AFRICAN INTEGRATION FUND

A special continental fund for the implementation of the minimum integration program of the African Union Commission

FEASIBILITY STUDY

FINAL REPORT

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The views expressed herein can in no way be taken to reflect the official opinion of the UNDP nor of those of the African Union Commission.

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
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
AMV	Africa Mining Vision
APCI	Africa Productive Capacity Initiative
APSA	African Peace and Security Architecture
ASEAN	Association of South East Asian Nations
ASTII	African Science Technology and Innovation Indicators
ATI	Africa Trade Insurance Corporation
ATII	Africa Technology and Innovation Initiative
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	Africa Agriculture and Agro-industries 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
CPA	African Science and Technology Consolidated Plan of Action
CSO	Civil Society Organization
DAC	Development Assistance Committee
DBC	Development Bank of China
DBR	Doing Business Report
DBSA	Development Bank of South Africa
DEG	Deutsche Investitions und Entwicklungsgeselleschaft(Germany)
DevCo	European Commission's Development and Cooperation Office

DFC	Development Finance Cooperation Committee
DFI	Development Finance Institution
DfID	Department for International Development (UK)
DP	Development partner
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
MTN	Medium-Term Note
M&E	Monitoring & Evaluation
MS	Member state
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

PS	Private Sector
PTA	Preferential Trade Area
PTA Bank	Southern Africa Development Bank (Preferential Trade Area Bank)
RADS	Resource-based African Development Strategy
REC	Regional Economic Community
RI	Regional integration
RO	Regional organization
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 technical and financial assistance of the UNDP and the supervisory role of the Department of Economic Affairs of the AUC.

The AIF is meant to help finance the "Minimum Integration Programme" (MIP) adopted during the Fourth Conference of African Ministers in charge of Integration (COMAI IV) of May 7-8, 2009 in Yaoundé-Cameroon. The genesis for the proposed establishment of the AIF, one among many vehicles deployed by the AUC, was a response to the low level of funds flow to support the integration process towards achieving the objectives of the Abuja Treaty, and that the realization of the MIP is the minimum necessary to accelerate the integration process.

The AIF will be a financial facility with two windows: a technical assistance and grant window and a commercial window. **The technical assistance and grant window** will offer grant, technical assistance, advisory services and institutional support; while the **commercial window** would entail a commercial investment and financing fund, the provision of partial loan guarantees and matching grants which should enable the leveraging of additional resources from domestic, regional and international financial institutions. It is also worth stressing that the commercial window of the fund is expected to contribute to the replenishment of the AIF.

The possibility of structuring **child trust funds** or **thematic funds**, managed by the host institution or directly by stakeholders such as the AUC or RECs, will be left to the judgment of the AUC, the Steering Committee of the AIF and anchor development partners.

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 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/ACPI/ATII, RADS/AMV, AGA, APSA, and EPYW). Secondly, though the pace of regional integration has been relatively slow overall at the level of the RECs, 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 some RECs have taken bold steps to speed-up the integration process, namely, with the advent of the Tripartite FTA COMESA-SADC-EAC announced by the three RECs in 2008. Thus 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, Risks and Risk Mitigation 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 numerous resolutions made by African leaders, the African integration process has been marked by slow progress due to 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 arrived at.

In recent years the Continent has experienced improved growth performance but it still faces serious challenges of poverty level, economic diversification and international competitiveness. Numerous studies indicate 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) due to numerous non-tariff barriers (NTBs), poor trade facilitation services and limited supporting infrastructure, including 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 so as to increase its capacity to face 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 accelerating the implementation of the Abuja Treaty (C-FTA that would lead to the AEC) through 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 documented that the low-level intra African trade is a missed growth and development opportunity for African countries. Several studies indicate that if African countries were to increase their share of global trade by only 1 per cent, this would translate into an **additional annual income of over $200 billion** which is approximately more than five times the amount the continent receives in Official Development Assistance. This steady source of income would help underpin the transformation of African economies and enable them to compete globally and effectively deal with crippling poverty. Further intra-African trade has the potential to reduce vulnerability to global shocks, contribute to economic diversification, enhance export competitiveness and create employment.

The small African economies also face stiff competition in international markets, their industries do not enjoy economies of scale, and have less bargaining power at the international forums notably the World Trade Organization in negotiating economic partnership agreements.

Financial and Risk Mitigation Rationale

The Obasanjo-led High-Level Panel on Alternative Sources of Funding of the AU (HLPASF) has revealed that the present AU's funding system is unsustainable. 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**: 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 to materialize due to the strong political implications and/or the technical, legal and financial complexity of the vehicles being considered. However with adequate leadership, hard-working and sufficient development resources, the AIF which is of a relatively smaller scale, could be implemented in a time frame of 18 to 24 months.

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 also allow the AUC and RECs to fund their priority needs (versus situations where donors lay emphasis on their own priorities).

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

- **Mobilizing resources**: A Multi-donor Trust Fund encourages a range of multilateral donors, bilateral donors and private sector actors to commit resources.

- **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 envisaged reforms and priority projects.

- **Donors' coordination and donors-AUC/RECs policy dialogue**: It will facilitate 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 other things, 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: Through the operationalization of the AIF, the Fund will pursue goals and objectives that will help achieve each of the six stages of the Abuja Treaty within the fixed time frame and also stem the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect.

AIF Support Mechanisms

The AIF Support Mechanisms will take the following 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**: Traditional technical assistance in such areas 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**: Two categories of activities will be targeted for advisory services support: (a) pre-investment support in the form of project development, project bankability and project investment readiness support, mobilization campaign funding support for already finalized bankable/PPP project (investment memo preparation, road show support, investors' mission); and (b) resources mobilization activities support for AUC, RECs, and regional organs.

- **Institutional support:** Institutional support will be offered only to AUC, RECs and regional organs of RECs in regional integration priority areas. The activities to be targeted for support include: (a) management, organizational, planning, governance and architecture system design/improvement; (b) specific projects/events that considerably advance 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 flexibly chosen according to the aims of the pool-fund, the envisaged activities and the targeted groups of actors.

The AIF will make ***direct disbursement to the AUC or the RECs*** for continental projects or regional/cross border initiatives, and ***to member states*** for national projects that will have an impact on regional integration. It will make ***disbursement to Member States through RECs*** whereby RECs will 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

The total minimum funding requirements for the technical assistance and grant window of the AIF (which initial planning horizon corresponds to the 2014-17 strategic plan of the African Union Commission; the end of which matches the targeted deadline for the establishment of the C-FTA) stands at **US $ 350 million** broken-down as follows:

• MIP action plan implementation:	US$ 111
• C-FTA implementation and coordination support:	US$ 30
• BIAT action plan implementation:	US$ 90
• AIDA, 3ADI, AMV/RADS, ATII, APCI action plan definition / implementation:	US$ 62
• Employment Pact for Youth and Women (EPYW) and PS and CSO Participation:	US$ 30
• Enabling Capacity Building Programs in Support of the MIP and the RI Process:	US$ 20
• AIF set-up and operating cost:	US$ 5
• AIF M&E and reporting:	US$ 2

Resources Mobilization Channels and Opportunities

For the AIF resource mobilization campaign, the AUC will leverage a combination of the following channels:

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

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' resource mobilization including resource mobilization through established global funds
- Emerging donors' resource mobilization
- Resource mobilization through increased and rationalized member states' contributions
- Commercial/financial market resource mobilization
- Private sector resource mobilization
- Philanthropic resource mobilization

Hosting and Governance of the AIF

The fund will be hosted at one credible institution subject to mutual agreement with the AUC as well as that potential host institution meeting relevant eligibility criteria in the form of passing EU-type "Four-pillar Assessment" test. In other words, the AUC should obtain evidence of the existence of proper operating systems at the potential host institution within the framework of the EU's Four-pillar assessment. Based on these requirements, the following institutions could be considered as potential hosts of the AIF:

Regional institutions

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

Multi-lateral institutions

- World Bank Group
- UN system

It should also be stressed that, from a credibility and risk management point of view, there will be an added advantage 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 can also provide assurance to other bilateral and multilateral donors on matters of accountability, professional and risk management requirements for trust funds.

Rollout and Implementation Plan

From a resources mobilization point of view, the rollout of the AIF project is based on the following assumption[1]:

The roll-out and implementation plan could start in 2014 and be concluded in a time horizon of 18 – 24 months. But this will demand serious commitment from the AUC leadership. In particular, the financial and human resources needed to conduct the resource mobilization campaign must be made available early enough. Additionally the AUC and relevant member states should provide a robust diplomatic back-up to the team and intermediaries/consultants in charge of the resources mobilization campaign. Finally, early engagement with key strategic partners (host institution for the fund and anchor funding partners) will be crucial to fast-tracking the resource mobilization and rollout/implementation plan.

[1] 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 as per the 1991 Abuja Treaty. The treaty which was entered in 1994 aims at the creation of a competitive single market - **African Economic Community (AEC**) - and a single currency. All African members of the AU, with the exception of Morocco which withdrew from the forerunner Organization of African Unity (OAU) in 1984, have ratified the AEC. But though African countries do recognize the importance of speeding up the process there is a general concern over the slow implementation of the six stages set out by the Abuja Treaty. In this regard, 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 the integration.

However the process of implementing the six stages of the Abuja Treaty has been confronted by limited financial resources, the setting of tariff and non-tariff barriers, the slow implementation of a protocol on free movement of goods and services across frontiers, and internal conflict in some countries. Thus the principal objective of pan-African integration especially the creation of a larger market is far from being realized.

In response to the low levels of intra-African trade, a summit of AU leaders in January 2012 endorsed a new action plan to boost trade between African countries, whereby it was agreed that Africa's small and fragmented economies should be brought together into a single market by establishing a **Continental Free Trade Area (C-FTA)** by 2017.

2.2. Project Genesis and Rationale

Since the formation of OAU, the creation of the African Union (AU), the New Partnership for Africa's Development (NEPAD) and recent discussions on the Union Government, the process of Africa's integration has witnessed numerous initiatives with mixed results coupled with slow pace of implementation of regional integration programs.

The integration approach geared towards the establishment of the African Economic Community (AEC) set forth by the Abuja Treaty was regional and anchored on the RECs which constitute the pillars and building blocks of the AEC. Since their creation, the RECs have made significant progress in their respective domains, but the pace of programs implementation is still slow and calls for the stakeholders' support.

In order to stem this problem and support the RECs as major pillars of the AEC, African Ministers in charge of Integration adopted the **Minimum Integration Program (MIP)** during the Fourth Conference of African Ministers in charge of Integration (COMAI IV) held in Yaoundé, Cameroon, from May 7-8, 2009. In this program Africa is to map out selected sectors/program support in each of the six stages of the Abuja Treaty to be implemented within the fixed time frame while also stemming the flow of dissipating, divergent, non-coordinated and incoherent efforts deployed to that effect. The MIP will serve as the basis for convergence amongst the RECs, though cognisant of the principle of variable geometry. In recognition of 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 in the continent.

This **feasibility study however 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**). First, the AU has expressed enhanced ambitions for its regional integration agenda and launched **major continental initiatives like C-FTA, BIAT, CAADP/3ADI, PIDA, AIDA/RADS, APCI, ATII, AMV, AGA, APSA, and EPYW**. Secondly, though the pace of regional integration has been relatively slow, 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) at the level of the RECs. Some RECs have also taken bold steps like the advent of the **Tripartite FTA COMESA-SADC-EAC Agreement** announced by the three RECs in 2008 to speed-up the integration process. Thus the **AIF and the concept of MIP have been "re-contextualized"** to account for these major developments in 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 documented that the low-level of intra African trade is a missed growth and development opportunity for the Continent. Several studies indicate that **if African countries were to increase their share of global trade by only 1 per cent, that translates to an additional annual income of over $200 billion** which is more than five times the amount the continent receives in 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 total merchandise exports in Africa was a mere 10-12 per cent which compares 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. Further, available evidence indicates that the continent's actual level of trade is far below potential, given her level of development and factor endowments.

Additionally, a number of small African economies face stiff competition in international markets, do not enjoy industrial economies of scale, and have less bargaining power at international forums like the World Trade Organization in 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 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 include 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 is 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 <u>all AU recognised RECs</u> (except CEN-SAD, given the security situation in Libya), and interviews with the heads of all <u>Departments of the AUC</u> and the Head of the <u>AUC/NEPAC focal point,</u> and consultation with key stakeholders regarding their priority projects and the state of MIP implementation. Field mission to <u>the African Development Bank (AfDB)</u> to appreciate its interest/view on the project and learn about its new regional integration strategy that is just about to be 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) while 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 major continental programs of the AU;

- **Initial structuring of the African Integration Fund** (AIF) and definition of the Size of the Fund, Its Operating, Management and Governance Framework as well as the related Operating and Management Costs. 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 in 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 and their specific deliverables outlined in the table below:

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

4.0 SOCIO-ECONOMIC, POLITICAL AND INSTITUTIONAL CONTEXT

4.1 Introduction

Africa is home to the world's largest treasure of natural resources, from gold, diamonds and other precious stones to strategic metals, petroleum and gas. In addition, 60% of the world uncultivated arable land is in Africa which also presents a favorable demographics, a growing middle class and the world's youngest region with the prospect that the region will be the only region of the globe not to experience a decline in its saving rate by 2030. As a result, the continent, which presents massive investment opportunities, is of vital geopolitical and economic interests. Consequently, European and North American superpowers, emerging economic powers like China, Brazil and India, and some 1st and 2nd generation Asian Tigers are all positioning themselves in the region. Furthermore, over the past two decades, not only has the region displayed improved investment climate and business environment, but the continent has also sustained strong economic growth.

Yet, despite this resource abundance, the strong performance and the substantial amount of official development assistance receives from donors, especially the European Union (EU accounts for 40 percent of the total assistance), Africa remains the poorest region in the world in relative terms. And in spite of its huge potential, Africa contributes a mere 4 percent in global trade. Several factors constrain the region's external trade, ranging from a weak supply capacity and lack of diversified export product base to poor infrastructures, poor macroeconomic policies, lack of institutional support, lack of access to adequate capital and absence of pragmatic FDI, industry, and SMME and technology capability development policies, strategies and programs.

4.2 Regional Socio-economic Overview

4.2.1 Population

Africa has a total surface area of more than 32.2 million square kilometres which translates to 20.4% of the total land area of the World. The continent is home to over 1.06 billion inhabitants roughly 15% of world population (2012). Africa is a geo-economic space composed of 54 countries with significant differences in land area, 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. Unfortunately only 403 million (38%) including 42.5% of the total population of women in working age are economically active. The rapid growth in the number of young people seeking jobs poses new challenges for Africa, where youth unemployment figure is currently twice that of adults. And as indicated in table 2 below, the social indicators of Sub-Saharan Africa, are among the lowest in the world.

Table 2: Selected Social Indicators - Africa

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

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

4.2.2 Political and Institutional Framework: The Regional Integration Agenda

Despite some political turmoil that has been experienced in certain parts of the continent lately, the 54 countries that comprise Africa have largely committed to democratic governance over the past two decades. The advent of the African Union (AU) can be described as the key institutional development in the continent after previous failed attempts to operationalise a pan-African regional integration body. On September 9, 1999, the Heads of State and Government of the Organization of African Unity issued the Sirte Declaration calling for the establishment of an African Union, with a view, inter alia, to accelerate the process of African integration to enable the continent play her rightful role in the global economy while addressing multifaceted social, economic and political problems that are compounded by known negative aspects of globalization.

The AU is the continent-wide regional body driving the process of regional integration and development**.** Over the last decade**, s**everal 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 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); many other programs such as 3ADI, RADS, APCI, ATII; AMV; and several sub-regional organizations.

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 Southern Africa to name the most prominent ones. Many other smaller regional integration communities (RECs) such as CENSAD, CEPLG, IOC, MRU also exist with declining levels of relevance. The AU officially recognizes only eight of them as official interlocutors (ECOWAS, ECCAS, EAC, SADC, COMESA, UMA, IGAD, CEN-SAD).

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 because of its conception of a development program that place 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 holds the key to her own development because she has an abundance of natural resources and people who have the capacity to be agents for change; and

· Providing the common African platform from where 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 and therefore halt the marginalization of Africa in the globalization process. Hence, African ownership of the NEPAD process must be retained and strongly promoted, so as to meet the legitimate aspirations of the African peoples. While African countries recognize that 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 of poverty and inequality;

· Diversification of productive activities;

· Enhanced international competitiveness and increased exports; and

· Increased African integration

Source: www.nepad.org

Although progress in African cooperation and integration as well as the effectiveness of regional integration arrangements is mixed, some bodies have particularly made progress in the areas 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, non-member countries of the West African Economic and Monetary Union (WAEMU) are implementing 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 though with slow progress in its implementation.

In East Africa, the EAC established a customs union in 2005. COMESA signed its Customs Unions protocol in 2009. The Southern Africa Customs Union (SACU) has been renegotiated and the new SACU agreement intends to deepen and broaden the customs union. And more importantly, all regional integration bodies are also implementing trade facilitation measures, within their transport corridors including the removal/minimization of non-tariff barriers. Cooperation among 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 cooperation and synergy dynamics that should help avoid duplications and redundancies through improved coordination and joint implementation of programs and projects in order to efficiently address 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. The AU is being supported by the African Development Bank (AfDB) and the United Nations Economic Commission for Africa (UN-ECA) in this process. Other valuable support has come from development partners like the European Union (EU), the World Bank, and bilateral development partners like (USAID, DfID, GIZ, AFD and others) with valuable inputs from institutions such FAO, UNIDO and UNCTAD. The AU however appreciates that C-FTA can only come to the effect with 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 in 27 countries.

4.2.3 Socio-Political Context and Outlook

Due to a resurgence of strong growth in this decade, Sub-Saharan Africa was able to reduce the proportion of poor people, from 56.5 percent in 1990 to 48.3 percent in 2010 and projects to reduce this rate to 42.3 percent by 2015. However, the absolute number of poor people rose from 290 million in 1990 to 416 million[2] in 2012. Of all developing regions, Sub-Saharan Africa alone remains seriously off track to achieve the poverty reduction Millennium Development Goals (MDG).

Despite these odds the political risk profile of Africa improved considerably over the last two decades, except in Western and Central parts and recently in northern parts where a number of countries have experienced severe political unrests over the past three years. Two countries are still facing relatively small scale internal armed rebellions while two others are still confronting terrorism-related attacks in the past two years.

On aggregate most African countries have relatively fragile political governance institutions and 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 hinder the region from attracting the foreign direct investment and intra-Africa cross border investment needed to support its socio-economic development objectives.

[2] 2013MDG Report

Finally the poverty level of a growing population, coupled with high unemployment rates of youngsters across the region, translates into social indicators that are among the most alarming in the world. With the exception of Mauritius, Cape Verde, Seychelles, Namibia and few others, the large majority of sub-Saharan countries feature predominantly in the last tier of the UNDP Human Development Index ranking as illustrated in a table 3 of this document.

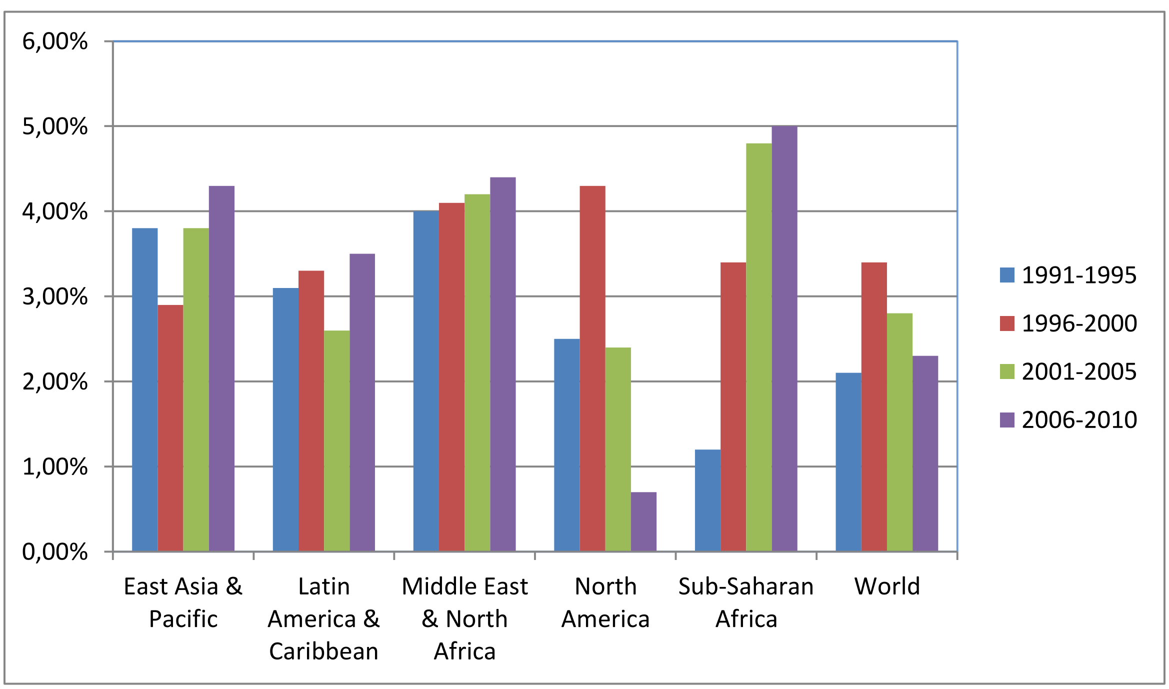
4.3. Economic Outlook

4.3.1. Economic growth

In 2012, Africa posted a **GDP figure of US $ 2.006 trillion (current US$)** with a **total population of 1.06 billion** people**.** Anecdotally, this would rank Africa the 8th economy in the world in terms of GDP behind the top six G8 economies and China, and the 3rd most populated behind China and India, if the region was a single country.

Despite the turbulent global economic environment of the 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 2012 African Statistical Yearbook, 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. After posting a poor 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. Statistics indicate that among the 10 fastest growing nations in the world in 2011, seven of them were in Africa, and eight African countries experienced a GDP growth rate of 8% or more. And in 2012, twelve of the 20 fastest growing economies in the world were African with close to a third of the countries in the continent growing by at least 6 percent, and other third posting growth rates of 4-6 percent.

But like in recent years, the main driver of economic growth in Africa was domestic demand (rising consumption, investment, and government spending on productive activities) with strong impetus being provided by external demand supported by higher commodity prices. Trade in commodity exports has been strengthened by the diversification of trading partners, particularly with China. In the early half of 2011 most African countries, particularly oil exporters, benefitted from the surge in commodity prices, but countries that are predominantly agricultural exporters and oil importers experienced deterioration of their trade accounts.

However the underlying factors supporting growth dynamics in sub-Saharan Africa are expected to continue over the next several years. Increased investment flows, rising consumer spending, and the coming on stream of new mineral exports from a number of countries will continue to support the region's growth. Recent IMF estimates indicate that between 2013 and 2018, Sub-Saharan Africa's annual growth rate will average between 5.4% and 5.7% making it the second growing region after Developing Asia.

4.3.2 Foreign Direct Investment

Based on UNCTAD statistics, FDI inflows to the continent over the 6-year period up to 2012 rose from $23 billion in 2006 to $50 billion, an increase of 117%. This increase however, largely benefited the oil and mining sectors. It was also as a result of other factors like consistent GDP growth rates, increased political stability, a growing middle class, robust tourism, and enactment of reforms that reduced entry barriers.

Meanwhile most African countries are increasingly focusing on the implementation of strategic infrastructure projects and more robust private sector development (PSD). They are also focusing on industry development strategies such as special economic zones and pragmatic value chain development. A recent UNCTAD report notes[3] that, in terms of sources of FDI, firms from emerging markets are increasingly becoming active in Africa. Measured by FDI stock, Malaysia, South Africa, China and India are the largest developing-country investors in Africa.

[3] UNCTAD/PRESS/PR/2013/026 Geneva, Switzerland, (26 June 2013)

4.3.3 Review of Africa's Key Economic Sectors

The structure of the regional economy is still dominated by agriculture which accounts for up to 40% of the GDP in most non-oil producing countries of the region. The secondary and tertiary sectors account for the remaining 60% of the economy.

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

Oil and mining sector with limited local content: The oil and mining industry of the region attracts the bulk of FDI investments. But the impact of such investments in the region remains limited because of non addition of local content due to poor negotiation of concessions and limited participation of local SME/SMI, in the supply, beneficiation/processing, and distribution chains of such sectors.

There is no doubt that Africa is very rich in minerals. According USGS 2008 the region's geology has been the most stable and as a result it contains concentrations of many rare minerals, including diamonds (55% of world supply), cobalt (52%), chromate (37%), and gold (22%). The region also contains around 10% of proven world oil reserves a fact that has made world economic powers including the USA and China to develop strong interest in the region.

In 2001 Africa's electricity generation represented 3.1% of the world output. Only about 23% of Africans have access to power. Further Africa's electricity generation capacity is quite uneven as it is mainly concentrated in the Northern and Southern sub-regions which account for a combined total output of 82% of power generated 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, 65% of the labor force is involved in agriculture, which generates 32% of the Gross Domestic Product (IFAD, 2010). Mc. Kinsey (MGI, 2010) supports the observation that 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, the agriculture sector (crops, horticulture, livestock and fishing) of the region is characterised by poor performance.

Indeed, the huge potential of the region still remains largely untapped due to the following 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 from the formal financial market, especially in the rural areas; (f) and non-conducive development strategies, policies and programmes. On the overall, except in South Africa, Morocco, Egypt and the cocoa sector in Côte d'Ivoire, agriculture in Africa has failed to generate improved incomes for farmers, increase value to the economy, and 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 gloomy picture, agriculture is essential for Africa's growth and for achieving the Millennium Development Goal of reducing poverty by half by 2015, and could offer significant opportunities if the following issues are addressed in a pragmatic way:

- Facilitating agricultural markets and trade (both national and regional supply and distribution chains);
- Improving agricultural productivity 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 market support, the development of profitable value chains, the development of enabling environment (social investment, energy and infrastructure, rural entrepreneurship support system) for the rural economy to prosper and become diversified; and
- Improving agricultural policy framework and institutions.

Under-developed manufacturing and services sectors: The performance of African manufacturing and services sectors (especially that of SSA) are below international standards on four 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) 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. 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.

Given its significant potential for both jobs creation and value addition, the services sector of the region has not yet received the attention it deserves. Specifically more 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[4], Sub-Saharan Africa's informal sector share of GDP is nearly 55% when agricultural informal sector is included 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, especially through simplified regulatory/administrative and tax framework for small businesses.

4.3.4 Risks

External risks: African economy has become increasingly integrated into the global economy through trade, portfolio investment, FDI, remittances and official development assistance channels.

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

Commodity prices: Some 70 percent of the region's export revenues come from agricultural products, oil and minerals – products that are susceptible to a downturn in commodity prices. In Angola and Congo, for instance, 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 are likely to contribute to sharp depreciation of local currencies, and the risk of higher inflation[5]. On the upside, a drop in oil prices will favor the region's oil importers.

Internal risks: From an internal risk standpoint, Africa faces a number of risks that include:

Political risk: Disruptions of productive activities, 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, poor rains can be devastating to African economies. Insufficient rains also mean less

[4]Delhi Group (2006). Expert Group on Informal Sector Statistics

[5]Global Economic Prospects: Uncertainties and vulnerabilities (2012)

hydroelectric power and less supply agricultural supply to the industries and services sectors in most African 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 for the rest of the Continent.

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 infrastructure**, **industry, export and SMME development** programs if the region as a whole is to graduate to the status of an "emerging region" and absorb its large pool of unutilized labor.

The growing middle class and investments in major **infrastructure projects** should continue to provide stimulus for local demand of products and 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** could yield the greatest economic return to the Continent.

Last, but not least, African countries should increasingly focus on "Asian-type" **pragmatic technology capability acquisition** strategies if the graduation to emerging economy status is to be sustained.

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 most countries in the region poorly. For example, as illustrated in the table below the "Doing Business Report" ranks majority of SSA countries as the world least attractive destinations for business. Except Mauritius (19th globally out of 185 countries), South Africa (39th), Tunisia (50th), Rwanda (52th), Botswana (59th) and Ghana (64th) and to a lesser extent, Namibia and Seychelles, the "Doing Business Report" puts most SSA countries in the last quartile of the most favourable places for doing business.

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 Global Rank (185 Countries)	Doing Business Report 2013 African Rank (49 countries)	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)
WEST AFRICA											
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	-
CENTRAL AFR.											
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
EAST AFRICA											
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
SOUTHERN AF.											
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
NORTH AFRICA											
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

4.5. The Potential of Regional Integration in Improving Africa's Political and Socio-Economic Profile

The fragmented and smaller national markets prevalent in Africa, the poor to average investment climate and business environment of the large majority of countries, the limited capacity of individual countries and their national markets to attract foreign capital, namely in infrastructure, along with the low level of intra-African trade are considered to be among the major impediments to the Continent socio-economic progress.

Regional integration can also lead to more attractive business environment and investment climate, foster competition, promote access to wider markets via trade, promote FDI and local investment and promote larger and diversified investment and production namely though the pooling of resources. Regional integration can also promote socio-economic and political stability, and avail the countries involved with more bargaining power in international forums and business transactions. Furthermore, regional integration can promote the free movement of goods and services, capital and labor; and enhance socio-economic policy coordination and harmonization, environmental management and reforms in public goods such as governance, peace and security.

Therefore, regional integration can help address the development challenges of the African continent, namely, in the areas of business and investment environment, financial resource mobilization, infrastructure and industry development, international and intra-African trade, and SME and business development. As such, regional integration appears to be one of the key strategies for improving Africa's political and socio-economic profile. From that perspective, the AIF as a catalyst of such process is of primary importance among the various policy tools of the AU.

5.0 TRADE PATTERN IN AFRICA

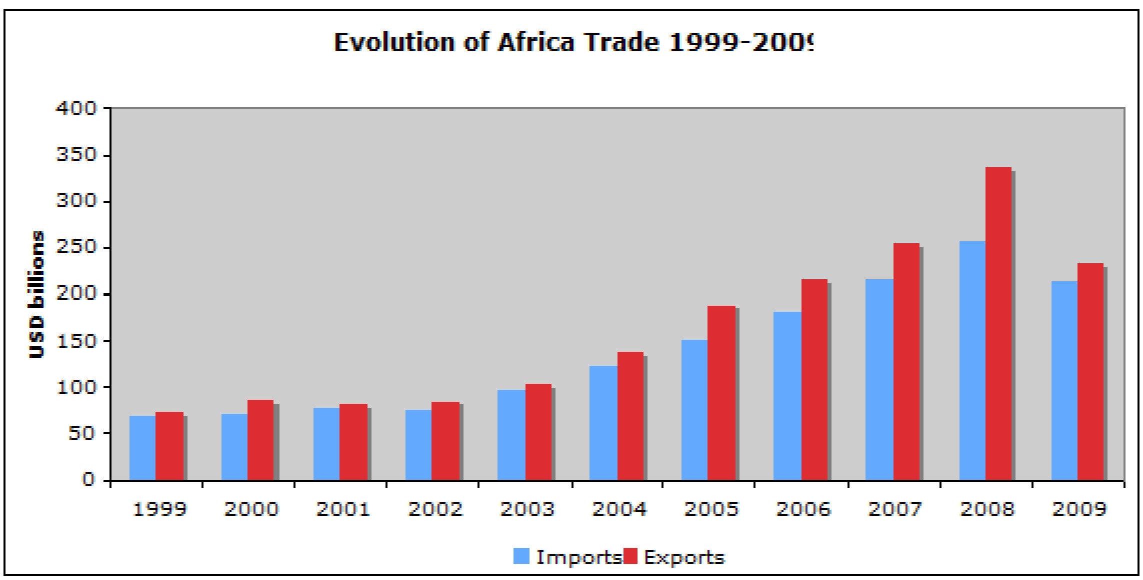
5.1. Africa's International Trade

African trade has grown rapidly over the past decade partly due to the increase in South-South trade and the growing importance of Africa as a supplier of raw materials to emerging Asia. According to UNCTAD, India, the Republic of Korea and Taiwan were the main drivers of African trade growth in the 1990s. However, since 2000 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 expected, oil dominated this growth because of an increase in oil production in the region and a rapid rise in oil prices over the period 2000 to 2008.

Again the period 1999 to 2008 saw rapid growth of African trade with the world. According to the WTO, African trade constituted 2.2% of the continent's GDP in 1995 but that figure grew to 3.3% in 2008.

Figure 2: Evolution of External African Trade 1999 - 2009



Source (AfDB, 2010)

Spurred by global growth, and consequent demand for Africa's primary products, strong regional economic growth, increased integration into global economies and 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 has compiled data showing the scope of intra-African trade and Africa's share of world trade over the period 2000-2007. As indicated in table 4 below intra-African trade accounts for around 10 per cent of Africa's total trade while Africa's share of global trade is about 3% on average over the period.

Latest figures for 2008 through 2012 show a similar trend but with intra-African trade averaging around 11 per cent of Africa's total trade and Africa's share in world trade remaining around 3% on average albeit with some improvement.

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
Intra-Africa Trade (Value)	11631	12466	13224	15572	20994	24854	31660	39565	21246
Africa Trade with World (Value)	133416	129508	144445	176929	232189	273509	329785	418931	229839
Intra-Africa Trade (% of Total)	9	10	9	9	9	9	10	9	9
World Trade (Value)	6653669	6414806	6664703	7771121	9462990	10776488	12337928	14056584	9267286
Africa's Share in World Trade (%)	2	2	2	2	2	3	3	3	2

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

The table 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 is meant to be supported by the AIF. 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, 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 need to develop a platform upon which the harmonization and coordination of the integration agenda was becoming ever more critical.

It was also thought necessary that a raft of initiatives aimed at accelerating the integration agenda was necessary. It should be noted that this initiatives were not in any way meant to remove the existing structures upon which the integration process was carried forward. In this regard particular emphasis is placed on the RECs own integration agenda which are in themselves in tandem with the Abuja treaty of the realization of the Common Market before the continental Common Union was established. In addition to this, the AUC was cognizant of the other continental sectoral frameworks that were taking shape as described below.

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.

The process for the selection of those sectors considered necessary as enablers of the integration process went through a rigorous process undertaken by all the RECs and departments of the AUC.

The selection process was considered at three different levels. At the sectoral level, eleven key sectors were selected as priority areas for the acceleration of the continental integration. These were:

I. Free movement persons, goods and services
II. Trade (tariff barriers, non-tariff barriers, rules of origin, FTA, customs union, common market)
III. Industry
IV. Investment
V. Infrastructure and Energy
VI. Agriculture
VII. Statistics
VIII. Political Affairs
IX. Social Affairs
X. Peace and Security
XI. Science and Technology

In view of the fact that a number of these sectors had progressively developed their own continental structures, particularly PIDA, AIDA and CAADP, it was necessary to further define and refine the priority areas at the level of the subsectors and eventually develop a set of projects and activities for the same. Sectoral meetings were held in Nairobi and Lilongwe in May and June 2010 and came up with the following key nine sectors and subsectors:

i. Political affairs
ii. Industry
iii. Social Affairs
iv. Statistics
v. Trade
vi. Free movement of persons and migration
vii. Gender
viii. Investment
ix. Capacity building and Human resource development

A coordination committee involving all the RECs was then established which in its meeting of November 8th 2010 jointly adopted a set of action plans based on the selected subsectors. The MIP Action Plan was submitted for approval by the Council of Ministers in charge of Integration at their fifth meeting held in Nairobi in September 2011.

The MIP has been fashioned around the implementation of those agreed projects and activities agreed upon in that meeting.

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.

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.

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. It should be noted that the MIP set of projects and activities were developed in close consultation with the RECs and the relevant departments of the AUC. This then implies that those projects and activities also constitute the priority areas of the respective institutions and form a critical part of their mandate within the integration process. The application of the existing funding mechanisms for the implementation of the MIP is thus inbuilt within the institutions and the proposed AIF is meant to augment the efforts of the RECs in pushing the integration process considering that those activities and projects therein are accelerators of what is already in place.

As at the COMAI V meeting in September 2011, the estimated cost of implementing the MIP Action Plan was estimated at USD **110,950**, representing USD 27,175 million for phase one (2009-2012), 38,500 million for phase two (2013-2017) and 45,275 million in phase three (2017-2021). It must be noted that this amount excludes others counted within the established continental frameworks like PIDA, CAADP and the Second Decade of Education. Of course the proposed AIF will be expected to support those other activities and programmes that have established their institutional frameworks as they are within the core priority sectors identified for continental integration.

It should be recalled that the genesis for the proposed establishment of the AIF was a response to the low level of funds flow to support the integration process and that the MIP are the minimum necessary to accelerate the integration process. This study has revisited the cost requirements of the MIP and established a new level of necessary minimum funding as shown elsewhere in the report.

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 developments 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 especially on the Trade

Integration front with "**BIAT - Boosting Intra-African Trade"** adopted by the Assembly of the African Union during its 18th Session of January 2012; as well as the development of the NPCA-coordinated continental programmes such as PIDA (Infrastructure), CAADP/3ADI (Agriculture) and AIDA/RADS/AMV/APCI (Industry and Resource).

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, a 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	**AMU**, EAC, **ECOWAS**	CEN-SAD, COMESA, ECAS, IGAD, SADC,
Trade facilitation (NTBs & OSBP)	COMESA, **EAC, ECOWAS**, SADC	AMU, CEN-SAD, ECCAS, IGAD
Right of establishment and residence	EAC, **ECOWAS**	All RECs
FTA (import tariff/quotas eliminated between countries)	**COMESA**, **EAC**, **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.		
EAC, 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.		
ECOWAS, 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 is 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.		
COMESA 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.		
SADC 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.		
ECCAS 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" that are yet to be implemented in a significant way due to poor unequal political commitment among member countries and some institutional weaknesses that are being addressed.		
AMU 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.		
IGAD is moving slowly and is still in the early stages of cooperation among its member States. **CEN-SAD** future is uncertain with the passing-away of its main sponsor and driver, President Khadaffi of Libya.		

Status of Implementation of the Abuja Treaty

Regarding the status of implementation of the Abuja Treaty, the below table indicates the stages reached by the RECs as well as the next steps to be realized in the integration process. UMA, IGAD and CEN-SAD are yet to provide a clear timeframe for moving towards the FTA. ECCAS is yet to fully realize the FTA and no date is fixed for the Customs Union. SADC intends to launch its Customs Union in 2013.

Table 5: Stages of Implementation of the Abuja Treaty

RECs	**Stages of Implementation of the Abuja Treaty**							
	Stage one 1994-1999	**Stage two** 2000- 2007		**Stage three** 2008-2017		**Stage four** 2018-2019	**Stage five** 2020-2023	**Stage six** 2024-2028 (2034 latest)
	Strengthening Existing RECs and creation of new RECs where they do not exist	Coordination and harmonization of activities	Gradual elimination of TB and NTB	Free Trade Area	Customs Union	Continental Customs Union	African Common Market	Monetary and Economic Union
UMA	✓	✓	In progress	Not yet	Not yet			
IGAD	✓	✓	In progress	Not yet	Not yet			
CEN-SAD	✓	✓	Not yet	Not yet	Not yet			
ECCAS	✓	✓	✓	✓	No date			
SADC	✓	✓	✓	✓	2013			
ECOWAS	✓	✓	✓	✓	2015			
COMESA	✓	✓	✓	✓	✓			
EAC	✓	✓	✓	✓	✓			

Stage four will be realized when all RECS have realized Customs Union and harmonized their respective Common External tariff (CET), with a view of creating one single continental CET.
Stage five will be realized when all RECS have realized Continental Customs Union as well as free movement of labor and capital.
Stage six will be realized when all RECS have achieved African Common Market at which time there will be a common currency, issued by the African Central Bank.

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 18th 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

Other continental programs planned by the AU and partners include: **3ADI** (African Agriculture, agro-industry Development Strategy); **RADS** (Resource-based African Development Strategy); **AMV** (Africa Mining Vision); **APCI** (African Productive Capacity Initiative); **ATII** (African Technology and Innovation Initiative); **AGA** (African Governance Architecture); APSA (African Peace & Security Architecture). One should stress all the above initiatives have experienced a limited level of implementation due to financial resource mobilization challenge.

Appendix 5 to the document gives a presentation and implementation status report of major AU continental programs.

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 RECs. 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. Since1st 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 an adopted road map, 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 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 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.

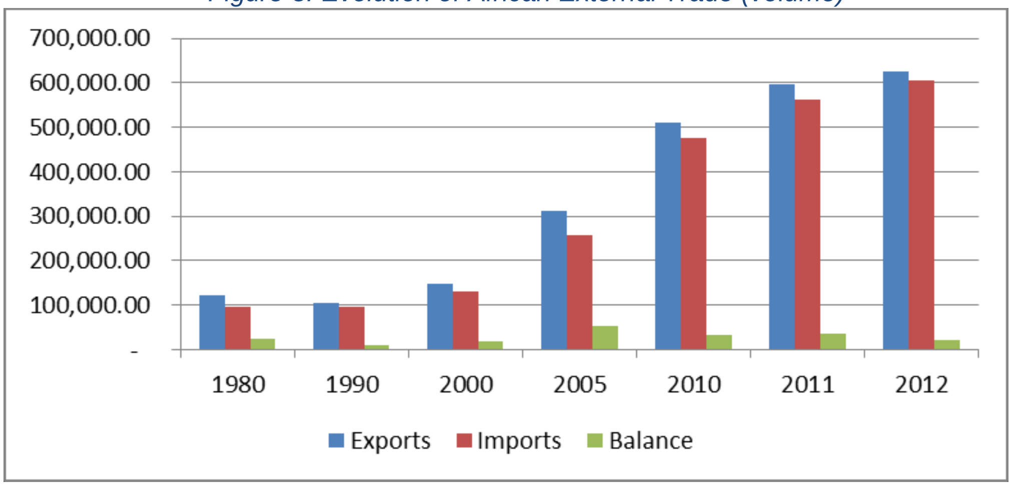
From 2000 to 2011 Africa’s exports almost quadrupled in value, from USD 148.6 billion a year to USD 581.8 billion, according to UNCTAD figures. Two trends are noticeable. First, the European Union and the United States saw their share of Africa’s exports fall – from 47% in 2000 to 33% in 2011 in the 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 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, 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**.** Secondly, 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 and export. Hence, the fact that African countries have large informal economies and the average size of African manufacturing firms relatively small should be addressed through appropriate incentive to formalization and SME grow 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 Action Plan**: implementation of the "Boosting Intra-African Trade" action plan in the following areas:

- Trade Policy
- Trade Facilitation
- Productive Capacity
- Trade-related Infrastructure
- Trade Finance
- Trade Information
- Factor Market Integration Cluster

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", whose 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. 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 6: 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. Agriculture is also 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.

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 Agricultural Policy.

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, and 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 SMEs 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.

Other continental programs closely related to CAAD include: (i) the “African Agriculture and Agro-industries Development Initiative” or “3ADI”; the “African Productive Capacity Initiative” or APCI; and the “Resource-based African Development Strategy” or “RADS”. They are described in Appendix 5**.**

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, and 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 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.

Other continental programs closely related to AIDA include: the “African Mining Vision” or “AMV”; the “African Agriculture and Agro-industries Development Initiative” or “3ADI”; the “African Productive Capacity Initiative” or “APCI”; the African Technology and Innovation Initiative” or “ATII”; and the “Resource-based African Development Strategy” or “RADS”. They are described in Appendix 5.

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 Africa improved considerably over the late 1990s and 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 "Coup" 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 in addition to the sporadic materialization of the risks in many North African countries.

The continent is also increasingly faced with new threats and risks such as maritime security issues like piracy, proliferation of illicit small arms and light weapons, transnational and cross-border crimes (drug trafficking, human trafficking) and inter-community conflicts over overexploitation or illegal exploitation of natural resources (including poaching for elephant ivory an rhino horns, cattle rustling, over-fishing and deforestation).

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 are yet to display 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.

Priority peace, security and regional stability-related programs for consideration include:

a. Conflict prevention, management and resolution and namely contain and peacefully resolve conflicts and disputes among and within the African countries;
b. Develop peace keeping capacity and coordinate the participation of Partner States in international and regional peace support operations;
c. Enhance the capacity of the AUC, RECs and countries with respect to disaster management and coordination of international humanitarian assistance;
d. Combating terrorism and enhancing the capacity of countries in counterterrorism;
e. Improving maritime security and combating piracy by enhancing the capacity of countries in combating terrorism and piracy;
f. Disaster management and crisis response;
g. Control of proliferation of illicit small arms and light weapons;
h. Combating transnational and cross-border crimes;
i. Preventing and combating cattle rustling;
j. Enhance the capacity of Partner States, in the management of refugees;
k. Enhanced governance support to fragile and post-conflict African countries and protect the people and safeguard the development of communities against instability arising from the breakdown of law and order, intra-and inter-State conflicts and aggression

Box 3:
Political Affairs: African Governance Architecture (AGA)

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 good governance, democracy and human rights by:

- formalizing, consolidating and promoting closer cooperation between AU organs/institutions and other stakeholders;
- establishing a coordinating mechanism of regional and continental efforts for the internalization and implementation of African Governance Agenda; and
- enhancing the capacity of AU organs/institutions in the promotion, evaluation and monitoring of governance standards and trends.

Implementing the AGA is one of the key focus of the AU Department of Political Affairs in the near term.

Box 4:
Peace and Security Agenda of the AUC

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 Defense and Security Policy (CADSP**);
- Operationalization of the **African 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 presently the overriding priority of the AU.

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 secto**r. 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. Capacity Building in Financial Resources Mobilization

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 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, limited budget and a difficulty in showing their value-addition. Again, 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 other institutions inside and outside the Continent.

Selected good/best practices worth sharing are reviewed below:

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. It is worth signaling that 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 memberships of African countries to more than one REC.

COMESA Road F unds and R oad 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 including the Democratic Republic of the Congo, Djibouti, Ethiopia, Kenya, Malawi, Rwanda, the Sudan, Uganda, Zambia and Zimbabwe have set up road funds and road development agencies in order to maintain both the regional and national road networks. 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 N ational R oad Transport and Transit F acilitation 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. The African Union Strategic Plan 2014-17

The AU has produced a strategic plan 2014-17 that marks a point of departure from previous AUC planning process in that it is a result-oriented one with annualized targets that guide the annual planning and budgeting process of the AUC with clearly stated roles and responsibilities of the various actors involved.

The **five (5) pillars** of the strategy include:

- Peace and Security;
- Social, Economic and Human Development;
- Integration, Cooperation and Partnerships;
- Shared Values; and
- Institutions, Capacity Building and Communication

The **eight (8) priority areas** of the strategic plan 2014-17 include:

1/. Promote **peace and stability**, including regional initiatives, good governance, democracy and human rights as a foundation for inclusion, security and the development of the continent and its people.

2/. **Expand agricultural production**, developing **the agro-processing and businesses sectors**, increase **market access** and attain Africa's collective **food self-sufficiency** and nutrition through promotion of smallholder agriculture, sound **environment and natural resource management**, including climate change.

3/. Promote **inclusive economic development and industrialization** through the acceleration of **infrastructure development projects that will aid economic integration** and utilization of the continent's **mineral and other natural resources**.

4/. Build Africa's **human capacity** through the prioritization of primary health care and prevention; education, skills development and investment in science, research and innovation, access to clean water and sanitation with inclusion of the vulnerable groups.

5/. Mainstream the participation of **women and the youth** in all priorities and activities of the Union and the continent.

6/. Implement strategies of **resource mobilization**, with special emphasis on alternative source of funding, and/or additional funding to enable Africa to finance its programs and development.

7/. Strengthen a **people centered union through active communication** of the programs of the African Union, the branding of the Union and participation of Member States and other stakeholders in defining and implementing the African agenda.

8/. Strengthen the **institutional capacity of the AUC, the RECs and other organs**, and its relations with strategic and other partners.

NB: The AU is also planning the articulation of the Agenda 2063. The overall objective of the Agenda 2063 exercise includes the following:

- Develop a plan which will chart Africa's development trajectory over the next 50 years.
- Clearly delineate the roles of each stakeholder such as RECs, member states, civil society and private sector.
- Build upon and benefit from experiences of previous plans such as the Lagos Plan of Action, the Abuja Treaty and NEPAD.
- Provide a dedicated implementation plan that will significantly transform the continent.

The AIF will complement the AUC regular financing schemes in the implementation of the strategic plan by supporting the components of the plan that are in line with the MIP, the C-FTA, the BIAT and other priority regional integration programs but not covered under the AUC regular budget.

6.17. 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 into 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
- Heath
- 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.); and, (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

It is worth stressing that **the AIF is just one among many instruments being deployed by the AUC to fast-track Africa's regional integration process**. For success, integration requires strong commitment in implementing the agreed arrangements, an array of dedicated financing vehicles, equitable distribution of the gains and costs of integration, and an enabling environment for private sector development.

One of the important drivers of regional integration is political commitment. Indeed, integration requires strong commitment in implementing the agreed arrangements. More importantly, extra efforts, from a fiscal point of view, are required from all African countries to address the structural funding gaps the AUC, RECs and ROs are confronted with.

From a financing perspective, regional infrastructure finance, industry and SMME finance, the financing of the peace, security and social agenda critical to realizing fully regional integration are of paramount importance. Equally important is the setting up of compensation funds that ensure an equitable distribution of the gains and costs of integration and fair arbitration and dispute resolution mechanisms.

Last but not least, without an enabling environment and an investment climate conducive to private sector development and foreign and domestic investment promotion, regional integration will not yield the socio-economic benefits expected.

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

7.1.1. 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 African 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 vehicle (i.e. the AIF) among others, is of vital importance to the future of many African countries and to the Continent as a whole.

7.1.2. Economic rationale

Regional integration can lead to a more attractive business environment and investment climate, foster competition, promote access to wider market, promote FDI and local investment and promote, larger and diversified investment and production, and promote socio-economic and political stability and bargaining power for the countries involved. Hence, supporting the MIP which core objectives are to speed-up the regional integration process of the Continent through a dedicated financing vehicle such as the AIF is of paramount importance.

Furthermore, 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 in 2012 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 that would translate to 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.

7.1.3. Financial and Risk Mitigation Rationale

Filling financing gaps: It should be recalled that the genesis for the proposed establishment of the AIF was a response to the low level of funds flow to support the integration process and that the MIP are the minimum necessary to accelerate the integration process. Indeed, inadequate financial resources was quoted as the major problem hindering the implementation of the programmes of most RECs, including those who have put in place a self-financing mechanism (ECOWAS). Furthermore, the quasi totality of RECs and the AUC rely on development partners in financing their priority programs and activities.

Hence, resource mobilization is required to finance the MIP as initially planned; but also to finance negotiations of the Tripartite, the operationalization of the BIAT framework, namely trade facilitation and supply capacity development programs. Resource mobilization is also needed to develop enabling institutional and technical capacity of the AUC, REC, ROs and member states. Resource mobilization is also needed to support civil society participation in the regional integration process, to finance best practice sharing and success story dissemination

AUC funding risk management: The Obansanjo-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 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 contributing 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 7: 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 8: 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

Collective resource mobilization vehicle: Resource mobilization is vital at addressing policy, physical and economic integration (legal agreement/protocol, harmonized policy framework, physical infrastructures, productive capacity, trade facilitation infrastructure, etc.). The financial requirements to address these massive financial resource needs are, so far, beyond the resources of the RECs and individual Member States. AIF will facilitate the collective mobilization of financial and technical resources and their pooling to plan, finance and implement regional integration-related decisions, programs and projects of the AUC, RECs and member states.

Furthermore, the AUC, RECs, ROs are heavily understaffed. This affects negatively their ability to plan, coordinate and implement regional integration policies, programs and projects. The AIF will facilitate the hiring of project-specific technical resources for the AUC, RECs, ROs and member states.

Support to resources mobilization efforts of RECs, ROs and member states: RECs which have not yet developed a comprehensive resources mobilization strategy, have also started reflecting on putting in place their own alternative sources of financing. The AIF will help design such resources mobilization strategies through financial support and the facilitation of best practice sharing for RECs, ROs and member states.

7.1.4. Enhanced Coordination among Regional Integration Stakeholders

Enhanced AUC-RECs relationship and coordination: At times, there is the impression that the links between the AUC and the RECs are relatively weak as there is no formally-binding link between the two. The AUC-initiated AIF will help the AUC build strong relationship with the RECs as the building blocks of the AEC through the financial support to be offered by the AIF.

Best practice sharing: The AIF will not only support financially the implementation of agreed commitments, but it will also facilitate the sharing of good practices among RECs. In particular, the AIF will facilitate the building of strong horizontal relationship among RECs for genuine experience and expertise sharing.

Implementation of joint projects: AIF will facilitate the financing of programs and projects that involve more than one REC; programs that would have problems mobilizing resources from the individual RECs and their member countries.

Coordination among development partners: Inadequate physical infrastructure; poor institutional infrastructure; inadequate coordination among regional and pan-African institutions; and lack of cohesion vis-à-vis the numerous development partners have also been identified as impediments to focused support to the regional integration agenda of Africa. The AIF, which will be a multi-donor trust fund that focuses exclusively on the AU and RECs regional integration agenda, will promote cohesion and coordination among development partners.

7.1.5. Resources acquisition

The AUC, RECs and RO are largely understaffed. This affects negatively their ability to plan and implement regional programs. The AIF will facilitate the hiring of project-specific human resources (at fund and project levels) and their movement from one project to another.

The setting-up of the AIF will enable RECs to free-up part of their limited resources and redirect them to other priority projects and programs.

7.1.6. Visibility of regional integration programs

Because it facilitates the implementation of the MIP Action Plan, the AIF infuses greater visibility into the implementation of the regional and continental integration agenda. Furthermore, the dissemination of success stories of the African regional integration agenda and the sharing of best practices among RECs will give more visibility to the process and clarifies the relationships between stakeholders or players in terms of policy coordination and harmonization.

7.1.7. 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 that 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 AU Thematic Funds, RECs Funds, etc.) with which it will seek synergy.

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
- Single-donor trust fund
- 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 MTDF as identified in the GSDRC best practice report[6] on trust funds

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 envisaged reforms.

Coordination: It will facilitate donor coordination and harmonization.

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 fund their own projects).

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

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 working with a recipient organization or government directly.

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

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. Selected Examples of Regional Integration-related Trust Funds

It should be noted that there are already successful experiences in financing regional integration projects and activities around the world. Selected such examples are briefly reviewed below.

8.1.1. European Structural Funds

The European Union integration activities are supported by the European Structural Funds (ESFs). This comprises the European Regional Development Fund (ERDF), European Cohesion Fund (ECF) and the European Social Fund (ESF).

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.

The **European Regional Development Fund (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.

The **European Cohesion Fund (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.

The **European Social Fund (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.

8.1.2. ASEAN Development Fund

ASEAN Development Fund (ADF) was established in 2005 and is a cross-sectoral endowment fund belonging to ASEAN Member States. The ADF, comprising twenty trust funds (as of 31 January 2012), covers all three pillars (**political** community, **economic** community and **socio-cultural** community) with most contributions derived from ASEAN's Dialogue Partners. However, the Fund is administered by the ASEAN Secretariat directly.

The ASEAN Socio-Cultural Community **(**ASCC) pillar operates four (4) Sectoral Funds, 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

Objectives

The ASEAN Development Fund shall serve as ASEAN's common pool of financial resources to support the implementation of the Vientiane Action Program (VAP) and its successor documents. In particular, the ADF shall be used for the following purposes:

i. To leverage funding of regional cooperation programs and projects from Dialogue Partners and other external donors. When used for counterpart funding, the amount shall not exceed 20% of the total funding raised regardless of whether the co- funding source is an ASEAN Member Country or an external donor;

ii. To provide seed funding for initial activities of large-scale projects, requiring major financial support from a Dialogue Partner or donor institution; and

iii. To provide full funding support to small and short-term projects of a confidential or strategic nature.

Guiding Principles

The ADF shall be established and managed according to the following guiding principles:

i. The basic element of the ADF shall be equal contributions by ASEAN Member Countries. The initial contribution of each ASEAN Member Country to the ADF shall be one million US dollars (US$1,000,000). This initial contribution shall comprise the existing contributions of each ASEAN Member Country to the ASEAN Fund. These existing contributions of each ASEAN Member Country to the ASEAN Fund shall be transferred to the ADF upon the Agreement's entry into force;

ii. ASEAN Member Countries, at any time, are encouraged to make additional voluntary contribution(s) in any amount in addition to their initial contributions;

iii. The ADF shall be open to contributions from other public and private sources. No restrictions or conditions shall be imposed by other public and private sources with regard to the use of their contributions; and

iv. Contributions by the ASEAN Member Countries to the ADF shall be distinct and separate from their contributions to the operating budget of the ASEAN Secretariat, and to other ASEAN funds of a sectoral nature.

Custody and Management of the Fund

3. The ADF shall be held in trust at the ASEAN Secretariat, subject to the same rules and conditions that are applied to other existing trust funds in regard to investment, disbursement, accounting and auditing procedures.

4. The ADF will be increased by equal contributions of the ASEAN Member Countries in the amount US$100,000 by the end of the year 2007.

8.1.3. Selected African Regional Integration-based Trust Funds

1/. Tripartite Trust Account: The Development Bank of Southern Africa (DBSA) established and manages the Tripartite Trust Account (TTA) on behalf of the Tripartite. The TTA is a *catalytic grant fund that will leverage funds from commercial and quasi commercial sources*. The TTA is open to all donors. An Investment Committee provides guidance to the DBSA in making investment decisions using the Tripartite Trust Fund according to an agreed set of project eligibility criteria.

2/. Multi-donor Trust fund to support the implementation of CAADP: As part of CAADP implementation, the African Union requested for the establishment of a Multi-donor Trust fund to support the implementation of CAADP. As a result, a series of bilateral and multilateral development partners made resources available for CAADP process implementation to the tune of US$ 50 million. The World Bank was identified as a Trust Fund administrator and has been supporting CAADP process activities at continental level (AUC, NPCA, and CAADP Pillar Institutions), at regional level (RECs) and Member States, farmer organizations and private sector and at country level.

Child Trust Funds: Out of this main Trust Fund, Child Trust Funds (CTFs) have been created to support African institutions (AUC, NPCA, RECS, Pillar Institutions, and Member States) activities. The basis for these Child Trust Funds is to allow the resources be managed by the institutions themselves and flexibility to allocate to critical priorities and strengthen capacities with these institutions.//So far, up to US$17 million has been approved and allocated to African institutions as follows. US$4 million for AUC, US$4.5 million for COMESA, US$1.1million for CAADP Pillar 2, US$3.9 million for ECCAS and US$3.5 million for NPCA. These CTFs are now operational and additional proposals for institutions such as ECOWAS and SADC have been approved for MDTF funding.

3/. Trust Fund under the Global Agriculture Food Security Program (GAFSP): GAFSP has been put in place to make resources available for Member States that have met the criteria set under CAADP and mainly for implementation of National Agriculture and Food Security Investment Plans.

As of November 2011, US$971.5 million has been mobilized from various development partners to fund both private and public sector actions through GAFSP[7]. For Africa, Liberia, Niger, Ethiopia, Togo, Sierra Leone and Rwanda received additional money from GAFSP to finance their country plan based on their demonstration of CAADP principles.

8.2. 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 is also 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

[7] Status of Integration in Africa (SIA IV, 2013)

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 experience 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.

Flexibility and responsiveness of the fund: 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.

In particular, the possibility of structuring **Child Trust Funds** or **Thematic Funds** (under the umbrella trust fund) (like the ASEAN Development Fund and the Tripartite Trust Fund), to be managed by the host institution or directly by partners such as the AUC or RECs, will be left to the judgment of the AUC, the steering committee of the trust fund, the host institution, and some of the anchor donors. Indeed, based on the principle of subsidiarity and decentralization, having some of the stakeholders directly manage part of the funds and specific projects, based on agreed-upon deliverables and timeline for execution, could speed-up project approval and implementation process and enhance the absorption capacity of trust fund resources by beneficiaries.

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-designed program and project engineering to realize the desired results.

8.3. Structuring the African Integration Fund

The AIF will provide for two windows implemented in a gradual and coordinated manner. The first window will focus on grants and technical assistance and the second window will be commercial.

- The **grants/technical assistance window** will provide grant support for technical assistance, institutional/capacity building and project preparation for MIP as well as management of the AIF.

- The **commercial window** will support commercial projects of the MIP by providing debt and equity financing, partial loan guarantees/risk sharing facilities, and matching-grants which should enable the leveraging of additional resources from domestic, regional and international financial. The commercial window will attract commercial and foreign direct investments from the financial market and the private sector. The commercial window will leverage, among others and where relevant, FDI, international reserves of African countries/central banks, portfolio investments, sovereign wealth funds, pension funds, Diaspora financial resources and possibly reclaimed illicit financial flows. Work on the second window will be considered as the first window of the AIF matures and the integration process gains momentum.

It is worth stressing that member countries of the African Union will provide the seed funding of the AIF as a complement to the contribution from development partners. In addition, the replenishment of the AIF will be considered through its commercial window and the application of matching grant and partial cost recovery on the planned technical assistance activities.

The remaining of this report deals exclusively with the technical assistance window of the AIF unless otherwise indicated.

Appendix 7 provides details of the sources of finance and instrument to be deployed for the establishment of the commercial window of the AIF.

8.3.1. Legal Structuring of the AIF – Establishment, Membership and Hosting

Establishment of the AIF and Membership

The AIF shall be **established by an Agreement** between the AU Member countries.

The guiding principles of the Agreement establishing the AIF should involve the following:

i. The basic element of the AIF shall be a specific level of contributions by AU Member Countries. The initial contribution of each AU Member Country to the AIF will be defined by the AU. These contributions of each AU Member Country to the AIF shall be transferred to the AIF upon the Agreement's entry into force as seed funding;

ii. AU Member Countries, at any time, are encouraged to make additional voluntary contribution(s) in any amount in addition to their initial contributions;

iii. The AIF shall be open to **<u>memberships and contributions</u>** from other public and private sources. No restrictions or conditions shall be imposed by other public and private sources with regard to the use of their contributions; and

iv. Contributions by the AU Member Countries to the AIF shall be distinct and separate from their contributions to the operating budget of the AUC, and to other AU funds of a sectoral nature.

Hosting of the Fund

The hosting of the fund, that is, its custody and management activities will come into effect through an **Agreement between the AU and the Host Institution.**

The hosting of the AIF will be governed by the following:

i. The AIF shall be held in trust at the Host Institution, subject to the best practices in terms of rules and conditions that are applied to other existing trust funds in regard to investment, disbursement, accounting and auditing procedures.

ii. The AIF will be increased and replenished by contributions of the AU Member Countries in amounts and frequency to be defined by the AU.

8.3.2. Technical Assistance Window of the AIF - Type of Fund

The technical assistance and grant window of 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 organizations and other donors who jointly agree to finance the MIP on the basis of commonly agreed objectives and reporting formats. The program will be managed by one of the donors or a third party. There will 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; (f) an comprehensive M&E, result management and reporting framework.

8.3.3. 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 and risk sharing facilities for commercial projects.

8.4. Size of the Fund

The total minimum funding requirements for the technical assistance and grant window of the AIF, which initial planning horizon corresponds to the strategic plan of the African Union Commission and the targeted deadline for the establishment of the C-FTA, stands at **US $ 350 million** broken-down as follows:

- MIP action plan implementation (as per the 2011 assessment[8]): US$ 111
- C-FTA implementation and coordination support: US$ 30
- BIAT action plan implementation: US$ 90
- AIDA, 3ADI, AMV/RADS, ATII, APCI action plan definition / implementation: US$ 62
- Employment Pact for Youth and Women (EPYW) and PS &CSO Participation: US$ 30
- Enabling Capacity Building Programs in Support of the MIP and the RI Process: US$ 20
- AIF set-up and operating cost: US$ 5
- AIF M&E and reporting: US$ 2

The detailed costing and sizing of the AIF is presented in Appendix 6 of the document**.**

[8] African Union Commission (2011), - Minimum Integration Programme (MIP) Action Plan: Costing Report. July 2011

8.5. Operations and Management of the Fund

8.5.1. Hosting and Administration of the Fund

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

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 following the '6-pillar assessment'[9]:

- 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;

[9] 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.

- 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

Table 8 below presents the relative advantages of the different hosting options

Table 9: AIF Hosting Options

Hosting Options for the African Integration Fund						
	AfDB	**WBG**	**Regional DFI**	**UN System**	**AUC**	**Ad-hoc Institution**
Credibility vis-à-vis Development Partners	High	high	average	high	fair	average
Positive impact on resources mobilisation	High	high	fair	fair	low to fair	low
Technical assistance delivery experience	good	good	fair	good	low to fair	low
Treasury/risk management infrastructure	good	good	fair	fair	low	low
Quality of internal procedures and governance	good	good	fair	good	fair	fair
Track record in Trust Fund management	good	good	fair	good	low	low
May contribute own resources	Yes	yes	no	no	yes	no
Fiduciary/operating risk	Low	low	average	low	average	average

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 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.

8.5.2. 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

8.5.3. 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

8.5.4. Procedure for Approval of Projects and Project Eligibility Criteria

The AIF will rely on two project approval streams:

- Traditional project request for AIF funding
- 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.

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 tentative project approval criteria for the AIF:

Table 10: Project Eligibility Criteria	
Impact Criteria	**Promotes**
Does the project contribute decisively to the regional integration agenda of the AU? Is the project an MIP or priority continental regional integration project?	Regional integration
Criterion at the policy level	
Is the activity within a priority area in the broad agenda for regional integration set by the AUC and RECs?	Ownership and impact
Criteria at the planning level	
Does the activity 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 overlap with actions foreseen to be implemented by AUC and RECs under their normal program support?	Efficiency and coordination
Criteria at the technical level	
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? Are the key performance indicators (KPI) of the project defined? Can the progress of the project be monitored adequately? Has baseline information been properly defined and captured for the activity? Has the overall M&E framework been defined comprehensively?	Monitoring of results
Project size criterion	
Does the project meet the size criterion?	Disciplined financial management
Regional balance criterion	
Will regional balance be preserved by approving this project?	Regional balance

The AIF will also consider introducing performance-based criteria as an incentive for accessing future and increased levels of funding.

Consideration will also be given to landlocked countries and island states in accessing the AIF, particularly those projects that have the potential to enhance regional integration.

8.5.5. 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.

8.5.6. 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 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 comprehensively capture 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, 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 is fundamentally a knowledge business that is competence and experience-based, and 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.

Mid-term review

A regular monitoring of financial flows and a mid-term review to assess the performance of the Fund will be part of the monitoring process.

Independent evaluation

Undertaking independent monitoring & evaluation, to be engaged directly by the Governing body is seen as positive by 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.

8.6. 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 or Advisory 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 Executive Committee, composed of Ministers of Finance and Integration, Donors, the AUC, the Trust Fund Manager and the Secretariat, is the decision-making body of the Trust Fund. As the governing body of the Trust Fund, the Executive Committee is responsible for all key decisions.

Technical Committee

The Technical Committee evaluates and 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 or Host Institution

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

It is also anticipated that the Board of the Host institution be engaged and oversees the performance of the trust fund it manages. 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.

It is worth mentioning to the benefit of the AIF that MDTF staff has 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 be in place from the beginning to anticipate the content and priority of the process.

The Secretariat

The secretariat will be composed by representative of the AUC and funding partners.

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 therefore coordinates the overall AIF governance process and acts as a permanent contact center for AIF stakeholders.

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

Figure 4: AIF Governance and Management Framework

The detailed governance structure, voting size and operational aspects of the AIF will be developed at a later stage.

8.7. Relationship with Other Related Funds

The AIF will develop synergy and complementarities with other related funds or facilities 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. They 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, and 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 using studies undertaken by the NEPAD Heads of State and Government Orientation Committee (**NHSGOC**) on **"Internal Resources Mobilization Potential"** of the AUC. This is in addition to the already approved project of the **African Investment Bank** which is at the planning stage. As part of the Joint Strategy EU-AUC and the incoming 11th EDF (2014 -2020), the EC has committed to support the Regional Integration "Pan-African Program" to the tune of 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 **Africa 50 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. This fund targets to raise USD 50 to 100 billion.

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 1st and 2nd generation of Asian Tigers.

These players have expressed interest towards the Continent on two levels. First, they are interested in getting a share of the African growth and investment opportunities through EPC (engineering, procurement, construction) deals and financial investments are visible through FDI, bilateral investments, portfolio investment and the surge in the number of private equity firms targeting the region. Secondly, they are positioning themselves strategically to get contracts and security guarantees in the sourcing of OGM and other commodities through long-term sourcing arrangement with African firms and governments.

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 platforms 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 through 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 which local partners find difficult to comply with. In this respect, some donors are developing simplified procedures for use by local groups to bid for projects and secure funds while also working to improve local capacity in proposal writing, project monitoring, evaluation and reporting, and financial management. Together with its implementation partners, the AIF will draw from the experience/requirements from/of leading donors and implementers on how to build this capability, attract more funding and manage it efficiently.

Moreover, international donors are steadily moving towards 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 global standards. 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 adhere to global best practices and learn to apply them effectively to local contexts and conditions. From this perspective, the AIF and its implementation partners will be keen to exchange notes with international partners in order to achieve a mutual satisfaction in their 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 at least six potential 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 and strategies. They include:

Member states contribution: Resources mobilization through increased and rationalized member states' contributions can be envisaged in the framework of the suggestions of the 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 yet to be addressed.

However, AU member states will provide seed money as a commitment and a sign of ownership to/of the fund in order to leverage and attract other financing. The mechanism through which such contribution should be mobilized and the level of individual AU member countries' contributions will be defined in due course by the AU

Traditional donors' sources: Traditional donors can be grouped in two tiers: ***Tiers I group*** comprises major multilateral donors operating in Africa (AfDB, WBG, IsDB, and EU) and major bilateral donors (USA, UK Aid/DfID, Germany's GIZ/KfW, France AFD/PROPARCO, Japan JICA, and 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 ***1st and 2nd 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.

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.

Appendix 7 identifies the various sources for commercial financial resources mobilization as well as the vehicles to be put forward to capture such resources.

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

Box5: Summary CSF Donor/Concessional Fund Mobilization

0/ Imageof Recipient (AUC and RECs)
- Knowledge and competence
- Efficiency/bureaucracy perception
- Good governance and corruption perception
- Auding standards
- Program and project implementation and M&E capacity

1/ Donors Intelligence
- Programme cycle
- Financing windows and major programs of specific donor
- Aid and development cooperation mechanisms
- Aid eligibility criteria
- Higher-level bodies and decision-makers
- Implementation partners of the donors
- Program and project approval criteria, procedures and timeline

2/ Alignment to Key Donors' Programming Cycle
- EU-11thEDF (2014 -2020)
- WBG-IDA, WBG-IFC
- AfDB (2013 – 2020)
- UK AID/DfID
- USAID / MCC
- KfD/GIZ
- AfD/PROPARCO

2/ Program/Project Formulation Discipline

3/ Program/Project Presentation Skills

4/ Program/Project Implementation & Supervision System & Disciplime
- Manual on program/project management
- Manual on program and project formulation manual
- Manual on procument procedures
- Manual on program and project supervision and monitoring
- Manual on program and project evaluation
- Result management and tracking system (KPI, baseline, data/metrics capture, results)
- Team mobilization
- On-boarding
- Inception
- Supervision and monitoring
- Progress reporting
- Evaluation
- Completion report

5/ Relationship Origination and Engagement
- Higher-level engagement
- Local-level engagement
- Understanding key decision

However, for leading development partners (EU, WBG, AfDB, DfID, USAID, GIZ, AFD), carefully planned high-level preparatory meetings can maximize a chance for success of the resource mobilization strategy. Furthermore, securing financial commitment from major donors could trigger further commitment from other multilateral/bilateral donors.

Further, 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 not likely to replace single donor funding. Moreover, 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.

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

9.3.2. Emerging Donors Resources Mobilization Strategy

The AUC will primarily target two classes of emerging donors for the AIF:

- BRIC countries and
- GCC countries.

The 1st and 2nd Generation of Asian Tigers could be considered only on an opportunistic basis.

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 are increasingly investing in foreign countries as part of their international strategy. 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 6: Summary CSF BRIC Resources Mobilization

China

Undersrand China investment vehicles and policy banks for Africa

- CADF – China-Africa Development Fund
- China Development Bank
- China Exim Bank
- Structured Financing
- China-based Private Equity and Investment Banking Vehicles
- Diplomatic & Political Channel

Brazil

Undersrand Brazil investment vehicles and engagement process in Africa

- BNDES – Brazil Development Bank
- SCBE - Brazil Export Credit Agency
- BTG Pactual Infrastructure Fund

India

Undersrand India development cooperation vehicles with Africa

- India Exim Bank
- Team 9 bilateral cooperation vehicle

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 Obansanjo, commissioned by the NEPAD Heads of State and Government Orientation Committee (NHSGOC) on "Internal Resources Mobilization Potential" of the AU, has initiated vast resources mobilization potential for the AU through increased and rationalized contribution by member states and the private sector.

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

- **US$2.00 hospitality levy** per stay in a hotel; and;

- **US$10.00 travel levy on flight tickets** to and from Africa.

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

In addition, the High Level Panel has 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 operationalise 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 come during the 2015 budgetary year

For information, the total revenue generated through the initial four options identified by the High Level Panel is 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 and the above suggestions by the High Level Panel, so far, indicate that these options will only be operational in two to three years at the earliest.

In conclusion, the AIF will in the short term not explore this resource mobilization route that should be coordinated at the highest possible level of the AUC and the AU. In order to ensure member states timely contribution, once the options are applied, and based on the gravity of the situation, enforcement mechanisms should be considered along the following: 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 program 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 fund that support the MIP and the regional integration agenda.

Box 7: Summary CSF PPP Funding Mobilization for Infrastructure Projects

PPPFramework
Policy, regulatory, legal and institutional framework for PPP in infrastructure
Generic PPP regime
Industry-specific (energy, road, railways, airport, port, ICT, industrial zones) PPP regime
Including transparent and informed tariff structure

Business origination and Partners Mobilization
Engage early in the process with technical experts to understand project economics
Engage withpotential “blending” partners (WBG, EIB, DfID, etc…)
Mobilize technical assistance funds/technical expertise to support project development process
Prepare comprenhensive feasibility study and investment memo
Prepare bidding documents and related information package
Organise transparent bidding process and/or target strategic FDI partners

Project economics and project structuring
Enabling infrastructures (access roads, interconnection, etc)
Comprehensive risk sharing structure
Availability of credit enhancement, funding sweeteners and TA support
Identification of credible local PPP partners and legal creation of the PPP vehicle
Government incentives (land, tax, performance incentive, financial commitments – passive investors, subordinated loans to make-up for cash flow shortfall, etc.)
Take-off agreement
Approval, permits and licenses

Sponsors, consortium, SPV and Funding negotiation
Form PPP structure
Assemble the project consortium (e.g. operator, contractor, other investors)
Leverage and market/PR the strength of the consortium members
Negotiate with insurers and lenders

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 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
- Mining
- Hotel
- Finance
- Telecommunications
- Selected MNC with substantial operations across Africa

9.3.6. Philanthropic Resources Mobilization

Philanthropic financial resources mobilization will target selected global organizations/foundations, namely, social (health and education) sector, social entrepreneurship sector, entrepreneurship sector within micro-enterprises and small businesses, and for job creation matters.

Philanthropic resources mobilization strategy will be based on:

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

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

NB: Efficiency-based Management of Program and Project Funds

Criticisms have been leveled that 60%-80% of some AUC and RECs program fund has been spent on travel, hotel and per diem expenses with a mere 20%-40% going to actual regional integration or PSD project activities.

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

- 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, Tele 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	High	Medium	Low-medium
Activities to finance	General budget support TA program & project Project development Infrastructure project PSD projects Social projects Peace & security	Institutional support Program & project Project development Infrastructure projects Social projects Technology transfer	Coordination function Operations Fora & Summits Capacity building Information campaign Development function Program & project	Infrastructure projects Industrial projects Agri-business projects Service sector projects Innovation Entrepreneurhip SMME	Social program Microfinance fund Environmental progr. SMME Technology transfer Innovation	Social program Social entrepreneurship Microfinance fund Entrepreneurship SMME
Success factors	Donor intelligence **Good governance** Technical capacity Efficiency Track record **Alignment with donor** Coordination with RECs	Donor intelligence **High-level engagement** JV partner Project development **Bankability of projects** **Credible local sponsors** Coordination with RECs	**Political commitment** Sanction/incentive Collection system Fin. syst innovation Cap. Mark. Developmt Coordinat. with RECs	**Financial intelligence** **Good PPP regime** Good investment climate Project development **Bankability of projects** **Credible sponsors** **Risk backing/sharing** Coordination with RECs	**Branded CSI initiative** **Visibility of PS firm** **High-level engagement** Implementat. Partners Coordinat. with RECs	Org.l intelligence **Visibility of org.** **Networking** **High-level engagement**
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 Approaches to the Operationalization of the Fund

The rollout of the AIF project should start in the course of 2014 provided that the approval process throughout the different instances of the AU is fast-tracked.

The continental roll-out and implementation plan of the AIF 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 of the funding required to undertake agreed-upon resources mobilization activities
- High-level engagement with the selected AIF host 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 AIF governance bodies and appointment of serving teams
- 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 appointmt.								
Logistics 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								

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

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 for private sector sponsorship:	US $ 10 000
AUC-Private sector companies' meeting:	US $ 3 000
Donors meeting / pledge conference:	US$ 5 000
Resources mobilization consultancy:	US $ 40 000
Contingency:	US$ 5 000

Total Resources Mobilization Expenses:	**US$ 100 000**

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

11.0 CRITICAL SUCCESS FACTORS AND RISKS

11.1. Critical Success Factors

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

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.

Wide stakeholders' participation, 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.

Specifically, there is a need for more effective and efficient stakeholder participation in order to ensure the buy-in and support of the regional and continental programs. Permanent mechanisms/structures should be established to consult citizens, private sector and civil society organizations in order to constantly involve them in developing, validating program results and providing feedback.

Developing partnerships with regional and technical organizations, civil society and Governments structures should be encouraged to ensure that regional instruments are translated into real benefits to the citizens.

Capacity of the operational team and competence of the recipient: The AIF ability to achieve its objectives and goals will depend on its financial management capacity, risk management capacity and technical assistance and grant management competence. The project management of the recipients will also be 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 below:

Funding risk: To be successful, a trust fund should, at least, guarantee an adequate level of funding. Funding risk should be managed from the start by designing a flexible fund structure that is attractive enough to targeted donors. This will depend partly upon the quality/credibility of the host institution as well as the performance-orientation of the AIF.

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. Fiduciary risk is also managed by entering into agreement with a host institution with certified internal procedures and operating procedures.

Low level of political commitment from key member states: Low level of political commitment will be mitigated through the promotion of a high level of ownership of the project through proper consultation with REC and member states.

APPENDIX 1
SELECTED TRUST FUND RELATED GLOSSARY

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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.

Definition of Blending

"Blending" is the name given to the complementary use of grants and loans in development assistance. Through the adding of grants to loans, the development partners aims to increase the volume of development finance available in a context of constrained resources.

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 can be free-standing, i.e., financing a set of pre-defined activities, or it can be on a programmatic basis.

Administration Agreement
This is an 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
This is an agreement between a DFI administrating 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 administrating 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 natures for poor developing countries: ODA (e.g. tradition 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 is by one of the donors or a third party. There is 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
These are 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 or single-donor trust 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: Umbrella trust fund and Child trust fund
Classification 5: Trust funds managed under Global and Regional Partnership Programs (GRPPs)
Classification 6: Investment trust fund, technical assistance trust fund and recurrent cost trust fund.

APPENDIX 2
DEVELOPMENT PARTNERS

BILATERAL COOPERATION AGENCIES – EUROPEAN & OECD

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**)

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

Korea - Korea International Cooperation Agency

Malaysia – Official Development Cooperation

MULTILATERAL OR INTERNATIONAL

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 - SELECTED

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
UAE, 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
10	The Church Commissioners for England	London, UK	$8.1 billion
11	William and Flora Hewlett Foundation	Menlo Park, California	$7.4 billion

Rank	Organization	Headquarters	Endowment ($USD)
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
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

Rank	Organization	Headquarters	Endowment ($USD)
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

APPENDIX 5

PRIORITY REGIONAL INTEGRATION PROGRAMS OF THE AU

In addition to PIDA and CAADP, the AU have launched, over the last decade, number of continental programs that have experienced significant delays in their implementation process largely as a result of delays in the mobilization of financial resources. These programs are briefly reviewed below.

Boosting Intra-African Trade (BIAT)

Background

AU Ministers of Trade, at their 6th Ordinary Session in Kigali in November 2010, after due assessment of the progress made in the implementation of FTAs and Customs Unions in the various RECs, recommended the fast-tracking of the establishment of an African FTA to unlock the trade potentials of the continent and position it adequately in the global trading arena.

The framework and action plan for BIAT were adopted by the Assembly of the AU during its 18th Session of January 2012. The action plan is complemented by a governance framework as well as the identification of the steps required to implement the action plan.

Priority Program Clusters of the Action Plan

The priority action plan for BIAT includes the following:

- Trade Policy Cluster
- Trade Facilitation Cluster
- Productive Capacity Cluster
- Trade-related Infrastructure Cluster
- Trade Finance Cluster
- Trade Information Cluster
- Factor Market Integration Cluster

Progress report

The operationalization and implementation of the BIAT action plan and governance framework is yet to be effected by the AUC, RECs and member states.

Hence, the support of the AIF to spearhead the implementation of the BIAT is of paramount importance.

Africa Mining Vision (AMV)

The Africa Mining Vision developed in 2009 by stakeholders of the sector is: *"Transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development"*

This shared vision will comprise, among other elements, a knowledge-driven African mining sector that catalyses and contributes to the broad-based growth and development of, and is fully integrated into, a single African market through:

- Down-stream linkages into mineral beneficiation and manufacturing;
- Up-stream linkages into mining capital goods, consumables & services industries;
- Side-stream linkages into infrastructure (power, logistics; communications, water) and skills & technology development (HRD and R&D);
- Mutually beneficial partnerships between the state, the private sector, civil society, local communities and other stakeholders; and
- A comprehensive knowledge of its mineral endowment.

The operationalization and implementation of the AMV is yet to be effected.

African Agribusiness and Agro-Industries Development Initiative (3ADI)

The goal of the 3ADI is to develop the agriculture sector in Least Developed Countries (LDCs), and by the year 2020, to have highly productive and profitable agricultural value chains. The initiative aims at accelerating the development of the agribusiness and agro-industries to ensure value-addition to agricultural products. The leading agencies are Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD) and the United Nations Industrial Development Organization (UNIDO), to support a well-coordinated effort to enhance development impacts. The cooperation builds on sharing knowledge and harmonizing programmes in ways that capture synergies, avoid fragmented efforts, and enhance developmental impacts.

The 3ADI "African Agribusiness and Agro-Industries Development Initiative" was launched in August 2010 in response to a request from the Commission of the African Union. Its objective is to raise competitiveness in the agro-sector through value-addition, market participation and industrial transformation, in order to reduce poverty and increase food security in African countries.

African Productive Capacity Initiative (APCI) and Action Plan for Accelerated Industrial Development of Africa (AIDA)

African Productive Capacity Initiative (APCI)

The African Productive Capacity Initiative (APCI) was launched by the African Union in July 2004 to promote manufacturing value- added.

Approach of the APCI

- Build an African common vision of Productive Capacity – based on the value chain approach
- Highlight sectoral priorities as part of specific segments of the value chain based on comparative advantage
- Harmonize industrial policies/strategies at national/regional levels – based on cooperation/ collaboration
- Facilitate implementation of the African Peer Review Mechanism on industrial performance/competencies – based on benchmarking
- Suggest sub regional programmes for productive capacity upgrading backed by a financial facility (APCF)

Types of Value Chain

Two basic types of value chain can be distinguished:

- **Buyer-driven** – Large retailers, marketers, branded manufacturers play central roles in setting up decentralized production networks (e.g., Garments, footwear, etc.)

- **Producer-drive** – Large, usually transnational manufacturers play central roles in coordinating production networks(capital- and technology-intensive industries e.g., automobiles, aircraft, computers, etc.)

Types of Upgrading

Upgrading replaces low-paid activities with activities that command higher returns
- **Process** upgrading – Increases efficiency of internal processes
- **Product** upgrading – Introduces new products faster than rivals
- **Functional** upgrading – Increasing value added by changing the mix of activities within the chain, or moving from low-return to high-return activities
- **Chain** upgrading – Moving from one chain to a new, more profitable chain

After closer assessment, the **African Productive Capacity Initiative (APCI)** proved to be of limited scope and focus, given Africa's overall needs. It was recognized that there was a need for a more broad- based and comprehensive approach that would enable Africa to take advantage of new opportunities offered by the globalization of industrial production, trade and investment was clearly evident. Partly in response to this need, the African Union decided to devote its 10th Ordinary Session to the theme of industrial development of Africa and requested UNIDO, as its partner, to provide all the technical and other support for the process. To prepare the ground, the African Union Commission (AUC), together with its NEPAD programme, and with the technical support of UNIDO and the Government of South Africa, organized an extraordinary meeting of the African Ministers of Industry (CAMI) in September 2007 in South Africa. The outcome of that meeting was presented at the 10th Ordinary Session of the African Union Assembly of Heads of State and Governments held in Addis Ababa, Ethiopia in January 2008. In approving the Action Plan for **Accelerated Industrial Development of Africa (AIDA)**, the Summit also directed that operational priorities, programmes and projects should be established in liaison with the Regional Economic Communities. It also called for wide dissemination of the Action Plan both within and outside of Africa.

Accelerated Industrial Development of Africa (AIDA)

There are a number of critical priorities that need to be addressed at national, regional, continental, and international levels to promote the coherent industrial development of Africa. The major ones include:

- Policy on Product and export Diversification,
- Natural Resources Management and Development
- Infrastructure Development
- Human Capital Development and sustainability, Innovation, Science and Technology
- Development of Standards and compliance
- Development of Legal, Institutional and Regulatory Framework
- Resource Mobilization for Industrial Development

Resource-based African Development Strategy (RADS)

RADS is a resource-based industrialization strategy for Africa

RADS is premised on the fact that Africa's short to medium term potential lies in its natural comparative advantage: namely, resource and resource-based industries which could provide a competitive platform for value-added manufactured products in the longer term, and an immediate market for resource inputs industries (capital goods, services and consumables).

The main natural resource sectors are agricultural, mineral, forestry, tourism, fishing/aquaculture and energy (coal/gas & HEP).

They key challenge is to deepen the resources sector linkages into the local economies through taking advantage of the down- and up-stream opportunities offered by the resources exploitation sector. However, as value is added to resources increasingly more complex ancillary inputs and competencies are required, which can often be more critical cost drivers than the resources feedstocks.

Framework
Resources provide 2 industrial opportunities for value-addition: Beneficiation & Inputs

4 sub-strategies:

- Minerals, Agriculture, Forestry
- Resource Processing
- Refining
- Intermediate products
- Fabrication

OR in summary, 4 strategies

- Beneficiation
- Resource inputs
- Lateral migration
- Resource-Based Development Corridors (Nepad SDPs)

The African Science Technology and Innovation Indicators (ASTII) Initiative

The general objective of NEPAD's work on ASTII is to build Africa's capacity to collect, analyze and use STI Indicators. The African Science Technology and Innovation Indicators (ASTII) Initiative is a program within the African Science and Technology Consolidated Plan of Action (CPA). The CPA was adopted in 2005 by the African Ministerial Council on Science and Technology (AMCOST) as a framework for science, technology and innovation (STI) to respond to the socio-economic challenges facing the continent.

The first phase of the ASTII program ran from 2007 to 2010 and was designed to serve as a learning mechanism, giving nineteen African Union member States the means and opportunity to engage in mutual learning and sharing to improve the measurement of science, technology and innovation. The second phase of ASTII commenced in 2011 and was open to wider participation from the remaining African Union member states.

The AU Commissioner for Human Resources Science and Technology and the Chief Executive Officer of the NEPAD Planning and Coordinating Agency was to launch the African Innovation Outlook Series and officially launch the second phase of the ASTII project during a workshop.

APPENDIX 6
SIZING THE FUND

Minimum Size of the AIF – Technical Assistance Window (all figures in millions of US Dollars)		
	Amount	**Stakeholders**
MIP action plan implementation	**111**	
• Refer to MIP costing details	111	AUC, REC, RO, MS
C-FTA implementation and coordination support	**30**	
• C-FTA governance architecture, coordination and monitoring support	5	AUC, REC, RO, MS
• Tripartite FTA COMESA-SADC-EAC agreement implementation	15	REC, RO, MS
• Second inter-REC FTA Agreement implementation	10	REC, RO, MS
BIAT action plan implementation	**90**	
• BIAT governance architecture, coordination and monitoring support	5	
• Trade policy cluster	5	AUC, REC, MS
• Trade facilitation cluster	10	AUC, REC, RO
• Productive capacity cluster	50	AUC, REC, RO, MS
• Trade-related infrastructure cluster (in coordination with AfDB, DPs and regional DFI))	15	AUC, REC, MS, RO, AfDB, DP
• Trade finance cluster (in coordination with AFREXIMBANK, ATI and DPs)	2	AUC, REC, MS, ATI, AFREXIM.,DP
• Trade information cluster	3	AUC, REC, RO, MS
AIDA, 3ADI, AMV/RADS, ATII, APCI action plan definition and/or implementation	**62**	
• AIDA (Accelerated Industrial Development for Africa)	10	AUC, REC, RO, MS
• 3ADI (Africa Agricultural & Agro-industries Development Initiative)	7	AUC, REC, RO, MS
• AMV (African Mining Vision) & RADS (Resource-based African Development Strategy)	10	AUC, REC, RO, MS
• ATII (African Technology & Innovation Initiative)	10	AUC, REC, RO, MS
• APCI (African Productive Capacity Initiative)	10	AUC, REC, RO, MS
• Pan-African SME sector survey (in support of PIDA, CAADP/3ADI, AIDA, RADS/AMV, ATII, APCI, PSD initiative)	15	AUC, REC, RO, MS
Employment Pact for Youth and Women & Enhanced PS and CSO Participation	**30**	
• Performance-based youth and women employment policy and program design and implementation	25	AUC, REC, MS
• Enhanced participation of private sector (PS) and civil society organizations (CSOs)	**5**	
Enabling Capacity Building Programs in Support of the MIP and the RI Process	**20**	
• Capacity building in advanced/pragmatic PSD, industry, export, SME and RI project planning and implementation	14	AUC, REC, RO, MS
• Resource mobilization capacity building & "EU four-pillar assessment certification"	2	AUC, REC, RO
• Mainstreaming RI and developing a model Ministry in charge of RI matters	0.5	
• Capacity building of the Min. of Justice/Institutional Affairs in transposition of RI laws	0.5	AUC, REC, RO, MS
• Best practice sharing	2	
• Success story dissemination	1	
AIF set-up and operating cost	**5**	AUC, Host Institution
AIF M&E and reporting	**2**	AUC, REC, RO, Host, DP
TOTAL	**350**	

Details of MIP Financing Requirements

The aggregate cost of implementing the activities contained in the MIP Action Plan, as per the assessment of November 2011, is estimated to be **US$ 110,950 million**[10] broken down as follows**:**

- The total cost of implementing Phase 1 (2009-2012) activities is estimated to be **US$ 27,175 million**;
- The total cost of implementing Phase 2 (2013-2017) activities is estimated to be **US$ 38,500 million**; and
- The total cost of implementing Phase 3 (2017-2021) activities is estimated to be **US$ 45,275 million**.

Table **XX** below summarizes the estimated cost of the MIP Action Plan by sector through the three phases.

MIP Action Plan - Cost breakdown for each sector

MIP Sectors	**Cost for Phase 1 (2009 – 2012) (US$)**	**Cost for Phase 2 (2013 – 2016) (US$)***	**Cost for Phase 3 (2017 – 2020) (US$)***
Free movement of persons and migration	1 800 000	2 000 000	3 800 000
Trade	3 050 000	4 500 000	5 700 000
Industry	3 100 000	3 850 000	4 300 000
Investment	4 650 000	7 200 000	7 500 000
Statistics	2 375 000	7 900 000	8 425 000
Political Affairs	4 550 000	4 600 000	5 000 000
Social Affairs	2 250 000	2 800 000	3 800 000
Gender	3 250 000	3 300 000	4 350 000
Capacity building	2 150 000	2 350 000	2 400 000
Total	27 175 000	38 500 000	45 275 000

* The costs for Phase 2 and 3 are estimation and in some cases may be revised after evaluation of Phase 1.

Details of costing for continental programs action plan definition and/or implementation

Continental Programs (AIDA, 3ADI, AMV/RADS, ATII, APCI) action plan definition and/or implementation	**62**
• AIDA (Accelerated Industrial Development for Africa)	10
• 3ADI (Africa Agricultural & Agro-industries Development Initiative)	7
• AMV (African Mining Vision) & RADS (Resource-based African Development Strategy)	10
• ATII (African Technology & Innovation Initiative)	10
• APCI (African Productive Capacity Initiative)	10
• Pan-African SME sector survey (in support of PIDA, CAADP/3ADI, AIDA, RADS/AMV, ATII, APCI, PSD initiative)	15

[10] Since other core sectors have their own initiatives and have been costed separately, such as **PIDA (for infrastructure)**, **CAADP** for agriculture, and the **Second Decade of Education** (for human resources, science and technology) they have not been factored into the overall cost of the MIP.

An integration and rationalization of the implementation framework of the various continental programs is to be envisaged at the AUC and RECs' levels. Indeed, some of the programmatic pillars of AIDA, 3ADI, RADS, AMV, ATII and APCI can be consolidated with the view to maximizing focus and the pooling and optimization of resources.

Enabling Capacity Building Programs in Support of the MIP and Priority Regional Integration Programs

Enabling Capacity Building Programs in Support of the MIP and the Regional Integration Process	
1. Advanced PSD, Industry, Export, SME and Regional Integration Project Planning and Implementation Capacity	
• Institutional capacity building in the implementation of the MIP and the regional integration agenda	2 000 000
• Performance-based/advanced industry, agri-business, service sector development policy, strategy and program managt.	5 000 000
• Performance-based/Advanced export development policy, strategy and program management	2 000 000
• Performance-based/Advanced entrepreneurship and SME development policy, strategy and program management	2 000 000
• Technical assistance program/project formulation, implementation, supervision, M&E and results management	1 000 000
• Commercial project planning/structuring (OGM, PPP/infrastructures, Education PPP, Health PPP, etc.)	2 000 000
2. Capacity building in resources mobilization and "EU four-pillar assessment"	2 000 000
3. Mainstreaming Regional Integration and Developing a Model Ministry in Charge of Regional Integration Matters	500 000
4. Developing the capacity of the Ministries of Justice/Institutional Affairs in Transposition/Domestication of Regional Laws	500 000
5. Best Practice Sharing in the Management of the Regional Integration Process	2 000 000
6. Success Story Dissemination	1 000 000

APPENDIX 7:
RESOURCE MOBILIZATION OPPORTUNITIES
COMMERCIAL WINDOW OF THE AIF

The commercial window of the AIF will provide financing for the implementation of MIP commercial projects by attracting regional and international commercial finance. The commercial window will leverage, among others, FDI, international reserves of African countries/central banks, portfolio investments, sovereign wealth funds, pension funds, Diaspora financial resources and possibly reclaimed illicit capital. Work on the second window will be considered as the first window of the AIF matures and the integration process gains momentum.

The technical design and size determination of the commercial window of the AIF will be considered once the Grant/Technical Assistance window is fully operational and a positive momentum gained as a result of the AIF.

However, it is anticipated that the commercial window will offer the following financing services:

- Project development financing
- Private equity financing
- Mezzanine debt financing
- Debt financing
- Value gap financing and capitalization financing for infrastructure projects

Sources of finance for the establishment of the commercial window of the commercial window include:

- Domestic financial resources
- International financial resources

1. Domestic Financial Resources Mobilization

Like the rest of the developing world, Sub-Saharan Africa's stock of capital is set to increase considerably in the next two decades and will rise to $23.3 trillion in 2030, from $11 trillion in 2010, according to a World Bank report published in May 2013[11].

Domestic financial resources can be mobilized from many sources including:

- Foreign reserves
- Pension assets
- Diaspora savings and remittances
- Illicit financial flows
- Local savings and bank liquidity transformation
- Local stock market and bond market
- Regional DFI
- Regional cross-border investments
- Fiscal revenues and other levies

1.1. Foreign Reserves

In 2011, the IMF World Economic Outlook estimated the **total of foreign exchange reserves held by African countries at US$ 512 billion** compared to US$ 10, 817 billion worldwide, i.e. Africa holds **less than 5% of the world foreign reserves**.

Their study showed that more than 95 per cent of African non-gold reserves were held in foreign exchanges comprising currency (mainly the US dollar) and deposits with monetary authorities and banks and securities (US/foreign government securities, equity, bonds and notes, money markets, derivatives). Consequently, the worth of African reserves is exposed to change with instabilities in the reserve currency (especially the US dollar) or broader international financial market volatilities.

A study by the AfDB shows that after accounting for capital adequacy requirements in the management of foreign exchange reserves; collectively, African countries have held excess reserves in the range of $ 165.5 and $ 193.6 billion on average per year between 2000 and 2011. This is more than the infrastructure financing gap identified at $ 93 billion per year. Furthermore, the study demonstrates that not only do holding these excess reserves have a social cost that could range from 0.35% to 1.65% in GDP terms on average; but investing the excess reserves in productive projects such as economic infrastructures (energy, water & sanitation, transport, ICT) has the potential of generating higher risk-adjusted financial returns to the Continent than holding them in low-return investment in OECD countries in addition to the socio-economic returns to the Continent.

[11] World Bank, 2013. Global Development Horizons - Capital for the Future: Saving and Investment in an Interdependent World.

Average Annual Reserves (USD billion)	Average Reserve Adequacy Level (USD billion)	Average Annual Excess Reserves (USD billion)
216 to 293.5	50.5 to 99.9	165.5 to 193.6

To leverage these resources from an African perspective, a plausible approach would be the establishment of one or more regional or pan- African bodies that will capture and manage a portion of the surpluses of foreign reserves from different African countries in a manner that will meet the envisaged goals of good economic and financial returns. These could be in one of the following forms:

- African Infrastructure Fund or Generic Fund (equity and debt)
- African Infrastructure Finance Facility or more Generic Facility (guarantee fund, equity fund and project development fund)
- Regional Equity Funds
- New Multilateral Bank

1.2. Diaspora Savings and Remittances Capture

Diaspora investment capital can be a sustainable, effective and efficient source of development finance for Africa.

According to the World Bank, **aggregate African diaspora savings amount to about $35 billion**. These sums are deposited in Western banks earning negative interest rates, when adjusted for inflation. With **US$40 billion in annual remittances into Africa**, the African diaspora has become the subject of much public policy discussion as a potential source of sustainable supplemental development finance.

In recognition of the power of the Diaspora, a number of African countries are promoting various investment vehicles to capture Diaspora savings and remittances to finance development. Investment vehicles leveraged include **Diaspora mutual funds** whose objective is to tap into the offshore savings of the Diaspora to finance key development project. Rwanda adopted such instrument. Similarly, in 2011, The Central Bank of Kenya redirected a segment of its regularly scheduled **domestic currency infrastructure bond** to target investors from the Kenyan diaspora.

However, in many circumstances, there are structural impediments (transparency, regulation and administration) preventing the Diaspora from accessing investment opportunities in their home countries with ease. Beyond the structural impediments, attracting the Diaspora to invest in the productive sector is a combination of education, effective structuring, transparency and active promotion and engagement with all vested parties (Government, financial institutions, investment institutions, regulators) working together to facilitate Diaspora investments.

The **Israel Bond Agency** is the global benchmark in diaspora engagement. Its organizational approach to raising funds from its global diaspora is testament to what can be accomplished. Israel raises between $1 billion to $5 billion annually from the Jewish Diaspora and Diaspora related institutional investors. Its offices span the globe and they are constantly informing the Diaspora of various developments and investment opportunities. They work collaboratively with various public and private players in order to leverage the existing financial infrastructure to their advantage.

1.3. Pension Assets

Pension funds in Africa could become prominent continental investors, though analysts say many will need to update their asset allocation regulations.

The pace at which pension funds have grown is staggering. Renaissance Capital estimates that **total assets under management of sub-Saharan Africa's six biggest pension funds could surge to $622 billion by 2020, from $260 billion in 2010, and by 2050 they could reach $7.3 trillion**. Over the next 10 years, Africa's savers - more than its consumers - will define the nature of the continent's growth. But there are as many challenges as there are opportunities in the changing institutional investment landscape.

There are two significant trends underlying pension funds' growth in Africa: urban migration and demographics. Growth in urbanization has led to an increasingly formalized urban labor force, which has led people out of informal savings mechanisms and into state or privately structured systems. A rising middle class has increased both the number of contributors and the per capita amount contributed to pension funds.

It is important to note that though pension funds are growing rapidly**, coverage itself remains low by international comparisons; most estimates put it at only 7.5% of the population**. As the financial markets deepen and savings ecosystem evolves this number will undoubtedly increase.
Looking forward African countries have a distinct advantage over their developed country neighbors. In less than 20 years, Africa will have the largest working age population in the world, and a not insignificant amount of them contributing to pension funds.

According to 2011 Preqin statistics, there is increasing interest among investors for Africa-focused private equity funds. **In 2011, private equity funds in sub-Saharan Africa raised over $1.3bn, a marked increase from $964m raised in 2009**. However, despite the significant increase in fundraising since 2009, African private equity markets remain underfunded. **Between 2005 and 2011, sub-Saharan African private equity funds raised $11.0bn, while they invested $12.3bn, according to EMPEA statistics**. In contrast, Emerging-Asian (ex-JANZ) private equity funds raised $159.6bn and invested $139.7bn during the same period.

What this suggests is that sub-Saharan Africa presents greater investment opportunities for capital than can be fulfilled by the capital raised, highlighting Africa’s potential as a prime investment destination.

In light of this, African fund managers are increasingly looking to expand and diversify their sources of funding and take advantage of local pools of capital. Africa's growing pension funds, resulting from the rise of the middle class, are increasingly a source of capital for private equity fundraising.

Domestic institutional capital in Africa is starting to play a more prominent role in private equity, increasingly outside of the home country of the institutions. For example, in Nigeria, the Contributory Pension Scheme (CPS) has grown to $13bn assets under management. In a further indication of growing support for private equity investments, South Africa's Regulation 28 (governing pension fund investment) was amended in December 2011 to allow a doubling of the permitted allocation to private equity from 5 percent to 10 percent.

These changes in regulation and the investment mandate of both government and corporate pension funds are broadening the investment landscape and represent a significant opportunity for private equity.

1.4. Illicit Financial Flows Capture

Illicit financial flows involve capital that is illegally earned, transferred, or utilized and are unrecorded, unlike broad capital flight which consists of a mix of licit and illicit capital.

The Global Financial Integrity (GFI) reports that nominal illicit outflows from developing countries amounted to US$946.7 billion in 2011, up 13.7 percent from US$832.4 in 2010. Controlled for inflation, illicit outflows from developing countries increased in real terms by about 10.2 percent per annum. For instance, while **Africa** has the smallest nominal share of regional illicit outflows (7.7 percent) over the period studied, it has the **highest average illicit outflows to GDP ratio (5.7 percent)**, suggesting that the loss of capital has an outsized impact on the continent.

Africa leads other regions in terms of the illicit outflows to GDP measure. Analyzing illicit flows as a share of GDP allows for a better measure of the impact such outflows can have on a country. For instance, while illicit outflows from Africa comprise just 7.7 percent of developing country outflows, this loss at an average of 5.7 percent of GDP per annum has an outsized impact on the continent.

Africa's Illicit financial outflows (US$)			
Total Financial Flows 2002 - 2011	**Average Annual Financial Flows**	**Rate of Growth**	**Equivalent Annual GDP Loss**
419.1 billion	41.9 billion	20.2%	5.7%

Import misinvoicing (driven by growth in real income, the corruption, and the average effective tariff rate on imports), capital account restriction, tax evasion and corruption are found to be among the key drivers of illicit capital flight.

1.5. Regional Cross-border Investment

According to a Reuter article in August 2013, intra-African investment is rising by more than 30 percent a year[12]**. Between 2003 and 2011, intra-African investment into new FDI projects in Africa grew at a 23 percent annual compound rate**, according to Ernst & Young. Since 2007, that rate has increased to **32.5 percent**, more than double the growth in investment from non-African emerging markets and almost four times faster than FDI from developed markets.

Cross-border African investment is set to accelerate as local firms seek new markets, resource-rich countries launch sovereign wealth funds and assets held by pension funds grow. Underpinning this are the favorable demographics of Sub-Saharan Africa, the world's youngest region, which will be the **only region of the globe not to experience a decline in its saving rate by 2030**, according to the World Bank. By the middle of the century, Africa's working age population will number 1.2 billion people, from around 500 million today, meaning it will provide one in four of the world's workers, compared to one in eight from China.

While FDI and portfolio flows from outside the continent will continue to provide long-term capital, skills and technology, many believe growing intra-regional investment will create a virtuous cycle, encouraging greater foreign investment. Indeed, foreign investors have more comfort putting their money behind local investors.

Regional powerhouse such as South Africa (telecom, retail, mining, finance), Nigeria (cement, finance), Kenya (finance, telecom), Morocco (finance) are the key regional investors and South Africa, Africa's biggest economy, is now one of the top five overall investors on the continent. And there are many potential in sectors like oil and gas which in the next ten years will still be booming in Africa.

Africa's burgeoning pool of savings will help to drive the intra-regional investment surge. According to the Head of the Africa practice of the U.S. advisory firm McLarty Associates, **"Everybody talks about the rising middle class, growing urbanization of the labor force; but even more important is the formalization of the labor force which is creating more contributors to pension funds".**

1.6. Domestic stock market

Africa has a nascent, fragmented but growing stock market. In total, there are 27 stock exchanges in Africa, of which two are regional exchanges. Of these 27 stock exchanges, the **stock exchanges of South Africa, Egypt, Nigeria, and Morocco constituted 90% of the market capitalization of domestically-listed companies in December 2012**[13]**.**

In spite of the nascent state of Africa's stock markets, they have recently been performing very well in comparison to other emerging and developed countries' stock markets. Over the past three years, the values in US dollars of the **stock markets in Ghana, Namibia and Kenya, for example, registered annual average increases of 26.3%, 16.5%, and 15.1%,**

[12] http://www.reuters.com/article/2013/08/08/africa-investment-idUSL6N0G92SW20130808
[13] Data from the World Bank's World Development Indicators' database for December 2012.

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respectively. In comparison, the annual average increase in U.S. dollar values of the 82 emerging stock markets with data available was 3.0%, while that of Canada was 4.4%[14].

The positive performance has been grounded in active political interest in stock market development, improved economics, low interest rates in the West, and an increased level of technology adoption by the stock markets. In spite of these improvements, however, African stock markets remain constrained by structural factors that include their relatively small market sizes, limited liquidity and limited depth of the market. In addition, political risk continues to negatively impact Africa's once stellar stock markets, e.g., the Egyptian Stock Exchange and the Zimbabwe Stock Exchange.

In spite of these structural bottlenecks and heightened levels of political risk, it is expected that over the next three years, Africa's stock markets will be buoyed positively by predicted positive and sustained levels of economic growth and consumer spending. However, accentuated levels of political uncertainty in key countries – particularly Egypt and Nigeria – could pose some risk to this positive trajectory.

1.7. Fiscal and Other Levies

Refer to Obasanjo Panel

[14] Data from the World Bank's World Development Indicators on 5 September 2013.

AIF Commercial Window – Domestic/Regional Resource Mobilization Framework

Domestic Resources Mobilization	
Selected sources of "domestic" financial resources	**Selected financing resources mobilization/allocation vehicles**
Foreign reserves	• African infrastructure fund or generic fund (equity and debt) • African infrastructure finance facility or more generic facility (guarantee fund, equity fund and project development fund) • Regional equity funds • New multilateral bank
Pension resources	• Industrial bond • Infrastructure bond • Private equity fund • Investment banks • New multilateral bank
Diaspora resources	• Diaspora mutual fund • Private equity funds • Industrial bond • Infrastructure bond • Investment opportunities
Local savings	• Local stock and bond market • Local private equity funds
Sovereign Wealth Funds	• New multilateral bank • Investment opportunities • Private equity funds • Bonds • Stock markets
Regional cross-border investment	• Investment opportunities
Illicit capital	• Government actions • International cooperation

2. Foreign Resources Mobilization

Foreign sources of finance that could be tapped by the commercial window of the AIF could include the following:

- BRICS countries
- GCC countries
- Traditional development partners and DFI
- Sovereign wealth funds (SWFs)
- Global private equity
- FDI

Selected international sources of finance	Selected financing resources mobilization/allocation vehicles
Multi-lateral DFI	Bankable projects Regional DFI and other financial institutions Private equity fund Trade finance program Blending facility
Traditional bilateral cooperation	Export Credit Agency services JV Counterparty fund Trade finance program Blending facility
BRICS & GCC countries	Export credit tapping via foreign JV partner JV Private equity fund
FDI	Bankable projects (including privatization opportunities)
Sovereign wealth funds	Bankable projects Private equity funds Stock exchange
Global private equity	Bankable projects Private equity fund Stock exchange
Global listed stock market	International listings
Eurobond market	Eurobond issues
International syndicated loan, MTN, project finance market	Bankable projects International fund raising Blending facility
Islamic finance	Bankable projects Islamic bond issues

Potential of Africa's Sovereign Eurobond Market

Africa's Sovereign Eurobond markets have been booming of late. The number of African countries issuing Eurobonds and the number of Eurobond placements have significantly increased. Over the five-year period between 1996 and 2000, for example, only three African countries had publicly made eight placements of Eurobond issuances. Over the period 2006 to 2010, however, ten African countries had publicly made sixteen placements of Eurobond). Moreover, the dollar value of these placements increased over four-fold, from US$ 3.6 billion in 1996-2000 to **US$ 15.5 billion in 2006-2010.**

Moreover, this broad investor interest in Africa's Eurobonds is evident in the levels of oversubscription at issuance. The Zambian Eurobond issuance in September 2012 of US$ 750 million, for example was oversubscribed 15 times. Meanwhile, those of Namibia's in October 2011 and Rwanda's in April 2013 were oversubscribed by 5.5 times and 7.5 times, respectively.

The strong investor interest in African Eurobonds is a result of a confluence of internal and external factors. The internal factors are related to the improved macroeconomic environment in Africa, stronger economic growth, and an increased number of African countries seeking sovereign credit ratings. The external factors, on the other hand, are related to higher commodity prices, very low interest rates in Western economies, and increased risk in established financial markets, particularly the Euro Zone. As a result, the past two years have provided a window for strong investor interest for African Eurobonds – even those that offer relatively low coupon rates.

<u>Multilateral DFI</u>

- AfDB
- WBG
- Global funds

3. Key Enablers of Financial Resources Mobilization for Africa

Key enablers of financial resources mobilization for Africa include the following:

- Conducive investment climate and business environment (including an acceptable country risk factor for African countries)
- Conducive macro-economic policy framework and financial market information infrastructure
- Financial market integration and enhanced financial literacy for both countries, institutions/corporation and citizens
- Savings and capital market development (bond, and listed equity market)
- Private equity market development
- Institutional innovation/engineering, namely in the areas of alternative sources of finance mobilization for infrastructure, industrial development finance, innovation finance and SMME finance.

APPENDIX 8
INNOVATIVE RESOURCE MOBILIZATION MECHANISMS

Principles of innovative financing mechanisms

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 the financing gap, innovative financing mechanisms can neither replace Official Development Assistance nor be sufficient if certain countries decide to renounce their commitments.

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: Innovative financing mechanisms should aim at financing a set of long-term programs - coordinated several countries -.in order to have a significant and sustainable impact on the MDG's. They 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.). – These are 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, and 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/Massive good) fall under ODA as collected on national territory

•Emission trading fall under ODA

APPENDIX 9
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 10
RULES & REGULATIONS OF THE PARTNERSHIP FUND

APPENDIX 11

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 pre-investment 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 pre-investment 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.

<u>The following attachments shall form an integral part of this Agreement:</u>

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	By: James D. WOLFENSOHN
Date: November 8, 2001	Date: November 8, 2001

ATTACHMENT 1

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[1]

- 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"),[2]

except as otherwise provided herein.

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

____

[1] 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).

[2] 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[3]:

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 [4] 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

[3] Choose one of the options available and delete the paragraphs which are not applicable.
[4] 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.[5]

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.

[5] 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.

ATTACHMENT 3

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:

<u>Option 1: [6] applicable to trust funds with an anticipated duration of one year or less</u>

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[6] 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 [7] 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.

[7] 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][8] 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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[8] 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: ______________________________

ATTACHMENT 4

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 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 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).

ATTACHMENT 5

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 12

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
		Prefeasibility, feasibility, business plan, investment memorandum preparation	

9	Pre-investment Support & Financial Market Development	for regional projects 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. SME Access to Finance studies/research, benchmarking and best-practice sharing, knowledge platform development, program design/study/formulation Access to finance readiness support + financial market development + financial inclusion support	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/ + institutional design	Technical assistance, advisory services, grant support
11	Science & Technology	R& D system design and/or benchmarking Vocation training system development and benchmarking Standard development Technology capability development and technology management Manufacturing advisory service NIS design and development	Technical assistance, advisory services, grant support
12	Statistics, database and information system	Ratification of the African Charter on Statistics by Member States; Harmonization of statistical information systems: Preparing continental guides for data collection; harmonisation of measurement standards, etc. Continent-wide employment/unemployment survey and statistical system development	Technical assistance, advisory services, grant support

		Continent-wide survey and statistics on the SME sector	
13	Women, Gender & Youth	Women entrepreneurship support program Youth entrepreneurship support program Youth employment support program	Technical assistance, advisory services, grant support
14	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

APPENDIX 13
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	**The overall objective:** **The Specific objective:**
Target group(s)	
Final beneficiaries	
Expected results	• Result 1: • Result 2: • Etc.
Priority Interventions	• Priority intervention 1 • Priority intervention 2 • Etc.
M&E Framework	• Output indicators • Outcome indicators • Results and KPI • Schedule of M&E activities

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**
Total							

Expected Output, Out comes and Impacts

Logic Framework

Monitoring & Evaluation Framework

Implementation Schedule

Critical Success Factors and Risks

APPENDIX 14
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 & 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 30th, 2013 1. At what stage of regional integration is your institution?
Programmes and Projects of your Institution: 1. What are the on-going programmes/projects in 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, need 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. What is your take on how the 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 does your institution face 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 is 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 arrangement 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 15:
LIST OF PERSONS SEEN DURING FIELD MISSIONS

NAME OF INSTITUTION & PLACE	PERSON /TITLE	CONTACTS
AfDB Tunis, Tunisia	RALPH OLAYE : MANAGER, NEPAD & REGIONAL INFRASTRUCTURE DIVISION	TEL : +216 71 10 21 90 E-mail : r.olaye@afdb.org
NPCA/NEPAD Midrand, South Africa	FLORENCE NAZARE: CORDINATOR, CAPACITY DEVELOPMENT PROGRAMME	TEL: +27 (0)11 256 3600 E-mail: florenceN@nepad.org
UN-ECA Addis Ababa, Ethiopia	ALAN KYEREMATEN : DIRECTOR TRADE CAPACITY BUILDING PROGRAM	TEL:+251 9300 350 22
UNDP Addis Ababa, Ethiopia	SAMUEL BWALYA, PhD : COUNTRY DIRECTOR	TEL : +251 11 551 5177 E-mail : Samuel.bwalya@undp.org
UNDP Addis Ababa, Ethiopia	HAILE KIBRET: POLICY ADVISOR	TEL : +251 11 551 5177 E-mail: Haile.kibret@undp.org
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SADC Gaborone, Botswana	TRACEY. T ZINANGA (Ms): SENIOR OFFICER, INTERNATIONAL PARTNERS AND RESOURCE MOBILIZATION	TEL: +267-3951863 E-mail: tzinanga@sadc.int
SADC Gaborone, Botswana	ALEX BANDA : SNR. PROG. OFF. ENVIRONMENT, SUSTAINABLE DEVELOPMENT, FOOD AGRICULTURE & NATURAL RESOURCES (FANR)	TEL: +267-3951863 E-mail : abanda@sadc.int
COMESA Lusaka, Zambia	ANN. W NDIRANGU (Ms): MONITORING AND EVALUATION EXPERT	TEL:+=260-211229725 E-mail: andirangu@comesa.int
COMESA Lusaka, Zambia	JOSEPHAT KINYELE: HEAD OF PROCUREMENT AND GENERAL SERVICES	TEL:+260-211229725 EXT 7370 E-mail: jkinyele@comesa.int
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IGAD Djibouti	FLORENCE NAJJEMBA MUSOKE (Ms): DIRECTOR, ADMINISTRATION AND FINANCE	TEL:+253-21312720 E-mail:Florence.musoke@igad.int
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EAC Arusha, Tanzania	PHILIP WAMBUGU: DIRECTOR OF INFRASTRUCTURE	TEL : +255-27 250 4253/8 E-mail : pwambugu@eachq.org
EAC Arusha, Tanzania	MARIE ANGELIQUE UMULISA (Ms) : REGIONAL TRADE ADVISOR	TEL : +255-27 250 4253/8 E-mail : umulisa@eachq.org

EAC Arusha, Tanzania	EMMANUEL HAKIZIMANA : SENIOR EXPORT PROMOTION OFFICER	TEL : +255-27 250 4253/8 E-mail : hakizimana@eachq.org
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EAC Arusha, Tanzania	MARY MAKOFFU (Ms) : DIRECTOR SOCIAL SECTORS	TEL : +255-27 250 4253/8 E-mail : mmakoffu@eachq.org
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ECCAS Libreville, Gabon	ABDOULAYE NDOUKOLBE MAYE : ADVISOR TO THE GENERAL SECRETARY	TEL: +241 01 44 47 31 E-mail: mayedoukol@yahoo.fr
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ECCAS Libreville, Gabon	DOMINIQUE KUITSOVE : CATASTROPHIC RISKS & CLIMATE CHANGE EXPERT	TEL: +241 01 44 47 31 E-mail: dkuitsove61@gmail.com
ECCAS 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 16
TERMS OF REFERENCE

NOTICE

Date: March 18, 2013

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 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. T*he 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.

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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 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, 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.

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 reference**s**

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

Criteria	***Weight***	***Max. Point***
Technical		
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
Financial	30%	30

Please note submission of financial proposal to our e-mail procurement.et@undp.org is mandatory.

Submission Through our secured email

- You can send your proposals through our secured email 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

UNION AFRICAINE

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الاتحاد الأفريقي

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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 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, 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)[15]. This comprises the European Regional Development Fund[16] (ERDF); European Cohesion Fund[17](ECF) and the European Social Fund [18](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 to ASEAN Member States[19]; 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[20], 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

[15]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.

[16] 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.

[17] 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.

[18] 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.

[19] The replenished of the ADF fund is based on equal contribution and as of January 2012 the ADF its 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.

[20]ASSC 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)

Conference of Parties (COP) to the ASEAN Agreement on Trans boundary Haze Pollution; there are also ASEAN Cooperation Funds.

1.3.6 It is anticipated that the study will explore best practice examples such as those above as well as 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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