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**Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration**

**Experts Meeting ….April 2018**

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**PROGRESS REPORT ON THE ESTABLISHMENT OF THE AU EMPLOYMENT AND SOCIAL COHESION FUND (ESCF)**

**Introduction/Background**

In January 2015, the AU Assembly of Heads of State and Government requested:.

*“The AUC and the AfDB shall develop modalities for establishing an Employment*

*and Social Cohesion Fund to support the implementation of the Declaration and Plan*

*of Action by Member States, RECs and the AUC* ***(Assembly/AU/20(XXIV), Annex 2, Page 5)[[1]](#footnote-1)”***

Furthermore, in April 2016, the AU Conference of Ministers of Finance « *Calls upon the African Union Commission, in line with the funding principles of Agenda 2063, to accelerate the establishment of an employment and social cohesion fund as the agreed financing mechanism for the Declaration and its Plan of Action, and to submit to it a proposal for such a fund at the next Joint Annual Meetings of the Conference of Ministers in March 2017* » (**AUC-L9, STC/Finance, 4 and 5 April 2016**).

The fund will a solid foundation for Africa’s response to the challenges of decent job creation, un/underemployment, social protection, labour migration, occupational health and safety, labour market efficiency, and socioeconomic inclusion. The Fund intends to work closely with other African and non-African institutions and partners involved in the promotion of employment and socioeconomic inclusion.

The genesis for the establishment of the proposed ESCF, one among many vehicles deployed by the AU, was a response to the challenge associated with financing employment and social inclusion related frameworks, namely, those associated with the implementation of the 2004 Ouagadougou Declaration then the Ouagadougou+10 Declaration and its Action Plan as well as the Joint Youth Employment Initiative for Africa (JYEIA) which was a collaboration between the AUC, UNECA, the AfDB and the ILO. The ESCF is designed in such a way to duly account for the principle of joint planning and monitoring of the AU Agenda 2063 and the UN Agenda 2030. In particular, beyond the Au Ouaga+10 Declaration and Plan of Action, the ESCF will support the implementation of the Goal 8 of the Agenda 2030 and other related Goals on Poverty Eradication (Goal 1), Gender equality and Women empowerment (Goal 5), Sustainable consumption and production patterns (Goal 12).

**The Feasibility Study**

A Feasibility study was undertaken on the creation of an African Employment and Social Cohesion Fund (ESCF by the African Union Commission (AUC), in collaboration with the African Development Bank (AfDB), the United Nations Economic Commission for Africa (UN-ECA) and the International Labour Office (ILO) under the supervision of Joint Secretariat Support Office (JSSO). These organizations formed a steering group which oversights the process of the study for the establishment of the ESCF.

**Learning from Past Initiatives and Leveraging Existing Initiatives**

This feasibility study on the ESCF, aimed at operationalizing Ouaga + 10 and its First Five Year Priority Programme (2016-20200 embedded in Agenda 2063 First Ten-Year Implementation Plan, takes cognisance of the major employment-related initiatives targeted at the African region, past, current and planned ones by international partners such a AfDB, ILO, World Bank , USAID , Major ICT Multinational Companies – Microsoft, Oracle, HP, Cisco, Intel – entrepreneurship, IT-related and skills development initiatives; EU/EIB/AfDB « Boost » Initiative. The ESCF will also particularly learn from successes and challenges of past employment support initiatives; in particular, from the Joint Youth Employment Initiative for Africa (JYEIA), a collaboration between the AUC, UNECA, AfDB and the International Labour Office (ILO), that was aimed at increasing youth employment in Africa through policy, implementation, and knowledge support.

Key sub-regional employment initiatives such as the NPCA Policy Framework on Youth Employment: An African Continental Framework on Youth Development as well as initiatives from regional economic communities (RECs), regional development finance institutions (DFIs) and a sample of AU member states (MS) will also be acknowledged in the detailed operationalization study of the ESCF.

Thus, the ESCF will learn from and develop linkages with these major developments in the African employment agenda in the areas of: information and best practice sharing, technical and financial resource pooling, joint programming and program implementation, monitoring and evaluation, and reporting on the Continent’s employment status.

**Structure of the Feasibility Report**

The study/report covers the following:

(a) Africa’s Employment Challenges and related Policy Context;

(b) ESCF Project Rationale, Beneficiaries and Deliverables;

(c) Preliminary Scoping of the ESCF’s Mission, Objectives, Support Mechanism and Projects/Activities to be Financed;

(d) Preliminary Operational Structuring and Business Model of the ESCF;

(e) Legal Structuring of the ESCF;

(f) ESCF Governance Architecture;

(g) Articulation of ESCF Board Organizational, Operational and Management Structures;

(h) Definition of a Resource Mobilization Strategy with the Identification of Potential Financing Sources as well as the Resource Mobilization Channels and Instruments to be Leveraged;

(i) Preparation of a Matrix of Potential Partners of the ESCF

(j) Identification of the Critical Success Factors, Risks and Risk Mitigation for the Project; and

(k) Suggestion of a Rollout and Implementation Plan for the ESCF.

The sizing of the ESCF, the definition of its management and operational costs, the preparation of its intervention criteria along with its procedures manual will be considered at a later stage.

**Beneficiaries of the Employment and Social Cohesion Fund**

The direct beneficiaries of this feasibility report, targeted largely at promoting employment through supporting decent work and upgrading informal sector production units towards more productivity, profitability and formalization, are the African Union (AU), Regional Economic Communities (RECs) and member states (MS) of the African Union. The ultimate beneficiaries of the project are: African youth and African women affected by the lack of decent employment opportunities, underemployment and socioeconomic exclusion including workers in the informal economy and rural sector.

**Mission, Goals and Financing Modalities of the Fund**

**Mission**: The fund is being established to create a solid foundation for Africa’s response to the challenges of unemployment, underemployment, informality, working poverty and socioeconomic exclusion. In the process, the ESCF will complement AUC, RECs and AU Member States’ regular employment promotion-related vehicles as well as existing multilateral and regional financial vehicles and programs that seek to address the Continent’s unemployment and socioeconomic inclusion challenges.

**Goals and objectives:** Through its operationalization, the ESCF will seek to pursue the following goals and objectives:

1. implement the Ouaga+10 Declaration and its Action Plan and successive Five Year Priority Programme;
2. institutionalize and sustain a comprehensive continent-wide effort to address the pressing challenges of youth and women unemployment and underemployment, informal jobs, working poor, labour migration, low poverty and socioeconomic exclusion of the Continent;
3. contribute to promoting more accountability, rationalization and coherence to the flow of non-coordinated and incoherent efforts deployed to that effect;
4. promote decent jobs for the youth and women, promote employability of youth and women, promote social protection, enhance productivity of the labour force, promote occupational health and safety, promote labour market efficiency and socioeconomic inclusion; and ultimately
5. enhance the capacity of the labour market institutions including through intra African technical cooperation.

**Operational Structuring, Legal Structuring and Hosting of the ESCF**

From an operational point of view, the ESCF will be a facility with three windows:

1. a grant window,
2. a technical assistance window, and
3. a commercial finance window in the form of debt, equity and risk sharing facilities.

**The technical assistance and grant windows** will offer grant, technical assistance, advisory services and institutional support; while the **commercial window** would entail investment, credit and/or the provision of partial loan guarantees 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 ESCF.

From a legal structuring and hosting point of view, the ESCF can be structured along the following three (3) options:

* **Option 1**: Basket Revolving 5-Year Program Facility (2019-2023) domiciled at AUC
* **Option 2**: Restructured Existing Multi-Donors Trust Funds hosted by the AfDB
* **Option 3**: New Multi-Donors Trust Fund hosted by the AfDB

While option 1 offers more policy space and operational/disbursement flexibility, it can be considered only if the AU can secure the ESCF’s financial resources primarily from domestic resource mobilization (DRM), which has so far not been the case for other existing facilities (e.g. Peace Fund) at the AUC or planned ones (e.g. African Integration Fund).

Option 3, which can be considered only if a pool of major donors contributes to the fund, presents difficulties associated with the long turnaround time to negotiate, establish and operationalize a new Trust Fund; turnaround time which can last 2 years minimum up to 4 years.

Option 2 presents the advantages of minimized start-up delays while also operating on existing seed funds. Consideration of Option 2 will also be based on a more conducive communication and collaborative work between the four stakeholders, AUC/ECA/AfDB/ILO, around pre-agreed upon governance, operational procedures and management framework.

In the case of an AfDB-hosted Trust Fund, to improve operational flexibility, the possibility of structuring **child trust funds** or **thematic funds**, managed by the host institution or directly by stakeholders such as the AUC/ the ECA could be considered with the final decision left to the judgment of the Steering Committee of the ESCF and the anchor funding partners.

**Governance Architecture of the ESCF**

Tentatively, the ESCF will have the following four-level governance system:

**(1) Meeting of the Principals** of the AUC (Chairperson of the AUC), the UN-ECA (Executive Secretary of the ECA) and the AfDB (President of the AfDB) who will table on the continent’s employment situation twice a year, identify and decide on strategic issues based on reports and feedback received from the Steering Committee.

**(2) Steering Committee of the ESCF**: Could be composed of the deputies of the three principals, ILO representative, a representative of each of the 5 African regions, 1 representative per development partner, employers’ and workers’ organizations, rotating 2 regional representatives of approved African youth and women associations. The Steering Committee will be the main approval bodies of ESCF programs and projects. The Principals will delegate approval power to the Steering Committee which will approve plans, budgets and projects submitted by the Joint Working Group. It will be chaired by H.E the Commissioner for Social Affairs.

**(3) Joint Working Group** **of the ESCF** « AUC, ECA, AfDB, ILO» to be tasked with planning and monitoring Joint Work Program (JWP), planning jointly special events (e.g. conferences, training), preparing Steering Committee meetings, and preparing and reporting on detailed budgets of the ESCF.

**(4) Secretariat** of the ESCF which will play the role of ESCF manager, will plan program interventions, recruit staff and consultant, supervise field operations, recognize contributions of partners, perform M&E and report on performance, publicize results, perform risk analysis and manage the communication and overall visibility of the ESCF and its contributing partners.

The above four-level governance system will be complemented by: (i) independent auditors and (ii) an independent M&E system.

**ESCF Support Mechanisms**

Pending a detailed ESCF operationalization study, tentatively, it is suggested that the ESCF, through three (3) windows (Grant, Technical Assistance, Commercial Finance) provides the following support:

* Grant support
* Technical assistance based on a partial cost recovery
* Advisory services support
* Institutional support
* Commercial financing

The operational structure of the ESCF is captured in the below figure:

Figure:

**Financing Windows of the ESCF**

**Employment & Social Cohesion Fund**

ESCF

**Endowment Acco**

**Technical Assistance** Window

**Grant**

Window

**Investment/Credit** Window

Job creation & unemployment prevention/reduction

Social protection

Occupational health & safety

Decent Work for Transformation of the Informal Economy

Labour migration & regional integration

Employability & labour market system

The commercial window of the ESCF will be considered as the fund gains traction and momentum.

**ESCF Disbursement Channels**

The ESCF will consider a variety of disbursement modalities such ascalls for proposals, tendering and direct grants that will be flexibly chosen according to the aims of the pooled fund, the envisaged activities and the targeted groups of actors.

**Size and Composition of the ESCF**

The ESCF will have three components:

* Grant window
* Technical assistance with cost recovery window
* Commercial finance window

**The total funding requirements for the technical assistance and grant window of the ESCF,** which initial planning horizon corresponds tothe 2019-2023 period or the second half of Agenda 2063 First Ten-Year Implementation Plan, will be defined in the detailed operationalization study of the ESCF.

**The funding requirements for the commercial window** will be defined in the detailed operationalization study of the ESCF. It will involve two types:

((i) ESCF-controlled commercial financial resources for investment, credit and risk-sharing or guarantee to be used as catalytic funds;

(ii) “Syndicated” or facilitated commercial financial resources)

**Resources Mobilization Channels and Opportunities**

Securing a higher level of financial contributions from the AU, Member States of the AU and African private sector should be the first priority in the resource mobilization campaign for the ESCF. Indeed, the AUC and the AfDB leadership should make sure that the core administrative and operating budget for the ESCF and a considerable portion of the program budget are funded from contributions from Member States as this is the minimum requirement for financial sustainability and an enabler for external contributions to the ESCF.

**Primary target**: The ESCF will primarily target four (4) categories of donors/contributors:

(i) AU budget & Member States of the AU;

(ii) African private sector namely through corporate social responsibility (CSR) and public-private partnerships (PPP);

(iii) African philanthropic organizations and individuals; and

(iv) African general public through relevant mechanisms such as crowdfunding and/or continental or regional lotteries.

**Secondary target:** Secondary targets of the resource mobilization campaign will include the following external partners:

(i) DAC/OECD development partners; Islamic Development Bank (IDB)

(ii) AU strategic partners such as: EU, Japan, China, India, Korea, Turkey, Arab League of States;

(iii) emerging donors such as China, India and Arab/Gulf Cooperation Council (GCC) countries; and

(iv) philanthropic organizations and the general public from the EU and the USA.

The resource mobilization campaign should also leverage the network of relevant champions (including influential former Heads of States/Governments from Africa and elsewhere) for major markets but also the Group of African Ambassadors in major markets such as EU, US, UK, Japan, Germany, China and India through relevant fundraising mechanisms. AU Missions in Brussels, New York, Geneva can play an important role on advocacy and lobbying international parters.

For the resource mobilization campaign **to be successful, it should be decisively driven by the leadership of the three institutions: AU Chairperson, ECA Executive Secretary and AfDB President backed by selected Head of States of the Continent**.

Overall, for the ESCF resource mobilization campaign, the AUC/ECA/AfDB will leverage a combination of the following channels: political, diplomatic, development cooperation, AU strategic partnerships, corporate social investment, PPP, targeted philanthropic organizations and commercial finance and financial market.

**ESCF Business Model and Partnership for Implementation**

To deliver meaningful continent-wide employment-related program impacts in terms of outcomes and development results, the operating/business model of the ESCF is as important as the resource mobilization campaign. To maximize scale and outreach while learning from past employment-related programs, synergy and coordination with existing programs and development partners; as well as partnerships with relevant regional financial institutions financing facilities will be key in the operationalization of the ESCF.

**Rollout and Implementation Plan**

The roll-out and implementation plan could start in 2018 and be concluded in a time horizon of 12 months. In other words, the operations of the ESCF could start in 2019 if considerable efforts are invested into the planning and resource mobilization phase outside the AU schedule of statutory meetings. Yet, this will demand serious commitment from the AUC, the ECA , ILO and the AfDB leadership. In particular, strategy adopted should have active back-up of the leadership of the four institutions (AUC, ECA, ILO and AfDB) and human resources needed to conduct the resource mobilization campaign must be made available early enough. 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.

**Timeline for Operationalization**

The ESCF will be made operational in 2019 for an initial period of 5 years (2019-2023) towards the end of Agenda 2063 First 10-Year Implementation Plan (FTYIP). It is aimed at funding the First Five Year Priority Program on Employment, Poverty Eradication and Inclusive Development (FFYPPE) of the AU which is the programmatic translation of the Ouagadougou+10 Declaration and its Action Plan, , the Malabo Declaration of 2014 and the African legal instruments and policy frameworks promoting decent jobs creation for vulnerable groups (youth, women, workers in the informal economy, migrant workers and persons living with disability) embedded in Agenda 2063 FTYIP 2013-2023.

1. Extraordinary Summit of the African Union on Employment, Poverty Eradication and Inclusive Development, 3-7 September 2014, Addis Ababa, Ethiopia. Theme: « Employment, Poverty Eradication and Inclusive Development » - Follow Up Mechanism for Implementation, Monitoring and Evaluation of the Plan of Action on Employment, Poverty Eradication and Inclusive Development [↑](#footnote-ref-1)