank Group entity, shall prepare an unaudited financial statement with respect to the funds deposited by the Commission pursuant to the Administration Agreement (including investment income attributable thereto) and forward a copy to the Commission.

Each such unaudited financial statement shall be expressed in the currency in which the funds are maintained by the World Bank Group entity and shall refer to the name and number of the project or activity as set forth in the Administration Agreement.

## **ARTICLE 5**

### **Project information and reporting**

**Section 5.01.** Except for consultant trust funds, the World Bank Group entity shall provide the Commission with information on the progress and results of its activities financed under the Grant on a semi-annual basis following the signature of the Administration Agreement, and an updated workplan or schedule of anticipated activities (as specified in the Administration Agreement) for the next six-month period.

**Section 5.02.** In addition, except for consultant trust funds, the World Bank Group entity shall provide the Commission a final report on the project or activity financed under the Grant within six months of the completion or termination of such project or activity. Such final report shall contain details concerning the utilization of the funds provided by the Commission for such project or activity.

**Section 5.03.** For consultant trust funds, the World Bank Group entity shall provide the Commission semi-annually with the following information with respect to each consultant:

- (a) the name, area of specialty and address of the consultant;
- (b) the purpose and geographic location of the consultant's assignment; and
- (c) the duration of such assignment.

Upon request, the World Bank Group entity shall further provide the Commission with a copy of the terms of reference issued to, and a summary of the report submitted to the World Bank Group entity by, each such consultant.

In addition, within six months of the completion date for a consultant trust fund grant, the World Bank Group entity shall provide the Commission with a final report on the utilization of the grant funds. Such final report shall contain detail on the utilization of the funds provided by the Commission.

**Section 5.04.** The World Bank Group entity shall promptly inform the Commission of any event which, in its opinion, interferes or threatens to interfere with the successful implementation of any project or activity financed by the Grant.

**Section 5.05.** Representatives of the Commission shall be invited to participate in supervision missions relating to the project or activity financed under the Grant. The World Bank Group entity shall keep the Commission informed of the findings of such missions and regularly provide the Commission with summaries of any supervision reports resulting from such missions.

## **ARTICLE 6**

### **Financial Audit and Control**

**Section 6.01.** Financial transactions and financial statements with respect to the Grant shall be subject to the internal and external auditing procedures laid down in the financial regulations, rules and directives of the World Bank Group entity. A copy of the audited financial statements with respect to the funds provided by the Commission to the World Bank Group entity hereunder shall be submitted to the Commission by the IBRD, on behalf of the World Bank Group entity.

**Section 6.02.** IBRD, on behalf of the World Bank Group entity, shall:

- (i) keep financial and accounting documents concerning the activities financed by the Community hereunder; and
- (ii) make available to the competent bodies of the European Community upon request, all relevant financial information, including statements of accounts concerning the project or activity financed by the Community hereunder (whether executed by such World Bank Group entity or by a subcontractor).

**Section 6.03.** In conformity with its financial regulations, the European Community may undertake, including on-the-spot, checks related to the project or activity financed by the Community hereunder.

**Section 6.04.** The foregoing shall be applied in accordance with the agreement on verification missions between the parties as attached to the Framework Agreement (attachment 5).

## **ARTICLE 7**

### **Visibility**

All contracts or grant agreements entered into by the World Bank Group entity in relation to activities financed under the Grant, all publications, training programmes, seminars or symposia financed under the Grant, and all press releases or other information materials shall clearly indicate that the activities in question have received funding from the European Community. Any additional specific visibility requirement of the Commission shall be set out in the Administration Agreement.

## **ARTICLE 8**

### **Effectiveness and termination**

**Section 8.01.** The Administration Agreement will be effective on the date of its signature by all parties until two (2) years after the end of activities.

**Section 8.02.** Expenses financed under the Grant must have been incurred after the date of effectiveness of the Administration Agreement, unless otherwise provided by the Administration Agreement.

**Section 8.03.** If, at any time, either party determines that the purposes of the Administration Agreement can no longer be effectively or appropriately carried out, this Administration Agreement may be terminated at the initiative of either party by giving the other party three (3) months' prior written notice to this effect.

Upon termination of the Administration Agreement, and unless the parties otherwise agree, any agreement entered into between the World Bank Group entity and any third party prior to receipt of the notice of termination of this Administration Agreement shall not be affected by the termination and the relevant World Bank Group entity shall be entitled to continue to receive and disburse the Grant funds in respect of such agreements

to the extent necessary in order to fulfill its obligations under such agreements as if the Administration Agreement had not been so terminated.

**Section 8.04.** Upon the completion or termination of the project or activity for which the European Community has provided funding hereunder, IBRD, on behalf of the relevant World Bank Group entity, will promptly refund to the Commission any balance remaining of the funding provided by the European Community for such project or activity (including any investment income not previously reimbursed to the Commission pursuant to Section 2.05).

## AGREEMENT ON VERIFICATION MISSIONS

### **I - Insertion of verification provisions**

It is agreed among the European Community and each World Bank Group entity that for projects and activities administered by such World Bank Group entity and financed or co-financed by the European Community, the following text shall be inserted in all agreements for such financing between the European Community and such World Bank Group entity:

a) Financial transactions and financial statements with respect to the grant shall be subject to the internal and external auditing procedures laid down in the financial regulations, rules and directives of the World Bank Group entity. A copy of the audited financial statements with respect to the funds provided by the Commission to the World Bank Group entity hereunder shall be submitted to the Commission by the IBRD, on behalf of the World Bank Group entity.

b) IBRD, on behalf of the World Bank Group entity shall:

(i) keep financial and accounting documents concerning the activities financed by the Community (or as the case may be by the trust fund); and

(ii) make available to the competent bodies of the European Community upon request, all relevant financial information, including statements of accounts concerning projects and activities financed by the Community (or as the case may be by the trust fund) whether executed by such World Bank Group entity or by a subcontractor.

c) In conformity with its financial regulations, the European Community may undertake, including on-the-spot, checks related to the project or activity financed by the Community (or as the case may be by the trust fund).

### **II - Interpretation of verification provisions**

As regards the above clause, including as incorporated in Section 6.02 (ii) of Attachments 1 and 4 to the Framework Agreement, it is agreed that all financial information relevant to the projects and activities financed by the European Community shall, upon request, be

supplied to the European Community. It is understood that the information shall be drawn from accounts and records and will be in a form which makes it possible for the Community to verify the use to which its funds or contributions have been put. It is further agreed and understood that clarifications, including verification of specific documents, may be requested by the European Community. If so requested by the European Community, each World Bank Group Member will, where appropriate, request its external auditors to respond directly to the European Community in respect of such clarification.

As regards the checks to which reference is made in point I.c) above and in Section 6.03 of Attachments 1 and 4 to the Framework Agreement, it is understood that representatives of the European Community will be given access to the site of the project and/or the headquarters of the World Bank Group, taking into account, in the case of the Commission, the guidelines for on the spot verification under point III below. World Bank Group staff will supply all relevant financial and operational information and will explain to the European Community representatives, with appropriate concrete examples, how the accounts are managed and the procedures used to ensure transparency and accuracy in the account's and to guard against the misuse of funds and fraud. The purpose of such on-the-spot checks is to allow representatives from the Community to be in a position to report to their own institutions and to the European Parliament on the implementation of projects and actions and whether value for money has been obtained. It is understood that such on-the-spot checks will be limited to information on the use of the financing provided by the European Community and is without prejudice to the immunities of the World Bank Group Members as set forth in their respective Articles of Agreement or Conventions.

Any question of application and interpretation of and any dispute arising from this Agreement shall, notwithstanding any provision to the contrary in any future financing agreement between the European Community and a World Bank Group Member, be exclusively resolved by amicable means between the European Community and the relevant World Bank Group Member.

Projects and activities administered by any World Bank Group entity and financed or co-financed by the Community pursuant to financing agreements entered into prior to the date of effectiveness of this Agreement shall be subject to the letter agreement dated May 23, 1994 (Agreement concluded between Mr. De Moor and Mr. Ruddy).

Each party to this Agreement is to bear its own costs under the arrangements.



### **III - Guidelines for on-the-spot verification missions by Commission services to World Bank Group members**

#### **Purpose of verification missions**

Commission services which are responsible for financing or co-financing projects administered by the World Bank Group Members are required by the Financial Regulation to verify the legality and regularity of the expenditure and that it is in accordance with the principles of sound financial management. This provision - the verification clause - is contained in financing agreements concluded between the Commission and the World Bank Group Members concerned.

#### **Preparation of the mission**

In order to ensure that the Agreement functions satisfactorily, it is important that the missions are carefully prepared, that sufficient notice, at least two months, is given and that the organization to be visited is informed in advance of the projects to be verified. This will ensure that the necessary documentation, which may not be readily available, can be prepared. It will also enable the internal and external auditors to be advised so that the internal auditor, and where possible, the external auditor, is available to assist the mission team. Access to original documentation held by a World Bank Group Member will, subject to such Member's document retention policy, be ensured. The relevant Member will assist the mission team in seeking access to original documentation held by third parties.

#### **Coordination for mission programmes**

It is essential that the mission team takes full account of the findings of previous missions to the same organization by other Commission services and the European Court of Auditors. The Commission is taking steps to ensure that the different services are aware of the mission programmes of all the Commission services, including other DGs and of the European Court of Auditors, in order that each service takes appropriate account of the programmes of the other services. It is important to avoid duplication and overlap. The Commission is also exploring the possibility of obtaining and distributing the audit programmes of the World Bank Group Members themselves in order to rationalize the overall audit operation.

### Conduct of the mission

The mission should be conducted in a spirit of partnership with the internal auditor and the operational and accounting services of the World Bank Group Member. The mission will be carried out by Commission representatives in a reasonable manner and without creating an undue burden on the World Bank Group Member's regular operations.

The object is not to carry out a full-scale audit of the organization but to verify, by sample-checking, how the European Community funds have been used.

In carrying out these checks, the mission team will work as far as possible in close collaboration with the internal and external audit services of the relevant World Bank Group Member, which will allow the visual verification by Commission controllers of original justifying vouchers such as invoices, replies to calls for tender, proof of payments, curricula vitae, justifying vouchers in the case of sub-contracting etc.

The mission team has access to all original documents, without exception, for verification purposes. Documents will only be photocopied if this is necessary and copies will not be taken of documents which the relevant World Bank Group Member considers particularly sensitive.

In cases where the mission team identifies serious problems of mismanagement, irregularity, weaknesses in the control systems and procedures, or where they consider it necessary to take photocopies of particularly sensitive documents, they will request the external auditor to examine the matters in accordance with the first paragraph of point II of this Attachment 5.

### Procedure for dealing with problems arising during a mission

If problems arise concerning access to documentation or any other aspect of the Agreement, the mission team should contact immediately the responsible Director at Commission headquarters in order that difficulties may be resolved without delay and the mission completed on time.

## APPENDIX 9

### CATEGORIES OF PROJECT ACTIVITIES OF THE MIP AND PRIORITY REGIONAL INTEGRATION PROJECTS TO BE SUPPORTED BY THE AIF

	Categories of Project Activities of the M.I.P.	A.I.F. Project Support Mechanisms	A.I.F. Financing Vehicles
1	Knowledge generation and dissemination	Research, surveys and benchmarking studies Best practice capture and dissemination/sharing	Technical assistance & grant support
2	Policy, strategy, program and project analysis, evaluation and formulation	Policy /strategy/program & project analysis, evaluation and formulation	Technical assistance & grant support
3	Economic/sector studies and development plans	Economic / sector studies and development plan  Sector-specific standard development and technology capability development  Basic and advanced sector-specific business development tools, techniques & delivery models	Technical assistance, advisory and grant support
4	Institutional capacity building	Training, strategy support, operational support	Technical assistance, advisory & budget support
5	Program and project preparation	Program/project formulation	Technical assistance support
6	Policy or program implementation	Reform implementation  Implementation of sector development plans  Implementation of programs	Technical assistance, advisory & budget support
7	Trade Development, FTA, Customs Unions, Common Market, Political Union	TB- Tariff barriers removal NTB - non-tariff barriers elimination RoO - rules of origin rationalization FTA Customs (admin, revenue, e-process, etc.) Trade facilitation/OSBP/IBM/System Standard development Export development/supply capacity Right of establishment & residence Free movement of people FTA protocol/Act Customs unions protocol/Act Common market protocol/Act	Technical assistance, advisory & budget support
8	Investment Promotion, Monetary Union	Common investment protocol/policy/Act  Investment opportunities packaging/marketing, sector meetings and forums	Technical assistance, advisory & budget support

9	Pre-investment Support & Financial Market Development	<p>Prefeasibility, feasibility, business plan, investment memorandum preparation for regional projects</p> <p>Research /survey and knowledge dissemination and/or best practice sharing in sector/project reform/structuring and financing in the following sectors: PPP/infrastructure, OGM, Health sector PPP, Education sector PPP.</p> <p>SME Access to Finance studies/research, benchmarking and best-practice sharing, knowledge platform development, program design/study/formulation</p> <p>Access to finance readiness support + financial market development + financial inclusion support</p>	Technical assistance, advisory services, grant support
10	Trade finance & Access to Trade Finance	Trade finance capacity building + Access to trade finance readiness support + financial market development + financial inclusion support+ program formulation/design/formulation + institutional design	Technical assistance, advisory services, grant support
11	Science & Technology	<p>R&amp; D system design and/or benchmarking</p> <p>Vocation training system development and benchmarking</p> <p>Standard development</p> <p>Technology capability development and technology management</p> <p>Manufacturing advisory service</p> <p>NIS design and development</p>	Technical assistance, advisory services, grant support
12	Statistics, database and information system	<p>Ratification of the African Charter on Statistics by Member States;</p> <p>Harmonization of statistical information systems: Preparing continental guides for data collection; harmonisation of measurement standards, etc.</p>	Technical assistance, advisory services, grant support

		Continent-wide employment/unemployment survey and statistical system development  Continent-wide survey and statistics on the SME sector	
1 3	Women, Gender & Youth	Women entrepreneurship support program  Youth entrepreneurship support program  Youth employment support program	Technical assistance, advisory services, grant support
1 4	Institutional capacity building of the AUC, RECs & member countries, organs & specialized institutions of AUC and RECs	AUC training, strategy support, operational support  RECs' training, strategy and operational support  Member countries' regional integration-related training, strategy support, operational support	Technical assistance, advisory services, grant support

NB: At this stage of the report, The AIF will not finance commercial projects. The AIF will get involved only in the pre-investment phase of commercial projects. The setting-up of a "Capitalization Fund" along with the "Project Development Fund" as part of the windows of the AIF fund may be considered during the stakeholders/validation workshop

**APPENDIX 10**  
**PROGRAMME AND PROJECT FORMULATION FRAMEWORK**

Logo

INSTITUTION

**DEPARMENT**

**TYPE OF REQUEST**

**TITLE OF PROJECT**

**SUBMITTED TO**

**TARGET DONOR'S PROGRAM**  
**Name of Donor**

Date

## I. Executive Summary of the Project

Title of the Project:	Supporting Culture and Creative Industries as a vector of Regional Integration and Economic Growth.
Location(s) of the action:	Burundi, Kenya, Rwanda, Tanzania and Uganda ( East African Community Region)
Total duration of the action :	72 Months
Amount (in EUR) of requested EDF contribution	Euro 23,700,000
Objectives of the action	<b>The overall objective:</b> <b>The Specific objective:</b>
Target group(s)	
Final beneficiaries	
Expected results	<ul style="list-style-type: none"> <li>• Result 1:</li> <li>• Result 2:</li> <li>• Etc.</li> </ul>
Priority Interventions	<ul style="list-style-type: none"> <li>• Priority intervention 1</li> <li>• Priority intervention 2</li> <li>• Etc.</li> </ul>
M&E Framework	<ul style="list-style-type: none"> <li>• Output indicators</li> <li>• Outcome indicators</li> <li>• Results and KPI</li> <li>• Schedule of M&amp;E activities</li> </ul>

## II. Detailed Project Description

Project Context

Project Justification

Project Broad Goals & Objectives

Project Specific Goals & Objectives

Key Priority Interventions for Donor Support

Summarized budget projection breakdown.

Activity Description	Cost in EURO/US\$						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
<b>Total</b>							

Expected Output, Out comes and Impacts

Logic Framework

Monitoring & Evaluation Framework

Implementation Schedule

Critical Success Factors and Risks



## APPENDIX 11 QUESTIONNAIRES

### FEASIBILITY STUDY ON THE CREATION OF AN AFRICAN INTEGRATION FUND

*A special continental fund for the implementation of the Minimum Integration Program  
(MIP)  
of the African Union Commission*

### SAMPLE QUESTIONNAIRE FOR STAKEHOLDERS

(email answers to be addressed to: [oumarseck@consultant.com](mailto:oumarseck@consultant.com) & [wthariki@yahoo.co.uk](mailto:wthariki@yahoo.co.uk))

#### QUESTIONNAIRE FOR THE REGIONAL ECONOMIC COMMUNITIES

##### Identification of Your Institution/REC:

1. Please identify your institution/REC

##### State of Regional Integration Achieved as at June 30<sup>th</sup>, 2013

1. At what stage of regional integration is your institution is?

##### Programmes and Projects of your Institution:

1. What are the on-going programmes/projects of your Institution?
2. What are the top priority programmes/projects of your Institution for immediate implementation (up to 3 years)?
3. What are the top priority programmes/projects of your Institution for the medium-term ( 4 to 8 years)?

##### Key Challenges & Constraints of your Institution:

1. What are the key challenges and constraints faced by your Institution?
2. How could the identified challenges/constraints be addressed?

##### Minimum Integration Program (MIP):

1. What are the MIP-related programmes/projects currently being implemented by your Institution?
2. What are the top priority programmes/projects of the MIP to be implemented by your Institution in the immediate future (up to 3 years)?  
Please provide estimates of programme/project cost
3. What are the top priority programmes/projects of the MIP to be implemented by your Institution in the medium-term ( 4 to 8 years)?  
Please provide estimates of programme/project cost
4. Are there some MIP programme/projects that you think may be removed entirely from the list of the MIP
5. What additional sectors/programmes/projects/activities not included in the MIP would you suggest as a matter of priority for your institution or the AUC? Please provide estimates of programme/project cost

**Capacity of the AUC and your Institution:**

1. In which areas do you think that the capacity of the AUC, as an institution, needs to be strengthened?
2. In which areas do you think that the capacity of your Institution needs to be strengthened?

**Suggested Improvements at AUC and Institutional Levels:**

3. Which improvements would you want to see for the AUC, as an institution?
4. Which improvements would you want to see for your Institution?

**Relationship with the AUC**

1. What are the institutional arrangements and/or working relationship between your Institution and the AUC?
2. What projects are being implemented in partnership between the AUC and your institution
3. What projects would you suggest for implementation in partnership with the AUC

**Relationship with the AUC and Other RECs**

1. What are the institutional arrangements and/or working relationship between your Institution and the other RECs?
2. What projects are being implemented by your institution in partnership with other RECs
3. What projects would you suggest for implementation by your institution in partnership with other RECs
4. How do you think that best/good practices among RECs could be leveraged/shared?

**Donors:**

1. Which donor's programmes/projects in support of regional integration are you aware of at AUC or RECs' level?
2. Which innovative donor's /partnership programme/project would you suggest in support of the MIP?

**Resource Mobilisation:**

1. What are your current sources of funding desegregated into projects and Administrative support
2. What are the challenges your institution faces in mobilizing financial resources for programme/project implementation?
3. Describe briefly the approach and key success factors of your institution in the areas of financial resources mobilisation
4. What suggestions do you have in terms of AUC resource mobilization strategies?
5. What would you suggest in terms of Resource Mobilisation Strategies for the African Integration Fund?

**Cross-cutting Issues: Youth, Gender, Knowledge & Capacity Building, others:**

1. Which cross-cutting programmes/projects are your institution implementing?
1. Which cross-cutting programmes/projects to be implemented by the AUC, your institution or other RECs would you suggest as priority within the MIP?

**Planning and Managing Regional Integration Fund: Best/good practices:**

1. What have been the key success factors in establishing and running a regional integration Fund
2. What are the possible challenges
3. What are the key elements in your resource mobilization strategy
4. What is the process of identifying projects for implementation while avoiding potential conflicts amongst member states

5. What is your fund structure: Management, Governance, Approval and disbursement Structures, Application Procedures, Ensuring fairness and equity while also guided by the principle of variable geometry, Hosting (if any) arrangements, Fund type and sustainability
6. What would you suggest as The dos or don'ts in setting up the African Integration Fund.

7. Which best/good practices in the areas of resources mobilization strategies or approaches are you aware of elsewhere or at RECs' levels?
8. Which best/good practices in the areas of pushing the African regional integration agenda have you seen elsewhere, at other RECs' levels or at your own Institution's level?

**Structuring the African Integration Fund (AIF):**

1. How do you perceive the African Integration Fund fitting into the work of your Institution
2. What do you see as possible helping forces and/or challenges/conflicts with the AIF
3. How do you perceive the African Integration Fund's relationship with the RECs?
4. How do you perceive the African Integration Fund's relationship with member countries?
5. Do you see any challenges in terms of the AUC hosting the African Integration Fund through a Dedicated Fund Management Unit? Or would you rather suggest alternative hosting arrangements (Private Fund Manager, Planned African Investment Bank, African Development Bank, Regional Development Banks, etc.)
6. How do you see your roles and responsibilities within the perceived AIF
7. What are your proposals for the management and governance structure of the AIF including hosting, accessing and disbursement of funds, monitoring and evaluation
8. What is your overall assessment of your capacity to implement projects under a partnership arrangements with the AIF
9. What do you think will be the relationship between the AIF and other existing regional funds

**Other Comments or Suggestions:**

Please feel free to provide/make other comments or suggestions that would add value to the planning, structuring or implementation of the African Integration Fund

**APPENDIX 12:**  
**LIST OF PERSONS SEEN DURING FIELD MISSIONS**

NAME OF INSTITUTION & PLACE	PERSON /TITLE	CONTACTS
<b>AfDB</b> Tunis, Tunisia	RALPH OLAYE : MANAGER, NEPAD & REGIONAL INFRASTRUCTURE DIVISION	TEL : +216 71 10 21 90 E-mail : r.olaye@afdb.org
<b>NPCA/NEPAD</b> Midrand, South Africa	FLORENCE NAZARE: CORDINATOR, CAPACITY DEVELOPMENT PROGRAMME	TEL: +27 (0)11 256 3600 E-mail: florenceN@nepad.org
<b>UN-ECA</b> Addis Ababa, Ethiopia	ALAN KYEREMATEN : DIRECTOR TRADE CAPACITY BUILDING PROGRAM	TEL:+251 9300 350 22
<b>UNDP</b> Addis Ababa, Ethiopia	SAMUEL BWALYA, PhD : COUNTRY DIRECTOR	TEL : +251 11 551 5177 E-mail : Samuel.bwalya@undp.org
<b>UNDP</b> Addis Ababa, Ethiopia	HAILE KIBRET: POLICY ADVISOR	TEL : +251 11 551 5177 E-mail: Haile.kibret@undp.org
<b>SADC</b> Gaborone, Botswana	ENG. JOAO SAMUEL CAHOLO: DEPUTY EXECUTIVE SECRETARY, REGIONAL INTEGRATION	TEL:+267-395-1863 E-mail: jcaholo@sadc.int
<b>SADC</b> Gaborone, Botswana	TRACEY. T ZINANGA (Ms): SENIOR OFFICER, INTERNATIONAL PARTNERS AND RESOURCE MOBILIZATION	TEL: +267-3951863 E-mail: tzinanga@sadc.int
<b>SADC</b> Gaborone, Botswana	ALEX BANDA : SNR. PROG. OFF. ENVIRONMENT, SUSTAINABLE DEVELOPMENT, FOOD AGRICULTURE & NATURAL RESOURCES (FANR)	TEL: +267-3951863 E-mail : abanda@sadc.int
<b>COMESA</b> Lusaka, Zambia	ANN. W NDIRANGU (Ms): MONITORING AND EVALUATION EXPERT	TEL:+260-211229725 E-mail: andirangu@comesa.int
<b>COMESA</b> Lusaka, Zambia	JOSEPHAT KINYELE: HEAD OF PROCUREMENT AND GENERAL SERVICES	TEL:+260-211229725 EXT 7370 E-mail: jkinyele@comesa.int
<b>IGAD</b> Djibouti	AZHARI. F. ABDELKARIM: PROGRAMME MANAGER, TRANSPORT, COMMUNICATION AND TELCOME	<u>TEL:+253-21354050</u> E-mail: azhari.karim@igad.int
<b>IGAD</b> Djibouti	FLORENCE NAJEMBA MUSOKE (Ms): DIRECTOR, ADMINISTRATION AND FINANCE	<u>TEL:+253-21312720</u> E-mail:Florence.musoke@igad.int
<b>EAC</b> Arusha, Tanzania	JAMES NJAGU: HEAD RESOURCES MOBILISATION & EVA MUMBI (Ms): ANALYST	TEL : +255-27 250 4253/8 E-mail : ...@eachq.org

<b>EAC</b> Arusha, Tanzania	PHILIP WAMBUGU: DIRECTOR OF INFRASTRUCTURE	TEL : +255-27 250 4253/8 E-mail : pwambugu@eachq.org
<b>EAC</b> Arusha, Tanzania	MARIE ANGELIQUE UMULISA (Ms) : REGIONAL TRADE ADVISOR	TEL : +255-27 250 4253/8 E-mail : umulisa@eachq.org
<b>EAC</b> Arusha, Tanzania	EMMANUEL HAKIZIMANA : SENIOR EXPORT PROMOTION OFFICER	TEL : +255-27 250 4253/8 E-mail : hakizimana@eachq.org
<b>EAC</b> Arusha, Tanzania	JOHN GITUKU MUNGA : SENIOR METEROLOGIST	TEL : +255-27 250 4253/8 E-mail : mungal@eachq.org
<b>EAC</b> Arusha, Tanzania	ISABELLE F. WAFFUBWA (Ms): PRINCIPAL POLITICAL AFFAIRS OFFICER	TEL : +255-27 250 4253/8 E-mail : iwaffubwa@eachq.org
<b>EAC</b> Arusha, Tanzania	MARY MAKOFFU (Ms) : DIRECTOR SOCIAL SECTORS	TEL : +255-27 250 4253/8 E-mail : mmakoffu@eachq.org
<b>ECCAS</b> Libreville, Gabon	DAVID MBADINGA : ADVISOR TO THE GENERAL SECRETARY & HEAD OF NEPAD UNIT	TEL:+241-06 69 48 91 E-mail: mbadingadavid@yahoo.fr
<b>ECCAS</b> Libreville, Gabon	Dr. JOEL BEASSEM : HEAD CAADP	TEL:+241-06 69 48 91 E-mail: jbeassem@yagmail.com
<b>ECCAS</b> Libreville, Gabon	ABDOULAYE NDOUKOLBE MAYE : ADVISOR TO THE GENERAL SECRETARY	TEL: +241 01 44 47 31 E-mail: mayedoukol@yahoo.fr
<b>ECCAS</b> Libreville, Gabon	DESIRE ARMAND N. BACKOTTA: WATER EXPERT	TEL: +241 01 44 47 31 E-mail: dndemaza@ceeac-eccas.org
<b>ECCAS</b> Libreville, Gabon	DOMINIQUE KUITSOVE : CATASTROPHIC RISKS & CLIMATE CHANGE EXPERT	TEL: +241 01 44 47 31 E-mail: dkuitsove61@gmail.com
<b>ECCAS</b> Libreville, Gabon	DAWILE AVANYO (Ms) : ASSISTANT TO THE GENERAL SECRETARY	TEL: +241 01 44 47 31 E-mail: dawile_fr@yahoo.fr

#### LIST OF AUC STAFF MEMBERS CONSULTED

DEPARTMENT/OFFICE	PERSON NAME & TITLE
COMMISSIONER OFFICE, ECONOMIC AFFAIRS	RAMATLALI EDWARD NKHAHLE/: SPECIAL ASSISTANT TO THE COMMISSIONER
ECONOMIC AFFAIRS	RENÉ N'GUETTIA , PHD.: DIRECTOR MANASSEH NTAGANDA: SENIOR ECONOMIST
TRADE & INDUSTRY	TREASURE THEMBSISILE MAPHANGA (Ms.): DIRECTOR JEAN NOEL FRANÇOIS: HEAD, CUSTOMS COOPERATION DIVISION HUSSEIN HASSAN HUSSEIN: HEAD, INDUSTRY DIVISION
INFRASTRUCTURE & ENERGY	ABOUBAKARI BABA MOUSSA: DIRECTOR MOCTAR O.A. YEDALY : HEAD, INFORMATION SOCIETY DIVISION NOOR I. MOHAMED: POLICER OFFICER – ROAD TRANSPORT DR. MAURICE-NIATY MOUAMBA, CONSULTANT
RURAL ECONOMY & AGRICULTURE	HASSAN H. MAHAMAT, PHD: DIRECTOR
PEACE & SECURITY	DR. TAREK A. SHARIF, HEAD OF DIVISION DEFENCE & SECURITY
POLITICAL AFFAIRS	SHUMBANA KARUME, AG. DIRECTOR

WOMEN, GENDER & DEVELOPMENT	SIMONE OUATTARA (Ms.): SNR. PROG OFF., WOMEN, GENDER & DEVELOPT.
SOCIAL AFFAIRS	CISSE MARIAMA (Ms.), CHILDREN RIGHTS OUMAR DIOP, SENIOR POLICY OFFICER, EMPLOYMENT & MIGRATION
OFFICE OF THE LEGAL COUNCIL	GASPAR CONSTANCIA ADELINA (Ms.), Ag. HEAD OF OFFICE
PLANNING & BUDGET	JACQUES MUKWENDE: HEAD, RESOURCE MOBILIZATION
CIVIL SOCIETY & DIASPORA	AHMAD EL BACHIR, DIRECTOR
NEPAD COORDINATION UNIT	JEAN YVES ADOU: COORDINATOR

## APPENDIX 13 TERMS OF REFERENCE

### NOTICE



2013

Date: March 18,

**Country: Ethiopia**

**Description of the assignment: FEASIBILITY STUDY ON THE CREATION OF AN AFRICAN  
INTEGRATION FUND**

**Project name:** African integration Fund (*a special continental fund for the implementation of the MIP*)

**Period of assignment/services:** Refer the TOR

Proposal should be submitted by email to [procurement.et@undp.org](mailto:procurement.et@undp.org) no later than March 27, 2013.

Any request for clarification must be sent in writing, or by standard electronic communication to the address or e-mail indicated below. *The Procurement specialist or assigned personnel for this task* will respond in writing or by standard electronic mail and will send written copies of the response, including an explanation of the query without identifying the source of inquiry, to all consultants.

## 1. BACKGROUND

From the Organization of African Unity (OAU) to the creation of the African Union, the New Partnership for Africa's Development (NEPAD)(a programme of the AU) and recent discussions on the Union government, Africa's integration process has been marked by numerous initiatives, mixed results and the slow pace of implementation of regional integration programmes. Initiatives that mark Africa's integration agenda

The integration approach geared toward the establishment of the African Economic Community (AEC), set forth by the Abuja Treaty, was regional in orientation, and was anchored on the RECs which constitute the pillars and building blocks of the AEC. These regional communities have made tremendous progress in their respective domains since they were created, but the pace of implementation of programmes is still slow and needs the support of integration players.

In this context and in order to stem this problem as well as to support the RECs as major pillars of the AEC, African Ministers in charge of Integration adopted the Minimum Integration Programme (MIP). This was accomplished during the Fourth Conference of African Ministers in charge of Integration (COMAI IV) held in Yaoundé, Cameroon, from May 7-8, 2009. The MIP constitutes Africa's efforts to map out, in phases, how, through selected sectors and activities, it will achieve each of the six stages of the Abuja Treaty within the fixed time frame while also stemming the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect. It will serve as the basis for convergence amongst the RECs, though cognisant of the principle of variable geometry. Considering the acute needs of integration, in terms of funding the process in general and the MIP activities in particular, the African Ministers in charge of Integration recommended the establishment of an African Integration Fund dedicated to the financing of integration activities on the continent

For detailed information, please refer to Annex 1

## 2. SCOPE OF WORK, RESPONSIBILITIES AND DESCRIPTION OF THE PROPOSED ANALYTICAL WORK

the specific purpose of the study is the following:

**a) Costing**

- Undertake a cost-benefit and risk analysis of creating the Fund;
- Identify and evaluate potential financing sources, including Member States, private sector, development partners, taking into consideration on-going work by the AUC on alternative sources of funding for the African Union and consultations with Member States by the High Level Panel on a possible option;
- Propose an innovative resource mobilization strategy; and

- Quantify the levels of contributions required from various financing options in order to sustainably replenish the Fund on a yearly basis.

**b) Structure and Management of the Fund**

- Propose a clear overall guiding framework for the Fund, including: mission, goal, objectives, and financing modalities (loans or grants);
- Propose a suitable fund type (endowment fund, trust fund etc);
- Propose suitable operational and structural arrangements for the fund: hosting arrangements (AIB or AFDB); structure (umbrella fund with various fund pillars, or one of a number of existing regional and Continental funds); specific guidelines with regard to capital preservation and liquidity; procedures for accessing the fund by AUC, Departments, RECs and Member States; procedure for approval of projects and disbursement of funds; scale of the funds to be disbursed for a given project – project thresholds; funding criteria; monitoring and evaluation of funded projects (fund disbursements and execution);
- Identify suitable disbursement channels such as direct to RECs (for cross border initiatives), direct to Member States (for national projects that will have an impact on regional integration), to Member States through RECs (whereby RECs would take on the character akin to a Regional Development Agency [RDA] serving as an interlocutor between the central funding body and Member States, and responsible for disbursements monitoring and evaluation, and reporting back to the central funding body, as is the case in the United Kingdom (UK);
- Propose the Fund's governance structure, internal controls and monitoring and evaluation mechanisms;
- Propose the most suitable relationship between the Continental Integration Fund and other existing and potential funds at regional (COMESA, EAC, SADC, ECOWAS) and continental levels (E.g. CAADP Trust Fund, Gender Fund, the Peace Facility etc); and
- Explore the potential relationship of the fund to local government structures at a national level (as with the example of the ESFs).

**c) Implementation Modalities**

- Propose suitable implementation arrangements (phased approach or immediate Continental rollout); and
- Set out the implementation timeframe.

**d) Resource Mobilisation Strategy**

Develop a suitable resource mobilisation strategy

For detailed information, please refer to Annex 1

### 3. REQUIREMENTS FOR EXPERIENCE AND QUALIFICATIONS

**I. Academic Qualifications:**

**Key expert 1:**

Qualifications and skills:



- Masters or equivalent diploma(s) in Finance and/or Economics. Doctorate(s) would be preferable;
- Holder of an internationally recognized professional qualification such as Chartered Financial Analyst (CFA), will be an added advantage;
- Proficiency in French and English; and
- Excellent report writing and presentation skills.

## **II. Years of experience:**

Specific professional experience

- At least 10-15 years professional experience and expert knowledge of Financial/Fund/Investment Management, Investment Banking at an international level, Economic Policy, Research and Management, Econometrics, and Statistics ;and
- Experience of investment fund creation and management.

## **III. Competencies:**

- Clear understanding of African development imperatives as articulated in the Abuja Treaty, AU Constitutive Act and Sirte Declaration; as well as the inner workings of African institutions and the interplay between Member States, AU, the RECs and other comparable intergovernmental bodies regionally and globally.

## **I. Academic Qualifications:**

**Key expert 2 (could be considered if the financing proposal meeting the funding threshold):**

Qualifications and skills

- Masters or equivalent diploma(s) Financial Law;
- Holder of an internationally recognized professional qualification such as Chartered Financial Analyst (CFA), will be an added advantage;
- Proficiency in French and/or English; and
- Excellent report writing and presentation skills.

## **II. Years of experience:**

- At least 7 years professional experience in and expert knowledge of Financial Law, Financial Management and Investment Banking; and
- Experience of investment fund creation and management

## **III. Competencies:**

- Clear understanding of African development imperatives as articulated in the Abuja Treaty, AU Constitutive Act and Sirte Declaration; as well as the inner workings of African institutions and the interplay between Member States, AU, the RECs and other comparable intergovernmental bodies regionally and globally.

3.1.2 These profiles must indicate whether they are to be regarded as long-term/short-term and senior/junior so that it is clear which fee rate in the budget breakdown will apply to each profile. All experts must be independent and free from conflicts of interest in the responsibilities accorded to them.

3.1.3 The selection procedures used by the Consultant(s) to select the other expert shall be transparent, and shall be based on pre-defined criteria, including professional qualifications,

language skills and work experience. Civil servants and other staff of the Contracting Authority cannot be recruited as experts.

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#### 4. DOCUMENTS TO BE INCLUDED WHEN SUBMITTING THE PROPOSALS.

Interested individual consultants must submit the following documents/information to demonstrate their qualifications:

1. Proposal:

(i) Explaining why they are the most suitable for the work

(ii) Provide a brief methodology on how they will approach and conduct the work (if applicable)

2. Financial proposal

3. Personal CV including past experience in similar projects and at least 3 references

#### 5. FINANCIAL PROPOSAL

- **Lump sum contracts**

The financial proposal shall specify a total lump sum amount, and payment terms around specific and measurable (qualitative and quantitative) deliverables (i.e. whether payments fall in installments or upon completion of the entire contract). Payments are based upon output, i.e. upon delivery of the services specified in the TOR. In order to assist the requesting unit in the comparison of financial proposals, the financial proposal will include a breakdown of this lump sum amount (including travel, per diems, and number of anticipated working days).

#### 6. EVALUATION

Individual consultants will be evaluated based on the following methodologies:

2. Cumulative analysis

*When using this weighted scoring method, the award of the contract should be made to the individual consultant whose offer has been evaluated and determined as:*

*a) responsive/compliant/acceptable, and*

*b) Having received the highest score out of a pre-determined set of weighted technical and financial criteria specific to the solicitation.*

*\* Technical Criteria weight; [70%]*

*\* Financial Criteria weight; [30%]*

*Only candidates obtaining a minimum of XXX point would be considered for the Financial Evaluation*

<b>Criteria</b>	<b>Weight</b>	<b>Max. Point</b>
<u>Technical</u>		
Technical (based on CV, Proposal and Interview)		
Minimum educational background and work experience (CV)	10%	10

Understanding of scope of work and methodology (From Proposal)	20%	20
Individual Competencies (Interview or desk review)	40%	40
<u>Financial</u>	30%	30

Please note submission of financial proposal to our e-mail [procurement.et@undp.org](mailto:procurement.et@undp.org) is mandatory.

Submission Through our secured email

- You can send your proposals through our secured email [procurement.et@undp.org](mailto:procurement.et@undp.org)
- Your proposals shall be sent in a separate e mails as Technical and Financial proposals.
- On your e mails you should mention on the subject line
  - Financial      IC/2013/034
  - Technical      IC/2013/034



## TERMS OF REFERENCE

### FOR A FEASIBILITY STUDY ON THE CREATION OF AN AFRICAN INTEGRATION FUND

Department of Economic Affairs

January 2013

#### I BACKGROUND

##### 1.1 Beneficiary

- 1.1.1 The African Member States, Regional Economic Communities (RECs) and African Union Commission.

##### 1.2 Legal Background

- 1.2.1 From the Organization of African Unity (OAU) to the creation of the African Union, the New Partnership for Africa's Development (NEPAD)(a programme of the AU) and recent discussions on the Union government, Africa's integration process has been marked by numerous initiatives, mixed results and the slow pace of implementation of regional integration programmes. Initiatives that mark Africa's integration agenda

1.2.2 The integration approach geared toward the establishment of the African Economic Community (AEC), set forth by the Abuja Treaty, was regional in orientation, and was anchored on the RECs which constitute the pillars and building blocks of the AEC. These regional communities have made tremendous progress in their respective domains since they were created, but the pace of implementation of programmes is still slow and needs the support of integration players.

1.2.3 In this context and in order to stem this problem as well as to support the RECs as major pillars of the AEC, African Ministers in charge of Integration adopted the Minimum Integration Programme (MIP). This was accomplished during the Fourth Conference of African Ministers in charge of Integration (COMAI IV) held in Yaoundé, Cameroon, from May 7-8, 2009. The MIP constitutes Africa's efforts to map out, in phases, how, through selected sectors and activities, it will achieve each of the six stages of the Abuja Treaty within the fixed time frame while also stemming the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect. It will serve as the basis for convergence amongst the RECs, though cognisant of the principle of variable geometry. Considering the acute needs of integration, in terms of funding the process in general and the MIP activities in particular, the African Ministers in charge of Integration recommended the establishment of an African Integration Fund dedicated to the financing of integration activities on the continent.

### 1.3. Current Situation

1.3.1 A major obstacle slowing down the process of integration has been, among others, insufficient financial resources. Although much of the financing is provided by African Member States and supplemented by development partners, these resources still remain inadequate.

1.3.2 Against this background, in tandem with the adoption of the MIP, the Fourth Conference of African Ministers in Charge of integration (COMAI IV), mandated the AUC to prepare a study *exploring 'the possibility of establishing a special continental fund for the implementation of the MIP, which will be partially maintained with existing continental and regional funds as well as other alternative sources of financing, which are being identified by the AU'.*

1.3.3 In this regard, the AUC would like to undertake a study on the creation of an African integration Fund (*a special continental fund for the implementation of the MIP*). The study should aim to quantify the financial requirements for integration vis-a-vis the MIP (for the second and third phase) at regional and continental levels, identify potential and sustainable financing sources (Member States, private sector, alternative sources of funding and

development partners,), propose the most suitable location for the management of the fund (African investment Bank [AIB], the AfDB,), fund type (endowment fund, trust fund etc), fund structure, disbursement channels (through RECs, through Member States), governance structure, relationship to existing and future regional and Continental funds, as well as the implementation modalities and timeframe. In focusing on the operational modalities for establishing the Funding, the study should also take into consideration previous work undertaken by the AUC and RECs on the alternative sources of funding and current financing mechanisms existing at national, regional and continental levels to support integration.

- 1.3.4 It should be noted that there are already successful experiences in financing regional integration projects and activities around the world and one of them is the European Union (EU), whose integration activities are supported by the European Structural Funds (ESFs)<sup>8</sup>. This comprises the European Regional Development Fund<sup>9</sup> (ERDF); European Cohesion Fund<sup>10</sup>(ECF) and the European Social Fund <sup>11</sup>(ESF).
- 1.3.5 Other best practice examples of integration related funds include the following funds in operation in ASEAN: the ASEAN Development Fund (ADF), was established in 2005 and is a cross-sectoral endowment fund belonging ASEAN Member States<sup>12</sup>; ii) Twenty Trust Funds (as of 31 January 2012), which is established open to all three pillars with most contributions derive from ASEAN's Dialogue Partners, however, the Fund is administered by the ASEAN Secretariat directly; iii) the ASEAN Socio-Cultural Community (ASCC) pillar operates four (4) Sectoral Funds<sup>13</sup>, namely the ASEAN Science and Technology Fund (ASF) under the ASEAN Committee on Science and Technology (COST), the ASEAN Cultural Fund (ACF) under the ASEAN Committee on Cultures and Information (COCI), the ASEAN Disaster Management and Emergency Relief (ADMER) Fund under the Conference of the Parties (COP) to the ASEAN Agreement on Disaster Management and Emergency Response (AADMER) and the ASEAN Trans boundary Haze Pollution Control Fund under the Conference of Parties (COP) to the ASEAN Agreement on Trans boundary Haze Pollution; there are also ASEAN Cooperation Funds.

<sup>8</sup>The EU Structural Funds and Cohesion Funds are funds allocated by the [European Union](#) for two related purposes: support for the poorer regions of Europe and support for integrating European [infrastructure](#) especially in the [transport](#) sector.

<sup>9</sup> The ERDF supports programmes addressing regional development, economic change, enhanced competitiveness and territorial co-operation throughout the EU. Funding priorities include research, innovation, environmental protection and risk prevention, as well as infrastructure investment, especially in the least-developed regions.

<sup>10</sup> The ECF funding is for Member States whose gross national income per capita is below 90% of the EU average. The ECF contributes to interventions in the field of the environment and trans-European transport networks.

<sup>11</sup> The ESF focuses on four key areas: increasing adaptability of workers and enterprises, enhancing access to employment and participation in the labour market, reinforcing social inclusion by combating discrimination and facilitating access to the labour market for disadvantaged people, and promoting partnership for reform in the fields of employment and inclusion.

<sup>12</sup> The replenishment of the ADF fund is based on equal contribution and as of January 2012 the ADF's balance stood at USD20,188,649. 80 per cent of the income generated from the ADF's interest can be utilised for either (a) seed funding for projects, or (b) projects of a strategic nature.

<sup>13</sup>ASCC Pillar has also established two specialised thematic Centres with dedicated funding: the ASEAN Centre for Biodiversity (ACB); and the ASEAN Coordinating Centre for Humanitarian Assistance on disaster management (AHA Centre)

- 1.3.6 It is anticipated that the study will explore best practice examples such as those above as well funds existing within the RECs such as the COMESA Fund as well as those within the AUC, to draw inspiration and assess possible areas of emulation and adaptability for the African integration fund.

## ■ **II. PURPOSE OF THE STUDY & EXPECTED RESULTS**

### ■ **2.1.Overall Objective**

2.1.1 The overall objective of this assignment is to assess the feasibility of establishing an African integration Fund to finance the Minimum Integration Programme ITS successive Action Plans; and identify the modalities for its creation at a continental level taking into account existing regional and continental funds and ongoing work on alternative sources of funding for the African Union.

### **2.2.Purpose& Scope of the Assignment**

2.2.1 In order to attain the above objective, the specific purpose of the study is the following:

#### **e) Castings’**

- Undertake a cost-benefit and risk analysis of creating the Fund;
- Identify and evaluate potential financing sources, including Member States, private sector, development partners, taking into consideration on-going work by the AUC on alternative sources of funding for the African Union and consultations with Member States by the High Level Panel on a possible option;
- Propose AN innovative resource mobilization strategy; and
- Quantify the levels of contributions required from various financing options in order to sustainably replenish the Fund on a yearly basis.

#### **f) Structure and Management of the Fund**

- Propose a clear overall guiding framework for the Fund, including: mission, goal, objectives, and financing modalities (loans or grants);
- Propose a suitable fund type (endowment fund, trust fund etc);
- Propose suitable operational and structural arrangements for the fund: hosting arrangements (AIB or AfDB); structure (umbrella fund with various fund pillars, or one of a number of existing regional and Continental funds);specific guidelines with regard to capital preservation and liquidity; procedures for accessing the fund by AUC, Departments, RECs and Member States; procedure for approval of projects and disbursement of funds; scale of the funds to be disbursed for a given project – project thresholds; funding criteria; monitoring and evaluation of funded projects (fund disbursements and execution);
- Identify suitable disbursement channels such as direct to RECs (for cross border initiatives), direct to Member States (for national projects that will have an impact on regional integration), to Member States through RECs (whereby RECs would

take on the character akin to a Regional Development Agency [RDA] serving as an interlocutor between the central funding body and Member States, and responsible for disbursements monitoring and evaluation, and reporting back to the central funding body, as is the case in the United Kingdom (UK);

- Propose the Fund's governance structure, internal controls and monitoring and evaluation mechanisms;
- Propose the most suitable relationship between the Continental Integration Fund and other existing and potential funds at regional (COMESA, EAC, SADC, ECOWAS) and continental levels (E.g. CAADP Trust Fund, Gender Fund, the Peace Facility etc); and
- Explore the potential relationship of the fund to local government structures at a national level (as with the example of the ESFs).

**g) Implementation Modalities**

- Propose suitable implementation arrangements (phased approach or immediate Continental rollout); and
- Set out the implementation timeframe.

**h) Resource Mobilisation Strategy**

- Develop a suitable resource mobilisation strategy.

**2.3. Deliverables to be achieved by the Consultant(s)**

2.3.1 The deliverables to be achieved by the Consultant(s) for this assignment include the following:

**a) One week after a briefing meeting**

- **Deliverable 1:** Inception report submitted one week after a briefing meeting.

**b) Two months after the commencement of the assignment**

- **Deliverable 2:** A Draft report on the feasibility of establishing the African integration Fund, the expected costs and potential financing sources;
- **Deliverable 3:** A draft report on the proposed profile of the Fund, including draft guidelines on the structure, management, governance structure and internal controls, monitoring and evaluation and relationship to existing and future Funds at a regional and Continental level;
- **Deliverable 4:** Draft recommendations on the most appropriate implementation modalities and timeframe; and
- **Deliverable 5:** A draft resource mobilisation strategy.

**c) One month after the validation meeting**

- **Deliverable 6:** Revised and final draft report on the feasibility of establishing an African integration Fund including the costs required and potential financing



sources. This should have taken into consideration comments of a validation workshop.

- **Deliverable 7:** Revised and final draft report on the proposed profile of the Integration Fund, including draft guidelines on the structure, management, governance structure and internal controls, monitoring and evaluation. This should have taken into consideration comments of a validation workshop;
- **Deliverable 8:** Revised and final recommendations on the most appropriate implementation modalities and time frame. This should have taken into consideration comments of a validation workshop. To be submitted one month after the validation meeting; and
- **Deliverable 9:** Revised and final report on resource mobilisation strategy. This should have taken into consideration comments of a validation workshop. To be submitted one month after the validation meeting.

### ▪ **III QUALIFICATIONS**

#### **3.1. Expert Profile(s)**

3.1.1 The profiles of the key expert crucial role in implementing the contract is as follows:

##### **Key expert 1:**

Qualifications and skills:

- Masters or equivalent diploma(s) in Finance and/or Economics. Doctorate(s) would be preferable;
- Holder of an internationally recognized professional qualification such as Chartered Financial Analyst (CFA), will be an added advantage;
- Proficiency in French and English; and
- Excellent report writing and presentation skills.

General professional experience:

- Clear understanding of African development imperatives as articulated in the Abuja Treaty, AU Constitutive Act and Sirte Declaration; as well as the inner workings of African institutions and the interplay between Member States, AU, the RECs and other comparable intergovernmental bodies regionally and globally.

Specific professional experience

- At least 10-15 years professional experience and expert knowledge of Financial/Fund/Investment Management, Investment Banking at an international level, Economic Policy, Research and Management, Econometrics, and Statistics ;and
- Experience of investment fund creation and management.

**Key expert 2 (could be considered if the financing proposal meeting the funding threshold):**

Qualifications and skills

- Masters or equivalent diploma(s) Financial Law;
- Holder of an internationally recognized professional qualification such as Chartered Financial Analyst (CFA), will be an added advantage;
- Proficiency in French and/or English; and
- Excellent report writing and presentation skills.

General professional experience:

- Clear understanding of African development imperatives as articulated in the Abuja Treaty, AU Constitutive Act and Sirte Declaration; as well as the inner workings of African institutions and the interplay between Member States, AU, the RECs and other comparable intergovernmental bodies regionally and globally.

Specific professional experience

- At least 7 years professional experience in and expert knowledge of Financial Law, Financial Management and Investment Banking; and
- Experience of investment fund creation and management.

3.1.2 These profiles must indicate whether they are to be regarded as long-term/short-term and senior/junior so that it is clear which fee rate in the budget breakdown will apply to each profile. All experts must be independent and free from conflicts of interest in the responsibilities accorded to them.

3.1.3 The selection procedures used by the Consultant(s) to select the other expert shall be transparent, and shall be based on pre-defined criteria, including professional qualifications, language skills and work experience. Civil servants and other staff of the Contracting Authority cannot be recruited as experts.

▪ **IV. .... MONITORING AND EVALUATION**

4.1 The AUC will monitor and evaluate the work of the Consultant(s) to ensure adherence to the timeframes and the terms of reference. The specific performance criteria for the project shall include:

- Timely delivery of all relevant study reports and progress reports as specified in the ToRs;

- Comprehension and adherence to the ToRs;
- Missions undertaken to the AUC, the RECs, AfDB, EC and other international organizations;
- Provision of practical and actionable recommendations to address existing problems;
- Provision of a detailed road map with clear steps, stages, milestones and indicators for the establishment of an Integration Fund;
- Provision of a clear, detailed and implementable resource mobilisation strategy for the Integration Fund; and
- Use of a wide variety of qualitative and quantitative research methods.

## **Annex 2**

### **General Terms and Conditions**

#### **1. ACCEPTANCE OF THE PURCHASE ORDER**

This Purchase Order may only be accepted by the Supplier's signing and returning an acknowledgement copy of it or by timely delivery of the goods in accordance with the terms of this Purchase Order, as herein specified. Acceptance of this Purchase Order shall effect a contract between the Parties under which the rights and obligations of the Parties shall be governed solely by the terms and conditions of this Purchase Order, including these General Conditions. No additional or inconsistent provisions proposed by the Supplier shall bind UNDP unless agreed to in writing by a duly authorized official of UNDP.

#### **2. PAYMENT**

- 2.1 UNDP shall, on fulfillment of the Delivery Terms, unless otherwise provided in this Purchase Order, make payment within 30 days of receipt of the Supplier's invoice for the goods and copies of the shipping documents specified in this Purchase Order.
- 2.2 Payment against the invoice referred to above will reflect any discount shown under the payment terms of this Purchase Order, provided payment is made within the period required by such payment terms.
- 2.3 Unless authorized by UNDP, the Supplier shall submit one invoice in respect of this Purchase Order, and such invoice must indicate the Purchase Order's identification number.
- 2.4 The prices shown in this Purchase Order may not be increased except by express written agreement of UNDP.

#### **3. TAX EXEMPTION**

- 3.1 Section 7 of the Convention on the Privileges and Immunities of the United Nations provides, inter alia, that the United Nations, including its subsidiary organs, is exempt from all direct taxes, except charges for utilities services, and is exempt from customs duties and charges of a similar nature in respect of articles imported or exported for its official use. In the event any governmental authority refuses to recognize UNDP's

exemption from such taxes, duties or charges, the Supplier shall immediately consult with UNDP to determine a mutually acceptable procedure.

3.2 Accordingly, the Supplier authorizes UNDP to deduct from the Supplier's invoice any amount representing such taxes, duties or charges, unless the Supplier has consulted with UNDP before the payment thereof and UNDP has, in each instance, specifically authorized the Supplier to pay such taxes, duties or charges under protest. In that event, the Supplier shall provide UNDP with written evidence that payment of such taxes, duties or charges has been made and appropriately authorized.

#### **4. RISK OF LOSS**

Risk of loss, damage to or destruction of the goods shall be governed in accordance with DDU Incoterms 2000, unless otherwise agreed upon by the Parties on the front side of this Purchase Order

#### **5. EXPORT LICENCES**

Notwithstanding any INCOTERM 2000 used in this Purchase Order, the Supplier shall obtain any export licences required for the goods.

#### **6. FITNESS OF GOODS/PACKAGING**

The Supplier warrants that the goods, including packaging, conform to the specifications for the goods ordered under this Purchase Order and are fit for the purposes for which such goods are ordinarily used and for purposes expressly made known to the Supplier by UNDP, and are free from defects in workmanship and materials. The Supplier also warrants that the goods are contained or packaged adequately to protect the goods.

#### **7. INSPECTION**

7.1 UNDP shall have a reasonable time after delivery of the goods to inspect them and to reject and refuse acceptance of goods not conforming to this Purchase Order; payment for goods pursuant to this Purchase Order shall not be deemed an acceptance of the goods.

7.2 Inspection prior to shipment does not relieve the Supplier from any of its contractual obligations.

#### **8. INTELLECTUAL PROPERTY INFRINGEMENT**

The Supplier warrants that the use or supply by UNDP of the goods sold under this Purchase Order does not infringe any patent, design, trade-name or trade-mark. In addition, the Supplier shall, pursuant to this warranty, indemnify, defend and hold UNDP and the United Nations harmless from any actions or claims brought against UNDP or the United Nations pertaining to the alleged infringement of a patent, design, trade-name or trade-mark arising in connection with the goods sold under this Purchase Order.

#### **9. RIGHTS OF UNDP**

In case of failure by the Supplier to fulfil its obligations under the terms and conditions of this Purchase Order, including but not limited to failure to obtain necessary export licences, or to make delivery of all or part of the goods by the agreed delivery date or dates, UNDP may, after giving the Supplier reasonable notice to perform and without prejudice to any other rights or remedies, exercise one or more of the following rights:

9.1 Procure all or part of the goods from other sources, in which event UNDP may hold the Supplier responsible for any excess cost occasioned thereby.

9.2 Refuse to accept delivery of all or part of the goods.

9.3 Cancel this Purchase Order without any liability for termination charges or any other liability of any kind of UNDP.

#### **10. LATE DELIVERY**

Without limiting any other rights or obligations of the parties hereunder, if the Supplier will be unable to deliver the goods by the delivery date(s) stipulated in this Purchase Order, the Supplier shall (i) immediately consult with UNDP to determine the most expeditious means for delivering the goods and (ii) use an expedited means of delivery, at the Supplier's cost (unless the delay is due to Force Majeure), if reasonably so requested by UNDP.

#### **11. ASSIGNMENT AND INSOLVENCY**

11.1. The Supplier shall not, except after obtaining the written consent of UNDP, assign, transfer, pledge or make other disposition of this Purchase Order, or any part thereof, or any of the Supplier's rights or obligations under this Purchase Order.

11.2. Should the Supplier become insolvent or should control of the Supplier change by virtue of insolvency, UNDP may, without prejudice to any other rights or remedies, immediately terminate this Purchase Order by giving the Supplier written notice of termination.

#### **12. USE OF UNDP OR UNITED NATIONS NAME OR EMBLEM**

The Supplier shall not use the name, emblem or official seal of UNDP or the United Nations for any purpose.

#### **13. PROHIBITION ON ADVERTISING**

The Supplier shall not advertise or otherwise make public that it is furnishing goods or services to UNDP without specific permission of UNDP in each instance.

#### **14. CHILD LABOUR**

The Supplier represents and warrants that neither it nor any of its affiliates is engaged in any practice inconsistent with the rights set forth in the Convention on the Rights of the Child, including Article 32 thereof, which, inter alia, requires that a child shall be protected from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development.

Any breach of this representation and warranty shall entitle UNDP to terminate this Purchase Order immediately upon notice to the Supplier, without any liability for termination charges or any other liability of any kind of UNDP

## **15. MINES**

The Supplier represents and warrants that neither it nor any of its affiliates is actively and directly engaged in patent activities, development, assembly, production, trade or manufacture of mines or in such activities in respect of components primarily utilized in the manufacture of Mines. The term "Mines" means those devices defined in Article 2, Paragraphs 1, 4 and 5 of Protocol II annexed to the Convention on Prohibitions and Restrictions on the Use of Certain Conventional Weapons Which May Be Deemed to Be Excessively Injurious or to Have Indiscriminate Effects of 1980.

Any breach of this representation and warranty shall entitle UNDP to terminate this Purchase Order immediately upon notice to the Supplier, without any liability for termination charges or any other liability of any kind of UNDP.

## **16. SETTLEMENT OF DISPUTES**

**16.1 Amicable Settlement.** The Parties shall use their best efforts to settle amicably any dispute, controversy or claim arising out of, or relating to this Purchase Order or the breach, termination or invalidity thereof. Where the Parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules then obtaining, or according to such other procedure as may be agreed between the Parties.

**16.2 Arbitration.** Unless, any such dispute, controversy or claim between the Parties arising out of or relating to this Purchase Order or the breach, termination or invalidity thereof is settled amicably under the preceding paragraph of this Section within sixty (60) days after receipt by one Party of the other Party's request for such amicable settlement, such dispute, controversy or claim shall be referred by either Party to arbitration in accordance with the UNCITRAL Arbitration Rules then obtaining, including its provisions on applicable law. The arbitral tribunal shall have no authority to award punitive damages. The Parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy, claim or dispute.

## **17. PRIVILEGES AND IMMUNITIES**

Nothing in or related to these General Terms and Conditions or this Purchase Order shall be deemed a waiver of any of the privileges and immunities of the United Nations, including its subsidiary organs.

## **18. SEXUAL EXPLOITATION:**

**18.1** The Contractor shall take all appropriate measures to prevent sexual exploitation or abuse of anyone by it or by any of its employees or any other persons who may be engaged by the Contractor to perform any services under the Contract. For these purposes, sexual activity with any person less than eighteen years of age, regardless of any laws relating to consent, shall constitute the sexual exploitation and abuse of such person. In addition, the Contractor shall refrain from, and shall take all appropriate measures to prohibit its employees or other persons engaged by it from, exchanging any

money, goods, services, offers of employment or other things of value, for sexual favors or activities, or from engaging in any sexual activities that are exploitive or degrading to any person. The Contractor acknowledges and agrees that the provisions hereof constitute an essential term of the Contract and that any breach of this representation and warranty shall entitle UNDP to terminate the Contract immediately upon notice to the Contractor, without any liability for termination charges or any other liability of any kind.

18.2 UNDP shall not apply the foregoing standard relating to age in any case in which the Contractor's personnel or any other person who may be engaged by the Contractor to perform any services under the Contract is married to the person less than the age of eighteen years with whom sexual activity has occurred and in which such marriage is recognized as valid under the laws of the country of citizenship of such Contractor's personnel or such other person who may be engaged by the Contractor to perform any services under the Contract.

**19.0 OFFICIALS NOT TO BENEFIT:**

The Contractor warrants that no official of UNDP or the United Nations has received or will be offered by the Contractor any direct or indirect benefit arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract.

**20. AUTHORITY TO MODIFY:**

Pursuant to the Financial Regulations and Rules of UNDP, only the UNDP Authorized Official possess the authority to agree on behalf of UNDP to any modification of or change in this Agreement, to a waiver of any of its provisions or to any additional contractual relationship of any kind with the Contractor. Accordingly, no modification or change in this Contract shall be valid and enforceable against UNDP unless provided by an amendment to this Agreement signed by the Contractor and jointly by the UNDP Authorized Official.

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