

Regionally Owned Funds

Mechanisms for delivery of EU Aid for Trade in ACP regions?

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Abbreviations

ACP	African, Caribbean and Pacific states
AfDB	African Development Bank
AfT	Aid for Trade
BIDC	Banque d'investissement et de développement de la CEDEAO
BDEAC	Banque de Développement des Etats de l'Afrique Centrale
BOAD	Banque Ouest Africaine de Développement
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CDB	Caribbean Development Bank
CEA	Commission économique des Nations unies pour l'Afrique
CEDEAO	Communauté Economique Des Etats de l'Afrique de l'Ouest
CEMAC	Economic and Monetary Community of Central Africa
CIF	COMESA Infrastructure Fund
COFAP	Council for Finance and Planning
COMAID	COMESA Aid for Trade unit
COMESA	Common Market for Eastern and Southern Africa
COTED	Council for Trade and Economic Development
CSME	Caribbean Single Market and Economy
DBSA	Development Bank of Southern Africa
DG Trade	Directorate General for Trade, European Commission
DG Development	Directorate General for Development, European Commission
DOC	Document d'orientation conjoint
EAC	East African Community
EADB	East African Development Bank
EC	European Commission
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic partnership agreement
ESA	Eastern and Southern Africa
EU	European Union
FAIR	UEMOA Fonds de l'Aide a l'Intégration Régionale
FCD	Fonds communautaire de développement
FODEC	Fonds de Développement de la CEMAC
FORAPE	Fonds régional APE (regional EPA fund)
ICA	Infrastructure Consortium for Africa
IDA	International Development Association
LDC	Least developed country
NEPAD	New Partnership for Africa's Development
PACER	Pacific Agreement on Closer Economic Relations
PACPs	Pacific ACP countries
PAIDF	Pan African Infrastructure Development Fund
PAIRAC	Programme d'Appui à l'Intégration Régionale en Afrique Centrale
PAPED	Programme de l'APE pour le développement (EPA-DP)
PIFS	Pacific Islands Forum Secretariat
PPDF	Project Preparation and Development Fund
RDA	Regional Development Agenc
REC	Regional Economic Community
RIP	Regional indicative programme

RISM	Regional Integration Support Mechanism
RTFP	Regional Trade Facilitation Programme
RSP	Regional Strategy Paper
SADC	Southern African Development Community
TDF	Trade and Development Facility
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organization

Executive Summary

The creation of regionally owned funds to support integration processes and regional Aid for Trade (AfT) agendas is currently being discussed in all African, Caribbean and Pacific (ACP) regions. Similarly on the European side, the European Commission (EC) and the member states of the European Union (EU) are exploring the potential of such funds as one of the delivery mechanisms to implement their AfT commitments. Intentions to make use of regional funds have been expressed in the context of the ACP-EU negotiations on Economic Partnership Agreements (EPAs) as well as in the joint EU Aid for Trade Strategy.

Arguments advanced in favour of regionally owned funds for AfT relate to aid effectiveness principles, such as enhancing ownership by the region and alignment of interventions to regional development strategies as well as strengthening coordination among donors. Further, regional funds might potentially attract new resources from donors who are traditionally not active in a region and/or from private investors (the latter applies in particular to infrastructure projects). Others however warn against creating unnecessary new instruments or question the capacity of regional institutions to manage new regionally owned funds.

In the context of ACP-EU relations, the topic of regional funds for AfT has gained prominence during EPA negotiations, notwithstanding the fact that in some regions the idea for funding mechanisms to foster integration processes originated independently from this. In the beginning of 2007 the EC responded to ACP demands and agreed to include development chapters into EPA texts (however without any binding financial commitments). At the same time, regionally owned funds were considered as possible mechanisms to deliver specific EPA related support, similar to the previous ACP demand for establishing an EPA Financing Facility at national and regional levels. While EU ministers in May 2007 emphasized that preference should be given to existing financing mechanisms, the need for EPA accompanying measures has been a main argument to establish new regional funds in several ACP regions, notably in Central Africa, West Africa and the Pacific. Still, these funds may potentially address wider trade and development needs beyond EPAs. In other cases, regional funds have been created to support the process of regional integration, largely independent from the EPA context (e.g. in the Caribbean Community (CARICOM) and in the Common Market for Eastern and Southern Africa (COMESA)). In May 2008, EU ministers in their Council Conclusions on EPAs again referred to regionally-owned funds and stated that “in cases when ACP regions are interested, appropriate ways to support their functioning should be carefully explored”.

In most regions, there seems to be a need to clarify a number of outstanding issues on the role of regional funds in implementing AfT agendas and EPA accompanying measures. First, the overall purpose of a regional fund needs to be decided upon, including the intervention areas targeted and the complementarity with existing mechanisms. Further aspects to be addressed in designing a new regional fund encompass the institutional set-up and the management procedures of a fund, including its relation to regional organisations and regional development banks, the definition of eligibility criteria, the financing instruments to be used for disbursement of funds and the sources of funding, e.g. from members of the region, EU and other donors and/or private capital markets. Progress on these issues differs across regions. While COMESA is relatively advanced in setting up the COMESA Infrastructure Fund and the COMESA Adjustment Facility, other regions may require some more time to clarify political as well as technical issues before a planned regional fund can be fully operational to support AfT interventions.

In addressing these issues, this paper highlights the following key considerations that policy makers in the ACP and the EU will have to address:

- Would a new regional fund have added value at this point in time in a particular region? Answering this question requires being clear about the political objectives of a new fund

and about the likelihood of meeting these technically through the creation of such a new instrument. In particular complementarity and coordination with existing mechanisms (at national and multilateral level and in bilateral development cooperation) are crucial aspects of determining the added value of a new fund.

- A clear definition of the intervention areas, including the type of AfT measures to be targeted is essential, as different ways of institutional and legal setup, management procedures, financing instruments for disbursement and sources of funding may be preferable based on the type of AfT measures to be financed.
- How can efficient and transparent management be ensured? This question relates to the choice of a regional organisation or development bank as institutional home as well as to the legal instrument for creating a fund. With respect to regional organisations and development banks, management capacity and potential needs and opportunities for capacity building need to be verified.
- What sources of funding are envisaged? This potentially includes defining a contribution formula for members of the region (which is politically sensitive), attracting donor financing (taking into account different procedural requirements by donors; considering that no additional ODA may be available under the AfT initiative) and private investment (meeting investors expectations on returns and risk) as well as ensuring sustainability of funding.
- If large donor contributions are foreseen, is there a common understanding between members of the region setting up the fund and main donors on objectives and operationalisation of the fund? Is sufficient outcome-oriented communication taking place with a view to match expectations of both sides and ensure the availability of finance in line with shared objectives?

1 Introduction

Recent efforts to use or establish regionally owned funds as mechanism for the delivery of Aid for Trade (AfT) financing in African, Caribbean and Pacific (ACP) regions have taken place in the context of the trade negotiations on economic partnership agreements (EPAs) between the ACP and the European Union (EU), the AfT initiative embedded in the multilateral process at the World Trade Organization (WTO), the progress in regional integration processes as well as the efforts to increase aid effectiveness in the context of the Paris Declaration.

The ACP-EU negotiations towards Economic Partnership Agreements (EPAs) take place at regional level and one of their key objectives is to build on and strengthen the regional integration processes. By early 2008, after 5 years of negotiations, a number of interim EPAs have been initialled between the EU and several ACP (sub)regions and individual countries.¹ In this context, ACP countries and regions have requested EU development support to implement EPAs and more broadly AfT strategies in order to adjust their economies, to become more competitive so as to benefit from market opportunities and face the stronger competition, to compensate for fiscal losses and to build the necessary regional infrastructure. Most of the interim agreements initialled in late 2007 and the CARIFORUM-EU EPA signed on 15 October 2008 contain references to development cooperation – with different degrees of detail – but no binding financial commitments are included in the texts of the agreements². Resources for EPA support are expected to be provided under the EU AfT strategy.

In the framework of the AfT initiative that started at the WTO, the pledges to deliver EU AfT resources to support ACP countries have been taken with various degrees of commitment.³ The EU Aid for Trade Strategy⁴ specifies a concrete target of increasing EU trade related assistance (defined as encompassing only (i) trade policy and regulations and (ii) trade development) to €2 billion per year by 2010 as well as a general commitment to step up development finance for the wider AfT agenda that includes the remaining four categories of AfT identified by the WTO Task Force (i.e. trade-related infrastructure, building productive capacity, trade-related adjustment and other trade-related needs).

So far most attention and concrete action have gone into programming the financial resources available under the multi-annual, intergovernmental European Development Fund (EDF), managed by the European Commission (EC). The 10th EDF (2008-2013) is part of the Cotonou Agreement, which makes available a limited but relatively predictable financial envelope. Additional resources to implement the EU AfT strategy are expected from EU member states bilateral contributions.

In terms of delivery mechanisms, the EC and the 27 EU member states are currently exploring the potential of regionally owned funds to channel a part of their development financing for AfT. Intentions to make use of regional funds have been expressed in the context of the EPA negotiations as well as in the joint EU Aid for Trade strategy⁵. Alignment of EU and EC EPA support and AfT with the regional priorities and instruments corresponds to international best

¹ See ECDPM and ODI 2008, *The new EPAs: comparative analysis of their content and the challenges for 2008*, ECDPM Policy Management Report 14, www.ecdpm.org/pmr14

² *ibid*

³ Frederiksen, Jonas and Francesco Rampa, *New EU Aid for Trade Strategy: window of opportunity? Trade Negotiations Insights*, Vol. 6, No. 8, December 2007/January 2008, www.acp-eu-trade.org/library/files/TNI_EN_6-8.pdf, and Lui, Dan, "The Aid for Trade Agenda and accompanying measures for EPAs: Current state of affairs", ECDPM Discussion Paper 86, November 2008, www.ecdpm.org/dp86.

⁴ Council of the European Union, *EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries*, Conclusions of the Council and of the Representatives of the Governments of the Member States meeting within the Council, 15 October 2007, <http://register.consilium.europa.eu/pdf/en/07/st14/st14470.en07.pdf>.

⁵ Reference to the usefulness of regionally owned financing mechanisms is made (in different formulations) in the initialled texts of the CARIFORUM-EU EPA and the interim agreements between the EU and ESA, SADC, Ghana Cote d'Ivoire and Central Africa. Further references are also to be found in the [EU Strategy on Aid for Trade](#) and in the EU [Council Conclusions on EPAs](#) of May 2008.

practise on delivery of aid laid down in the 2005 Paris Declaration on Aid Effectiveness. In this context, regionally owned funds could be one instrument to further enhance ownership, harmonisation and effectiveness of EC and EU AfT and EPA support. A variety of other delivery mechanisms beyond the scope of this paper are available to support regional integration, trade and development in ACP countries, including nationally owned mechanisms as well as regional mechanisms outside regional funds and traditional donor financing mechanisms. Hence, the focus of this paper on regionally owned funds should not be interpreted as regarding these as the only instrument to support regional projects.

In spite of the abundance of general references to regionally owned mechanisms, however, in many ACP regions and EU capitals little is known on how such regional funds could operate in practice. In a first step towards implementation, the added value of a (new) regional fund compared to other (existing) delivery mechanisms needs to be determined; second, details on the design of such a fund have to be decided upon. The extent to which discussions on the practical aspects of these mechanisms have advanced varies across regions, but overall a lot of questions remain.

Apart from the question of whether a regional fund – if properly designed – may be beneficial, experts and policy-makers need to consider what is the most efficient way to improve the delivery of AfT. Is it right to concentrate on the creation of new instruments for aid delivery? Or should efforts at this point rather be focused on the identification of concrete projects, i.e. on what to spend the money on, relying instead on existing delivery mechanisms? Several EU experts have raised such questions on the priority focus, in particular with respect to the immediate need to define projects in the context of the programming of resources under the 10th EDF. But given that several regions are in the process of setting up regional funds, it is important to identify the key elements for consideration in this context.

In an effort to assist efforts ACP regions to make effective use of aligned EC and EU AfT, this study aims to contribute to structuring the ongoing discussions on the use of regionally owned funds for AfT including EPA support, to facilitate exchange of experiences and ideas across ACP regions and to inform the decision-making process by providing an overview of different experiences and opinions of ACP and European stakeholders. Findings presented in this paper are derived from a literature review as well as from direct interviews and exchanges with EU and ACP experts.

This paper is structured as follows. Section 2 considers the establishment of regional funds in the ACP in the context of EPA negotiations; Section 3 outlines some key issues to be addressed during the process of establishing such funds and Section 4 provides a brief overview of the current state of play in implementing them in each ACP region. Section 5 concludes by highlighting key guiding considerations regarding the establishment of regionally owned funds.

2 Regionally owned funds in the context of EPA negotiations

The current discussion on delivering AfT in the ACP through regional funds has gained prominence during the process of EPA negotiations. Development cooperation has been a controversial issue throughout the talks: The EU side initially took the position that provisions on development cooperation did not need to be included into EPA texts, as this area was sufficiently dealt with in the Cotonou Agreement. As EPAs only fall under the trade chapter of the latter (replacing the transitional unilateral trade preferences) but do not affect the validity any of its other parts, the EU did not consider it necessary to duplicate any of the development provision under the Cotonou Agreement in EPA texts. Further, the EU did not want to be perceived as “buying” ACP support for EPAs by tying the availability of additional development

aid to the signature of an agreement. On the other hand, the ACP side considered that binding commitments on trade liberalisation should be paired with equally certain provisions on the availability of financing for accompanying measures to meet the expected adjustment costs. An argument strengthening this demand was the expiry of the Cotonou Agreement in 2020 as opposed to the indefinite validity of EPAs. Based on these considerations, in June 2006 ACP Ministers requested binding commitments on additional resources beyond the 10th EDF for EPA support to be included into the EPA texts and called for establishing an EPA Financing Facility at national and regional levels⁶.

In the beginning of 2007, the EC responded to ACP demands and agreed to include chapters on development cooperation principles into EPA texts, but without any binding financial commitments. At the same time, regionally owned funds were considered a possible mechanism to deliver specific EPA related support⁷. While EU ministers in May 2007 emphasized that preference should be given to existing financing mechanisms⁸, the need for EPA accompanying measures has been a main argument to establish new regional funds in several ACP regions, notably in Central Africa, West Africa and the Pacific. Nevertheless, this does not exclude the possibility of these funds addressing wider trade and development needs beyond EPAs. In other cases, regional funds have been created to support the process of regional integration, largely independent from the EPA context (e.g. in the Caribbean Community (CARICOM) and in the Common Market for Eastern and Southern Africa (COMESA)).

In May 2008, EU ministers in their Council Conclusions on EPAs again referred to regionally-owned funds and stated that “in cases when ACP regions are interested, appropriate ways to support their functioning should be carefully explored”⁹.

In all regions, there seems to be a need to clarify the exact role of regional funds in implementing EPA accompanying measures.

One key question to be addressed is whether a regional fund should focus exclusively on EPA support or embrace a wider spectrum of trade and development needs¹⁰. As mentioned above, in some regions, the idea for a regional fund is closely linked to the EPA negotiations. In Central Africa and West Africa, the regional funds that are being established are - at the current state of planning - called FORAPE (Fonds régional APE, i.e. regional EPA fund) and focus on EPA accompanying measures. In the Pacific, initially the idea of creating a regional fund originated out of the proposal for an EPA Adjustment Facility made by ACP Chief Negotiators in May 2006; however, in August 2007 a decision was taken to call the fund “Trade and Development Facility”, allowing for a larger scope of interventions. In contrast, the COMESA Fund in Eastern and Southern Africa emerged largely independently from the EPA context. It is based on a broader concept of AfT beyond EPA support, addressing for example infrastructure constraints that are not directly EPA related (even though these are likely to affect the ability of the region to take advantage of export opportunities under an EPA).

⁶ Decision N°2/LXXXIII/06 of the 83rd Session of the ACP Council of Ministers held in Port Moresby from 28-31 May 2006, on the Economic Partnership Agreements (EPAs),

www.acpsec.org/en/com/83/ACP2500606_decisions_e.pdf

⁷ ACP Group of States, Consensus on Economic Partnership Agreements between EU and ACP Countries, press release, 14 March 2007, www.acpsec.org/en/epa/pr_EPA_Bonn_14-3-07_e.htm

⁸ Council of the European Union, Conclusions of the Council and the Representatives of the Governments of the Member States meeting within the Council on Economic Partnership Agreements (EPAs), 15 May 2007, <http://register.consilium.europa.eu/pdf/en/07/st09/st09560.en07.pdf>

⁹ Council of the European Union, Conclusions of the Council and the Representatives of the Governments of the Member States meeting within the Council on Economic Partnership Agreements (EPAs), 27 May 2008, <http://register.consilium.europa.eu/pdf/en/08/st09/st09629.en08.pdf>

¹⁰ An EC expert pointed out that accompanying measures discussed during EPA negotiations consist of compensation of net fiscal losses, technical assistance for implementing EPA provisions and upgrading of productive capacities, which is narrower than the AfT agenda comprising e.g. infrastructure projects. ACP negotiators have raised such broader needs though; the CARIFORUM-EU EPA also covers a broad range of issues for development cooperation – see ODI, ECDPM and CaPRI, [The Cariforum-EU Economic Partnership Agreement \(EPA\): The Development component](#), European Parliament study, March 2009,

Another question, which relates to the definition of intervention areas of the funds (see Section 3.2), is which of the EPA accompanying measures and which categories of AfT should be financed through a regional fund and which measures could best be financed through other instruments.

Further, in those regions where a fund has been created specifically to support EPA implementation, it may be useful to critically assess whether the underlying assumptions to create a fund are still met. This relates for instance to the question of whether a regional fund will be able to attract additional amounts of financing and whether it will be possible to circumvent time-consuming EDF procedures (see below). In this context, it is important to note that assumptions made and objectives of the funds differ across regions.

3 Some key issues in operationalising regional funds for AfT

This paper focuses on the regional funds that are being discussed in the context of delivering EU AfT in ACP regions, including to accompany EPAs. From the literature review and the interviews conducted with ACP and EU experts, several key issues emerged that require careful consideration. In particular, these relate to the value added, the thematic and geographic scope, the role of regional development banks, the legal instrument and management procedures, beneficiaries, disbursement mechanisms and funding sources.

3.1 Does a new regional fund have added value?

When considering the creation of a new regional fund, a first issue relates to the rationale for such a new mechanism. Table 1 summarises some of the key arguments in favour and against setting up a new regional fund. Policy-makers need to consider whether there is a need for such a new instrument or if - in line with the objectives to be achieved - existing mechanisms available to the region can provide appropriate support to the regional AfT agenda. Only if a new fund can be shown to have an added value over existing financing instruments available in any particular region, it is likely to improve access to resources for regional AfT projects and to incite donors and private investors to contribute. (While a comprehensive description of existing regionally owned mechanisms for AfT and regional integration in ACP regions exceeds the scope of this paper, Table 2 lists some examples.) Accordingly, whether creating a new fund is a useful exercise needs to be answered in each region depending on the specific context. Nevertheless, a number of general arguments can be considered and are outlined in the following.

Strengthening ownership and alignment to regional strategies

ACP regional organizations may see regional funds as mechanisms they have full control over in order to provide financing for specific development strategies, e.g. in case of the EAC Development Fund meant to finance the Third Strategic Plan of the EAC. But effective ownership requires a cohesive regional approach, with strong political commitments from participating countries and common objectives and implementation strategies at the regional level, elements not always present in all regions.

From an EU perspective, regional funds that are entirely owned by the respective ACP region and facilitate alignment with regional development strategies offer the potential of following up on commitments to increase aid effectiveness.

Table 1: (Debated) arguments in favour of and against creating a new regional fund

In favour	Against
<ul style="list-style-type: none"> • Ownership of the region, full control over the mechanism • Alignment to regional development strategies • Donor coordination and possibility to complement EC EPA support with resources from EU member states and non-EU donors • Circumvent EDF procedures and allow speedy disbursement of funds • Mobilisation of additional resources, including from innovative sources of financing such as local and international institutional investors and the private sector 	<ul style="list-style-type: none"> • Avoid unnecessary multiplicity of instruments • Capacity constraints for management of a new fund at the level of ACP regions • A new fund might not simplify procedures to access funds as <ul style="list-style-type: none"> a) transparency requirements will still need to be fulfilled in order for donors to contribute to a fund and b) procedures of ACP regional organisations might prove equally time-consuming as EDF procedures.

Increasing donor coordination

Donor coordination is another aspect in which regional funds can potentially contribute to increased aid effectiveness in line with the commitments of the Paris declaration. Regional funds offer a mechanism that allows to complement EPA support by the EC with resources from EU member states, including those traditionally not active in bilateral cooperation in the region, and to attract contributions by non-EU donors¹¹. In addition, depending on the set-up of the fund, donor financing may be coordinated with private sector investment.

Simplifying procedures

One justification for creating regional funds for AfT and EPA support mentioned in several regions is the aim of bypassing arguably cumbersome EDF procedures in order to increase the accessibility of resources and speed up delivery. However, EU experts have warned against too high expectations in this respect, as in order to make use of EDF resources and contributions by EU member states and other donors, regional funds will still need to meet accountability, competitiveness and transparency requirements, which may result in similarly stringent and “heavy” procedures as under the EDF. Based on experience, an EC official estimated that contribution agreements with organizations in the ACP had not significantly increased the speed of delivery of resources.

Independent from the question of establishing regional funds, some insiders have suggested that the most effective way to improve the efficiency of EDF procedures could be to change from *ex-ante* to *ex-post* evaluations. This could increase the speed of delivery considerably, as disproportionate oversight by the European Commission through constant checks by the EC delegation at various stages in the process of allocating funds would be avoided.

Mobilising additional resources

The prospect of mobilizing additional resources for AfT may in practice play an important role in setting up a regional fund. For some, the creation of a new fund only makes sense if it facilitates the mobilization of new resources and “acts as a catalyst for donor support to the region”¹². Others argue that setting up a new fund is justified if existing instruments are inefficient in delivering aid for trade support, independently of whether additional funding will become available.¹³

¹¹ The likelihood of attracting resources from non-EU sources was questioned by some EC experts in interviews; however, other EC experts as well as some ACP regions seem to see a significant potential in this. See Section 3.9.4.

¹² Charmy Investment Limited, Second Interim Report of the study on the establishment of the East African Community Development Fund, 2008

¹³ Accordingly, if existing financing instruments are inappropriate, a new delivery mechanism may help to channel existing resources more efficiently and potentially also attract new resources. If, on the contrary, existing instruments are well suited to channel funding, it is questionable whether the mere creation of an additional delivery mechanism is likely to result in an increase in funding.

Table 2: Examples of existing funding mechanisms for AfT and regional integration

Central Africa ¹⁴	Both CEMAC and CEEAC are in the process of establishing development funds to finance fiscal losses and to support the private sector in the context of regional integration. (Fonds de Développement de la CEMAC (FODEC) and Fonds communautaire de développement (FCD) by CEEAC)
COMESA (infrastructure) ¹⁵	EIB infrastructure facility, Emerging Africa Infrastructure Fund, Pan African Infrastructure Development Fund (PAIDF), InfraCo, OPIC funds or GuarantCo
EAC	See COMESA; in addition an EAC Partnership Fund exists.
West Africa ¹⁶	UEMOA Fonds de l'Aide a l'Intégration Régionale (FAIR) and compensation mechanisms by ECOWAS and UEMOA to finance shortfalls in customs revenues
Caribbean ¹⁷	The Special Development Fund managed by the Caribbean Development Bank provides loans for development projects in the region.
Pacific ¹⁸	Regional Trade Facilitation Programme (RTFP) under the Pacific Agreement on Closer Economic Relations (PACER)
SADC ¹⁹	Access to financing mechanisms for infrastructure is considered sufficient under various financing instruments; (but perceived need for preparation of bankable projects).

3.2 Thematic scope of interventions of a regional fund

The definition of intervention areas, which comprises identifying the categories of AfT that should be addressed by the fund, is a basic question that is still largely open in many regions. COMESA has decided concretely to address the areas of infrastructure and of adjustment to trade liberalisation through the COMESA Fund, creating a separate window for each of the two. In other regions such as the Pacific and West Africa, the potential scope of the funds in initial discussions is large and needs to be further delineated.

A challenge that emerged from interviews with EC and ACP experts is that in many regions the overall regional integration strategies, to which the interventions of regional funds should be aligned, are still in the process of being defined in parallel to the discussions on setting up regional funds. Needs assessments on AfT that are being carried out in several regions are expected to help identifying priorities of intervention.

Expert opinions differ on what categories of AfT a regional fund might be most suitable for. Some consider regional funds to be in theory suitable instruments to address all categories of AfT and emphasize that in practice intervention areas need to be defined based on the needs assessments carried out in each region. Others suggest that for specific categories of AfT other mechanisms than a regional fund may be more appropriate. For instance during interviews at the EC, one official considered national level mechanisms as more suitable to address

¹⁴ Kane, Abdoul, Rapport sur les politiques sectorielles relatives à l'intégration en Afrique Centrale: Mise en œuvre des instruments d'accompagnement des zones de libre échange et des programmes sectoriels, présentation au 25ième session du Comité intergouvernemental d'experts, Bureau sous-régional pour l'Afrique centrale, CEA, <http://85.159.204.179/CIE2007/Documents/Rapport%20sur%20les%20politiques%20sectorielles%20relatives%20a%20integration.ppt#1>

¹⁵ Johnson, Brad, Report on the structure, value proposition, management, operation and funding of the COMESA Infrastructure Fund, USAID/BearingPoint, March 2008

¹⁶ Diop, Chimère, Diouf Oumar, Honliasso Anani et Seck Galaye, Appui à la création du Fonds Régional APE Afrique de l'Ouest, rapport provisoire première étape, ECO, octobre 2007

¹⁷ Caribbean Development Bank, Webpage on the Special Development Fund, www.caribank.org/titanweb/cdb/webcms.nsf/AllDoc/D2EE4030E6D49B4004257398005D8A9F?OpenDocument

¹⁸ Pacific Islands Forum Secretariat, Webpage on the Regional Trade Facilitation Programme, www.forumsec.org.fj/pages.cfm/economic-growth/regional-trade/regional-trade-facilitation-programme.html

¹⁹ Thomas, Dr. Rosalind H., Identifying & developing strategies for funds mobilization & investment as an input to The Southern Africa Productive Capacity Facility – Do we need the APCF?, Presentation to the SADC Experts Group Meeting, Johannesburg, South Africa, 6-8 December 2006, www.unido.org/fileadmin/import/60527_SADCFRC.ppt

productive capacity building, another suggested that regional development banks might be a better partner for infrastructure projects, while a third one considered that, in particular in West Africa, a regional fund might be most appropriate to support fiscal adjustment and competitiveness, but less useful to finance policy and infrastructure issues.

An additional aspect in this process is that choice and design of the financing mechanism need to correspond to the types of interventions targeted. An example is the financing of infrastructure projects, which requires large amounts of funding and may offer attractive returns for investment by the private sector. Accordingly, the COMESA Infrastructure Fund is designed in a way to combine grant and loan financing and to use public funds to leverage private investment on a project basis. In contrast, the COMESA Adjustment Facility, which aims at compensating revenue losses from trade liberalisation as well as supporting economic structural adjustment, plans to use primarily grant money²⁰.

The definition of intervention areas also plays a role in the choice of the legal instrument used to formally set up a fund. For instance, if the Trade and Development Facility in the Pacific were to include large scale infrastructure projects, officials in the Pacific have considered creating a separate legal mechanism such as an international treaty among PACP countries, instead of choosing a less binding mechanism such as a memorandum of understanding between PACP States that might be the preferred option otherwise.

Table 3 indicates the potential areas to be covered by the various regional funding mechanisms in the ACP.

Table 3: Overview of intervention areas envisaged by ACP region and AFT categories

	Trade policy & regulations	Trade development	Trade-related infrastructure	Building productive capacity	Trade-related adjustment
Central Africa - FORAPE²¹	X	x	x	x	x
West Africa - FORAPE²²	To be defined according to needs assessment				
SADC PPDF²³			x (preparation of projects)		
COMESA Fund			x	x	x
EAC Development Fund²⁴	x	x	x	x	x
Caribbean Development Fund²⁵	Activities under chapter 7 on disadvantaged countries, regions, and sectors, Revised Treaty of Chaguaramas Establishing the Caribbean Community Including the CARICOM Single Market and Economy				
Pacific - Trade and Development Facility	x	x	?	x	x

²⁰ Pearson, Mark, Brief for the Donor Video Conference on the COMESA Fund, June 2008

²¹ Renforcement des capacités et mise à niveau des économies de l'Afrique Centrale dans le cadre de l'APE, Document d'Orientation Conjoint Afrique Centrale / Union Européenne, Sao Tome, 15 juin 2007, <http://register.consilium.europa.eu/pdf/fr/08/st11/st11959-ad06.fr08.pdf> and interview with expert.

²² Expert interview

²³ Muradzikwa, Sam, Partnerships in Infrastructure Investments and Financing of Sustainable Development, DBSA, Presentation at 4th RERA Annual Conference, 28-30 November 2007,

www.lea.org.ls/AboutLEA/Downloadable/RERA%20Presentations/Presentation_to_RERA_29_11_07.pdf

²⁴ Charmy Investment Limited, Second Interim Report of the study on the establishment of the East African Community Development Fund, 2008

²⁵ Revised Treaty of Chaguaramas establishing the Caribbean Community including the CARICOM Single Market and Economy, signed on 5 July 2001, www.caricomlaw.org/docs/revisedtreaty.pdf

3.3 Geographic scope of the fund and relation to regional organisations

In all the examples analysed in this paper, regional organisations play a key role in the process of setting up regional funds. However, often the geographic scope of the fund does not coincide with the membership of one regional organisation. Sometimes (e.g. in West Africa and Central Africa) several regional organisations are involved in designing and implementing an AfT agenda and in some cases (e.g. in West Africa, Central Africa and the Caribbean) intended beneficiary countries can be found outside the members of regional organisations working on the regional implementation of AfT (see Boxes 1 and 2). Another question related to the role of regional organisation concerns the institutional anchorage and management of the fund (see Section 3.5).

Box 1. The Caribbean

In terms of channelling EPA support, the Caribbean Development Fund (CDF), officially created in July 2008, does not, in its present form, correspond to the ideas of the European Commission regarding an instrument for EPA support because it does not target all Caribbean EPA members. The reason for this is that:

- a) the fund is associated to the Caribbean Single Market and Economy (CSME) under CARICOM and does not include the Dominican Republic and
- b) only the less developed countries in CARICOM are eligible for funding from the CDF.

Box 2. Central Africa

In Central Africa, initially an additional act to the CEMAC Treaty as well as a document regulating operational procedures had been drafted; however, these had to be abandoned as they did not include ECCAS, a Central African regional integration organisation recognised by the African Union, and Sao Tome and Principe, a member of the EPA negotiating group that does not belong to CEMAC or ECCAS. Now, a working group encompassing CEMAC, ECCAS and Sao Tome and Principe has been formed to jointly define the way forward on setting up the fund.

3.4 Choice of the legal instrument

A variety of options is available to formulate the legal basis of a regional fund. Making a choice among them is connected to the issue of defining the relation of the fund to one or more regional organisations as well as to the decision on areas of intervention and management procedures of the fund. Options range from concluding a new international agreement among the member countries of the region (as in case of the Caribbean Development Fund²⁶) over creating an additional act to an existing treaty (as had been suggested in Central Africa²⁷) or entering into a Memorandum of Understanding (as one of the options suggested in the Pacific) to registering the fund as a private company (as expected for the COMESA Infrastructure Fund²⁸).

²⁶ The Agreement Establishing the Caribbean Development Fund (CDF) was signed at the Twenty-Ninth Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM) on 1-4 July 2008.

²⁷ An additional act to the CEMAC treaty was envisaged. Discussions on defining the legal instrument have now been broadened to include ECCAS and Sao Tome and Principe.

²⁸ When targeting private investors, creating a fund as an own legal entity separate from regional organizations

3.5 Efficient management and transparency of procedures

Transparency of the operations of the fund is a key prerequisite to ensure an efficient use of resources and good governance as well as to attract donor contributions. Institutional set up and management procedures will need to ensure effective monitoring of the use of resources through the fund in order to guarantee efficient and transparent operations in line with objectives and to prove this to donors and investors. The need for transparent procedures was repeatedly mentioned by European officials as a key requirement for contributions by the EC and the EU member states and is likely to be equally important for other donors and investors.

Decisions on organisational procedures are highly dependent on the specificities of each region. Some factors to be taken into account include:

- the type of activities to be addressed,
- the capacities to manage the fund in existing institutions in the region (such as regional organisations and/or regional development banks) and
- the relation to existing financing instruments.

Opinions differ on the extent to which management of a fund by a regional organisation is desirable. An advantage of managing a fund by a unit within a regional organisation is that usually regional organisations are in charge of elaborating the strategies on AfT and regional development, which constitute the framework for defining activities to be financed through the regional fund. Hence, management of the fund by a regional organisation may improve coherence between the operations of the fund and regional development strategies. Arguably, however, regional development banks have more expertise in managing funds and implementing projects, in particular in the area of infrastructure (see Section 3.6).

Further, if the decision is made to locate the management of the fund within a regional organisation, there may be a need to clearly draw the boundaries between the organisation and the fund, e.g. by creating a specific unit for managing the fund and/or separating the fund from the regional organisation through its legal status. Independence from the regional organisation may be of particular importance if the fund aims at attracting contributions from private investors, who may be concerned about possible immunities of an international organisation in case of mismanagement²⁹.

The physical location of the management of the fund may also have consequences on its operations, e.g. in terms of proximity or distance to a regional organisation or in terms of the legal environment regulating the activities of the fund, in particular if the fund is set up as a private company.

3.6 The role of regional development banks

In several regions, discussions on setting up regional funds consider the involvement of development banks as existing regional finance institutions. For instance, in Central Africa a political decision has been taken to charge the Banque de Développement des Etats de l'Afrique Centrale (BDEAC) with the management of the FORAPE (see Section 4.1). In SADC, the Development Bank of Southern Africa (DBSA) is expected to manage the PPDF (see Section 4.7). In West Africa, discussions on whether and how to involve the two regional development banks (BIDC and BOAD) in the FORAPE are ongoing. The Caribbean Development Bank (CDB) would seem the obvious host for a Caribbean regional fund, but the CDB seemed not eager to take on that full responsibility.

may assure investors that political influence on the fund operations will be minimized or excluded and that in case of mismanagement of funds no immunities apply to the management. See Johnson, Brad, Report on the structure, value proposition, management, operation and funding of the COMESA Infrastructure Fund, USAID/BearingPoint, March 2008.

²⁹ Johnson, Brad, Report on the structure, value proposition, management, operation and funding of the COMESA Infrastructure Fund, USAID/BearingPoint, March 2008

The expertise of regional development banks is patent in particular in the area of infrastructure. This potential could be exploited either by leaving the financing of trade-related infrastructure to development banks outside a regional fund or by associating a development bank to the management of a regional fund. However, not all development banks currently have the capacity to manage a regional fund. In Central Africa, an EC audit estimated about 12 months of capacity building to be necessary to prepare the BDEAC for the task of managing the FORAPE; in West Africa, similarly the two development banks in the region would arguably at present, without any further support, not be ready to manage the planned FORAPE.³⁰

In addition to development banks in each ACP region, at the continental level in Africa the African Development Bank (AfDB) aims at taking a coordinating role on AfT. These efforts are set in the context of the Africa Aid for Trade Network that is currently being established under the leadership of the AfDB, the United Nations Economic Commission for Africa (UNECA) and the WTO³¹. Further, the AfDB intends to serve as a delivery channel for AfT to African countries. While the AfDB works on all 6 categories of AfT as defined by the WTO, its focus lies on infrastructure as well as on trade facilitation and customs regulation as issues for which a continental approach may be beneficial. In the area of infrastructure the Bank can draw on its past experience, e.g. from the Short Term Action Plan and the Medium-Long Term Strategic Framework under the New Partnership for Africa's Development (NEPAD). Similar to its leading role in the Infrastructure Consortium for Africa (ICA), the AfDB envisages acting as a focal point for AfT in Africa, providing expertise and project preparation facilities and disbursing funds for infrastructure projects to member countries according to specified criteria. However, details on the coordination and complementarity between the AfDB and the African subregions in the area of AfT still need to be elaborated further.

3.7 Definition of beneficiaries

Related to the geographical scope of a fund and to the intervention areas is the definition of eligibility criteria to benefit from the fund. Several questions need to be considered here:

- Should only regional level projects be financed or are also national level projects eligible, considering that these can have strong regional impacts?
- Should funds be given to national governments or directly to projects?
- Should the private sector be eligible to receive funding directly?
- How should funds be allocated across countries in the region? Should funding target only disadvantaged countries or should all members of the region be able to benefit from funds? And if so, under which sharing formula: one based on development criteria, fixed shares or on a first-come first-serve basis?

On the one hand, these questions involve political decisions on the purpose of the fund, e.g. whether or not it entails an element of redistribution from more advantaged to less advantaged member countries of the region, such as the EU Cohesion Fund or the Caribbean Regional Development Fund. National commitments to regional coherence, cooperation and solidarity are also required. On the other hand, technical considerations in terms of delivering funds in the most efficient way play a role, depending *inter alia* on the intervention areas of a fund, the capacity of different entities and actors to carry out interventions and on the operational procedures of the fund. Further work is outstanding in most regions.

³⁰ Diop, Chimère, Diouf Oumar, Honliasso Anani et Seck Galaye, *Appui à la création du Fonds Régional APE Afrique de l'Ouest, rapport provisoire première étape*, ECO, octobre 2007

³¹ The Africa AfT Network emerged out of the Africa Regional Review on AfT organized by UNECA, AfDB and WTO in November 2007. Its aim is to assist countries in defining priorities, accessing resources and monitoring progress. The network consists of a Pan-African level and four sub-regional groupings. Members comprise national government and private sector representatives, donors, regional institutions, AU, NEPAD Secretariat, RECs, AfDB, UNECA and WTO. (See Report and Recommendations of the Africa Regional AfT Review, UNECA, AfDB and WTO, November 2007, www.wto.org/english/tratop_e/devel_e/a4t_e/africa_e.pdf and Advancing the "Aid For Trade" Implementation Agenda in Africa, press release, UNECA, 26 June 2008, www.uneca.org/eca_resources/news/2008/080626aidefortrade.htm)

3.8 Financing instruments used for disbursement of funds

The choice of appropriate financing instruments to be used by a regional fund strongly depends on the intervention areas targeted. For instance, while budget support given to governments may be a preferred mechanism to address fiscal and social adjustment costs from trade liberalisation (e.g. COMESA Adjustment Facility), financing of infrastructure projects may be more appropriate through loans or interest rate subsidies and by instruments involving private sector investment (e.g. COMESA Infrastructure Facility). In other instances, e.g. for projects identified in an AfT agenda that are not expected to yield returns in the short or medium term, project based grant funding may be preferable.

The choice of financial instruments also has implications on the contributions to a fund. First, in terms of amounts, a revolving loan facility will require less sustained contributions than a fund giving out grants; among different loan-based financing instruments some will allow greater leverage of private resources with the same amount of public contributions than others³². Second, donor requirements may restrict the possibility of contributing to a fund based on the financing instruments it uses, e.g. EDF funds can only be given out as grants (see Section 3.9.2).

3.9 Sources of funding

3.9.1 By members of the region

Even though an important purpose of the regional funds is to attract and channel donor financing³³, most regions foresee contributions by members of the region. In this context, determining the contribution formula for members can prove to be a difficult exercise, as illustrated by the extended discussions in setting up the Caribbean Development Fund³⁴.

3.9.2 By the EC/EDF

A key issue with respect to EDF contributions to a regional fund is the verification of the fund procedures by an audit, in order to assess whether the fund meets EC requirements in terms of transparency. Following a successful audit based on the “four pillars” used by the EC for institutional assessment, outlined in Box 3, a regional fund would qualify for receiving EDF funds through a contribution agreement. An audit can also be performed *ex post*; according to an EC official this might for instance be possible in cases where the region cooperates closely with the EC in setting up the fund³⁵.

An issue that pertains to donor contributions in general is whether money should be given as pool funding or on a project basis. While pool funding corresponds more closely to the initial idea of a regional fund in terms of enhancing ownership of the region, project funding may be a way to address the restrictions that different donors face in terms of accounting procedures and on the use of their funds. Project based funding or the creation of different windows within the fund may allow donors to contribute according to their respective requirements³⁶.

³² Johnson, Brad, Report on the structure, value proposition, management, operation and funding of the COMESA Infrastructure Fund, USAID/BearingPoint, March 2008

³³ And in some cases private investment, e.g. for the COMESA Infrastructure Fund.

³⁴ Different options on the basis for calculating contributions included: shares of regional per capita income, shares of regional GDP, proportions of Central Government current revenue and the formula for financing the CARICOM Secretariat. See Slusher, Alan, CARICOM Single Market and Economy, Adjustment and Transformation: Regional Development Fund, Caribbean Connect Symposium, 30 June 2006, p. 3, www.caricom.org/jsp/single_market/caribbean_connect/development_fund_slusher.pdf

³⁵ For a summary of EC procedures on joint management with international organizations, see: EuropeAid Co-operation Office, Annual Activity Report 2007, pp.47, http://ec.europa.eu/atwork/synthesis/aar/doc/aidco_aar.pdf

³⁶ Charmy Investment Limited, Second Interim Report of the study on the establishment of the East African Community Development Fund, 2008.

Specifically with regard to EDF contributions, an issue to be considered is that EDF resources are to be given as grants and cannot be used to finance loans. Hence, for those regional funds that use loans as financing instruments, such as the COMESA Infrastructure Fund, solutions will need to be found to allow EC contributions in line with EDF regulations. A possible example of creating different windows to allow different donors to meet their requirements would be to use grant financing from the EDF to fund preparatory studies on infrastructure projects; the projects as such could then be financed through loans based on other sources of funding. In practice, financial engineering might be needed to explore additional ways of making use of EDF resources in this context.

Box 3. The four pillars – EC institutional assessment for a contribution agreement

The standard procedure of EC cooperation with international institutions is a contribution agreement. A condition for concluding a contribution agreement is a successful institutional assessment of the organization, based on the following four pillars:

1. **Accounting standards:** Criteria include general rules on accounting used, compliance with best financial reporting practices, such as type and frequency of financial statements provided, other good practice disclosures as well as the application of standards at project level.
2. **Audit standards:** Criteria include the type and frequency of audits and actors involved, auditing standards as well as the application of standards at project level.
3. **Internal control standards:**
 - a. **internal control framework:** Criteria include the internal control environment, objectives setting, the risk management process, control activities, communication and information and monitoring as well as the application of standards at project level.
 - b. **internal audit standards:** Criteria include attribute standards and performance standards with respect to internal audits.
4. **Procurement standards:** Criteria include transparency, non-discrimination and equal treatment, use of tendering procedures, best value for money as well as the application of standards at project level.

Source: EC template of a questionnaire for institutional assessment

EC contributions outside the EDF are unlikely at this point, as the EC has stated that it will not make available any further financing outside the EDF for EPA support³⁷. Contributions to regional funds from the EU budget, e.g. from existing funds allocated to support adjustment in the sugar and banana sectors, are at present made difficult in practice, due to the state of programming of these funds and due to the fact that the resources are allocated on a national basis.

3.9.3 By EU member states

For EU member states, regional funds may offer an opportunity to meet their commitments to upscale AfT and offer funding to countries and sectors that they are not traditionally active in. This avoids the problem of aid orphans, in particular as most of the increase in EU AfT is expected to come from member states³⁸, whose bilateral cooperation activities are not spread evenly across ACP countries. For instance in the Pacific and the Caribbean, engagement by EU member states is relatively low compared to Africa, leaving the EC as the main EU donor in these regions.

³⁷ Interview with Louis Michel, European Commissioner for Development and Humanitarian aid, *Trade Negotiations Insights*, Vol.7, No.1, February 2008, www.acp-eu-trade.org/library/files/TNI_EN_7-1.pdf

³⁸ The EU collectively committed to provide €2 billion/year by 2010 on trade related assistance, the EC and EU member states respectively are to contribute €1 billion each. As the EC is already close to meeting this target in its current AfT allocation, most of the increase until 2010 is expected to come from member states.

Transparency of the procedures of a regional fund is at least equally important to EU member states as to the EC. However, exact requirements differ across countries.³⁹

Other aspects stressed by EU member states are the need for a clear rationale for supporting regional integration, i.e. concrete demands should be expressed by ACP regions based on coherent development strategies. Apart from accountability aspects mentioned above, member states appear to be concerned about the absorption capacity of regions in terms of their ability to execute the required projects.

3.9.4 By other donors

According to some EC officials, the focus of the discussions on setting up regional funds has been mainly on contributions by the EC and EU member states rather than on other donors. Officials indicate that references to non-EU contributions appear to be abundant in documents and seem to have been used as a justification for the need to create regional funds. However, while such contributions might be envisaged in the context of donor pledging conferences, relatively little concrete work has been done in this area.

In ACP regions, the importance attached to non-EU contributions seems to differ. While West Africa and Central Africa appear to focus primarily on EDF and EU member states contributions, expecting a regional fund to make these more accessible than under current EDF procedures, the COMESA Infrastructure Fund is actively looking for diversified sources of funding, including non-EU donors as well as private investors. Similarly, in the Pacific funding from non-EU sources may play a significant role, in particular regarding cooperation with Australia and New Zealand.

3.9.5 Private capital market and other sources

Most regional funds focus on public money, from contributions by members of the region and donors. However, private sector contributions are envisaged, in particular for infrastructure projects. First, infrastructure projects often require large amounts of funding; second, such projects often lead to returns that are attractive to private investors. For these reasons, the COMESA Infrastructure Fund plans to combine public and private investment, using public grant money to leverage private contributions.

3.9.6 Sustainability of the fund

An important issue to be taken into account with respect to the sources of funding is the sustainability of the fund with respect to continuous availability of resources in the medium and long term. Sustainability can be ensured in different ways, for instance by setting up the fund as a revolving loan facility, such as the COMESA Infrastructure Fund, or by assuring regular contributions, such as expected for the Caribbean Development Fund.

4 State of play on regional funds for AfT in ACP regions

Progress on establishing regional funds for delivery of AfT varies across ACP regions. While planning for the two windows of the COMESA Funds focuses on outstanding technical details to make it operational, in other regions (such as Central Africa, West Africa and the Pacific) discussions are still at a stage of defining the overall objectives and general structure of a regional fund, which require political decisions apart from technical considerations. CARICOM signed an agreement establishing a regional development fund in July 2008; however in its current form this does not appear immediately suitable for channeling EU EPA support. SADC presently does not see the need to create a new regional financing mechanism but is establishing a project preparation facility to make better use of existing funding possibilities. This Section reviews the current state of play in each region.

³⁹ Exploring these in detail goes beyond the scope of this paper.

4.1 Central Africa - FORAPE

The creation of a regional EPA fund (FORAPE) is planned in order to strengthen competitiveness or support diversification of production, to contribute to absorbing the net fiscal impact of an EPA and to support EPA implementation. A Document d'Orientation Conjoint (DOC) outlining intervention areas⁴⁰ and types of activities as well as the general financing framework was prepared in June 2007 and was included in the interim EPA between the EU and Cameroon⁴¹ as an annex⁴².

According to a Central African expert, the decision to create the FORAPE has been taken jointly by the EC and Central Africa at the ministerial level. The aspired value added of the fund is to have a quicker and more efficient delivery mechanism, circumventing EDF procedures.

An additional act to the CEMAC treaty and a document on operational regulations had been drafted, but had to be abandoned, as they were documents by CEMAC and did not appropriately involve ECCAS and Sao Tome and Principe. As of September 2008, the process has to start afresh in order to find a solution including all three actors. To this end, a working group comprising CEMAC, ECCAS and Sao Tome and Principe has been created to operationalise the FORAPE.

A political decision has been taken that the FORAPE will be managed by the Banque de Développement des Etats de l'Afrique Centrale (BDEAC)⁴³. Technical and operational details still need to be determined. According to an audit carried out by the EC and discussed in May 2008, around 12 months of capacity building would be necessary for the BDEAC to manage the fund. However, the BDEAC is associated to CEMAC and does not include ECCAS and Sao Tome and Principe.

Contributions are envisaged from resources under the EDF, bilateral cooperation by EU member states, voluntary contributions by Central African countries and resources provided by other donors⁴⁴. The DOC also considers the possibility of making use of funding under the EU-Africa Infrastructure Partnership.

The main issues that still need to be addressed in operationalising the FORAPE are: first, the creation of the legal instrument for the FORAPE, which involves CEMAC, ECCAS and Sao Tome and Principe; and second, defining the operational procedures of the fund, which is planned to be done in consultation with the EC in order to meet the requirements for an EC contribution agreement.

⁴⁰ The broad intervention areas listed in the DOC of July 2007 are: Development of basic regional infrastructure; agriculture and food security; support to industry, diversification and competitiveness; deepening of regional integration; improvement of the business climate and support to enterprises; facilitation of setting up EPA institutions. The DOC further mentions that the EC considers the following to be the priority areas of the FORAPE: support to competitiveness or diversification of productive sectors; contributing to the absorption of net fiscal impact in parallel to fiscal reforms; support to implementing the rules under an EPA.

⁴¹ Cameroon is the only member of the Central African negotiating region that initialed the Central Africa-EU interim economic partnership agreement.

⁴² Renforcement des capacités et mise à niveau des économies de l'Afrique Centrale dans le cadre de l'APE, Document d'Orientation Conjoint Afrique Centrale / Union Européenne, Sao Tome, 15 juin 2007, Annexe 5 à l'Accord d'étape vers un Accord de Partenariat Economique entre la Communauté européenne et ses Etats membres, d'une part, et la partie Afrique centrale, d'autre part, <http://register.consilium.europa.eu/pdf/fr/08/st11/st11959-ad06.fr08.pdf> (English translation available at <http://register.consilium.europa.eu/pdf/en/08/st11/st11959-ad06.en08.pdf>)

⁴³ According to an EC expert, this decision was taken after an audit of CEMAC failed to result in a contribution agreement. The audit of the BDEAC confirmed that requirements for an EC contribution agreement were met, except with regard to the accounting system.

⁴⁴ Renforcement des capacités et mise à niveau des économies de l'Afrique Centrale dans le cadre de l'APE, Document d'Orientation Conjoint Afrique Centrale / Union Européenne, Sao Tome, 15 juin 2007, <http://register.consilium.europa.eu/pdf/fr/08/st11/st11959-ad06.fr08.pdf>

4.2 Eastern and Southern Africa – COMESA Fund

In the Eastern and Southern African region, regional funds to support trade and regional integration exist both under the Common Market for Eastern and Southern Africa (COMESA) and under the East African Community (EAC; see Section 4.3).

The creation of a COMESA fund is foreseen in Article 150 of the COMESA Treaty; the protocol establishing the fund was signed in 2002. It consists of two distinct elements:

- *the COMESA Infrastructure Fund (CIF)*:
the CIF is designed as a revolving loan facility to finance regional infrastructure projects, including via long-term loans at fixed interest rates⁴⁵ and other financing mechanisms such as Public Private Partnerships; it is expected to attract non-grant financing and to deliver positive returns on investment; and
- *the COMESA Adjustment Facility*⁴⁶:
the Adjustment Facility is intended to assist countries via budget support to meet the social costs of adjustment to trade liberalisation (e.g. through social safety nets or schemes to retrain the workforce); it will be primarily financed by grants.

The COMESA Fund is overseen by a Committee consisting of COMESA Ministers whose states have contributed to the base fund and of one representative of each donor. The day-to-day management will be carried out by a fund manager to be appointed by the Committee⁴⁷.

An Aid for Trade Unit (COMAID) is currently being established in the COMESA Secretariat⁴⁸. Its functions are expected to comprise support to the COMESA Secretariat in operationalising and possibly overseeing the Infrastructure Fund and the Adjustment Facility. While the Adjustment Facility is likely to be managed in the COMESA Secretariat, an external fund manager is expected to be chosen for the CIF. The CIF would also be delineated from COMESA as an institution by its own legal status as a private limited liability company.

In terms of sources of funding for the CIF, the COMESA Fund consists of a basis of permanent capital (the pool fund) that comprises the *base fund* contributed by COMESA member states and the *general fund* contributed by donors such as the EC, the International Development Association (IDA) and the AfDB. The initial joint contribution by COMESA members amounts to US\$ 10 million; the share paid by each country is based on the formula used for contributions to the budget of the COMESA Secretariat⁴⁹. Further contributions are expected by international finance institutions, development finance institutions, sovereign funds and other private investors.

The CIF is expected to be set up as an independent entity in the form of a private sector limited liability company, into which the COMESA Fund is expected to invest, thereby complementing funding from other sources. Even though the CIF focuses on mobilizing resources beyond grant aid, e.g. from the private sector, some grant financing will be needed in order to leverage additional contributions. As becomes clear from conversation with experts, one of the issues to be resolved with respect to EC contributions to the CIF is how to make use of funds under the

⁴⁵ COMESA, COMESA Fund for Co-operation, Compensation and Development, www.comesa.int/publications/COMESA%20Briefings%20/COMESA%20Fund%20for%20Co-operation%2C%20Compensation%20and%20Development/view

⁴⁶ Concerning further categories of Aft, trade policy and regulation is being addressed at regional level through the RISP (EDF funded); productive capacity building is so far considered to be better dealt with at national level, but there are voices that demand regional action on agricultural production in the context of food security. For example, the CIF can address projects in the agricultural sector.

⁴⁷ Protocol Relating to the Fund for Co-operation, Compensation and Development of the Common Market for Eastern and Southern Africa.

⁴⁸ See Regional Trade Facilitation Programme, Eastern and Southern Africa, Webpage on the Aid for Trade Unit, www.rftp.org/aid_for_trade_unit.php

⁴⁹ Draft 10th EDF Regional Strategy Paper and Regional Indicative Programme, Region of Eastern and Southern Africa and the Indian Ocean, Annex 10, Draft of 24 October 2006.

10th EDF Regional Indicative Programme. In line with EDF procedures, these need to be given as grants whereas the CIF mainly relies on giving out loans or equity (which needs to be bought back). Hence, some financial engineering will be needed to devise mechanisms to ring-fence EDF funding and ensure that it is used according to the EDF procedures. One possibility might be to create different windows and use EDF funds only to finance grant-funded components, such as feasibility studies or other projects that are not expected to yield positive returns on investment in the short or medium term.

The purpose of the CIF, which distinguishes it from other instruments⁵⁰, is to finance holistic regional solutions to overcome constraints to regional integration and cross-border transactions posed by a lack of appropriate infrastructure⁵¹. A specific pilot programme that illustrates this approach is the North-South Corridor initiated by the EAC-COMESA-SADC Tripartite in order to address bottlenecks to trade flows along a continuous corridor, through a series of separate but related infrastructure projects combined with reforms of policy and administration⁵². Further, the CIF may play a unique role in combining donor funds and private sector funds, in a way that uses donor contributions to leverage more private financing of infrastructure projects in the region.

With regard to the Adjustment Facility, so far the added value of this new mechanism seems to be less clear. It is likely to depend on the type of contributions the adjustment facility can raise in the future. By June 2008, the EC, which has committed €78 million from the 9th EDF via a contribution agreement with COMESA on the Regional Integration Support Mechanism (RISM)⁵³, was the only donor. Accordingly, the question remains of whether there is a real need to channel these funds through the adjustment facility instead of giving them as direct budget support to the respective beneficiary countries.

There is some geographical overlap between the COMESA Fund and the EAC Development Fund, which similarly comprises an adjustment facility and an infrastructure facility. In order to make use of potential synergies and to avoid duplication of instruments, SADC, COMESA and EAC plan to cooperate on investment in infrastructure. A tripartite meeting of the chief executives of the three institutions on 11-13 June 2008 in Maputo decided that the three Regional Economic Communities (RECs) would share a common Eastern and Southern Africa (ESA) and Indian Ocean (IO) regional AfT strategy⁵⁴. Following recommendations of by the chief executives, the COMESA-EAC-SADC Tripartite Summit of Heads of State and Government on 22 October 2008 decided to cooperate more closely on a number of infrastructure programmes and “directed the three RECs to develop joint financing and implementation mechanisms for infrastructure development within one year”⁵⁵.

⁵⁰ In parallel to the creation of the COMESA Infrastructure Fund (CIF), several other infrastructure funds have emerged that provide access to funding in the region. However, none of these other funds has a clear focus on trade and regional integration.

⁵¹ Pearson, Mark, Brief for the Donor Video Conference on the COMESA Fund, June 2008.

⁵² The North-South Corridor addresses regulatory and administrative constraints in addition to infrastructural ones. The infrastructure component is expected to be funded to a significant extent through the CIF, complemented by other sources of funding. See www.northsouthcorridor.org and www.rtfp.org/north_south.php, as well as Pearson, Mark, presentation at the ILEAP AfT conference, Oxford, 11 April 2008, www.ileap-jeicp.org/downloads/oxford_08/PEARSON_080411_ILEAP_AfT_Conference.pdf

⁵³ COMESA, Kenya Permsec Nalo calls for speed operationalisation of the COMESA Fund, e-comesa newsletter Issue #99, 11 May 2007, www.comesa.int/COMESA%20Newsletter/comesa%20Newsletter%2099

⁵⁴ Regional Trade Facilitation Programme, Southern and Eastern Africa, Webpage on the Regional Strategy, www.rtfp.org/regional_strategy.php

⁵⁵ Final Communiqué of the COMESA-EAC-SADC Tripartite Summit of Heads of State and Government, 22 October 2008, Kampala, www.acp-eu-trade.org/library/files/COMESA-EAC-SADC_EN_221008_EAC_Final-Communique-Tripartite--Summit.pdf

4.3 East African Community – EAC Development Fund

An EAC Development Fund is being set up in the context of establishing an EAC Common Market. EAC Heads of State decided on 18 June 2007 that the Development Fund should be established through a protocol to be concluded by the Council of Ministers by December 2007⁵⁶; this time table has not been met, but preparations for setting up the fund continue. A protocol has been drafted and is being considered by stakeholders.

According to the EAC Development Strategy for 2006-2010, the EAC Development fund is expected to allow “better co-ordination of donor support and better alignment with the priorities established by the EAC consistent with the principles of the Paris Declaration”⁵⁷. The main purpose of creating the EAC Development Fund is to ensure availability of financing for the implementation of the Third Strategic Plan of the EAC. The EAC Development Fund is expected to provide a legal basis to mobilize resources for development programmes at the regional level and to provide support to member states for adjustment to regional integration. The EAC emphasizes the need for an own financing instrument that addresses EAC specific needs and on which the EAC members have full control, as opposed to the COMESA Fund, in which EAC countries form only part of the membership⁵⁸.

The fund aims at addressing “infrastructural development issues, development imbalances, investment promotion and other development issues in the Partner States for the advancement, deepening and acceleration of integration benefits”⁵⁹. Similar to the COMESA Fund, the EAC Development Fund is expected to comprise an infrastructure component and a Regional Integration Fund including an adjustment facility⁶⁰.

Potential overlap between the EAC Development Fund and the COMESA Fund in the area of infrastructure investment are expected to be addressed through the creation of a joint regional financing mechanism, as indicated in Section 4.2.

Management of the EAC Development Fund is expected to differ for the two windows: the Infrastructure Fund is expected to be managed by the East African Development Bank (EADB), whereas the Regional Integration Fund is likely to be based in the EAC Secretariat. Exact operational procedures are still under discussion.

Financing for the EAC Development Fund might be obtained from EAC member states, EAC customs revenue, grants and loans from bilateral and multilateral development partners and private sector investment. The region hopes that resources allocated to the fund will be given as basket funding without conditionalities attached by donors or earmarking for specific projects⁶¹. Nevertheless, the EAC Development Strategy for 2006-2010 also states that the establishment of the EAC Development Fund “should not preclude donor funding on a programme-by-programme basis provided it is aligned to the priorities of the EAC”.

⁵⁶ Communiqué of the 5th Extraordinary Summit of EAC Heads of State, Kampala, 18 June 2007, www.iss.co.za/dynamic/administration/file_manager/file_links/EACCOMJUN07.PDF?link_id=3893&slink_id=4711&link_type=12&slink_type=13&tmpl_id=3

⁵⁷ EAC Development Strategy 2006-2010, www.chr.up.ac.za/undp/subregional/docs/eac3.pdf

⁵⁸ Charmy Investment Limited, Second Interim Report of the study on the establishment of the East African Community Development Fund, 2008

⁵⁹ Communiqué of the 5th Extraordinary Summit of EAC Heads of State, Kampala, 18 June 2007, www.iss.co.za/dynamic/administration/file_manager/file_links/EACCOMJUN07.PDF?link_id=3893&slink_id=4711&link_type=12&slink_type=13&tmpl_id=3

⁶⁰ Charmy Investment Limited, Draft Protocol on the Establishment of the East African Community Development Fund, 2008

⁶¹ Charmy Investment Limited, Second Interim Report of the study on the establishment of the East African Community Development Fund, 2008

4.4 West Africa - FORAPE

The creation of a specific EPA fund (FORAPE) is envisaged in the context of EPA negotiations, based on a decision of the West African Ministerial Monitoring Committee in Niamey in November 2006, confirmed by Chief Negotiators of both parties in February 2007.

The West African region decided to create a specific EPA fund with the aim of providing resources to finance the development needs identified in the context of EPA negotiations. The objective of creating a new fund is to achieve lighter disbursement procedures compared to the EDF and to attract additional resources for EPA support, e.g. from EU member states and other donors.

The FORAPE should be one out of several instruments to finance the EPA development programme (PAPED), which is being elaborated by the region. Hence the FORAPE potentially covers all categories of AfT but concrete range of interventions still needs to be defined in accordance with the PAPED. An issue to be clarified is the relation between the FORAPE and the overall Community Development Programme, which should be operational by mid 2009.

A study on the operationalisation of the fund was carried out for ECOWAS, UEMOA and the EC by a team of consultants in summer 2007⁶². It makes proposals concerning the specific objectives, intervention areas, beneficiaries and contributions to the fund and identified different options in terms of the institutional home of the FORAPE. As of September 2008, ECOWAS and UEMOA were still in the process of determining the institutional home of the fund. Following this decision, the legal status of the FORAPE as well as specific operational procedures and decision-making bodies need to be elaborated. The study suggests five different options of institutional anchorage: (i) affiliation to ECOWAS, (ii) to UEMOA, (iii) to both, (iv) to a regional development bank (Banque d'investissement et de développement de la CEDEAO or Banque Ouest Africaine de Développement), or (v) creation of a new structure outside the existing institutions.

The FORAPE is expected to complement existing financing mechanisms in the region. The study argues that there is a need to create a new instrument as none of the existing mechanisms seems to fulfil the functions envisaged for the FORAPE. For instance, the mechanisms under UEMOA have a narrower geographical coverage than the West African EPA region and the ECOWAS pool fund is targeted exclusively at support to the ECOWAS Secretariat. The regional development banks associated to ECOWAS and UEMOA respectively⁶³ may be involved in the management of the FORAPE; however, the banks currently have limited or no experience in the intervention areas of fiscal impact, upgrading of productive capacities and implementation of EPA rules. Further, capacity constraints in term of human resources in the regional banks would need to be addressed if they were to manage the FORAPE. Some European officials have also voiced concern about the capacity at national level to put claims to the fund, as only few claims have been made under the existing UEMOA and ECOWAS compensation mechanisms for fiscal revenue losses.

The study recommends a joint management by ECOWAS and UEMOA, through a joint structure headed by a director, under supervision of a steering committee. However alternative options to those suggested in the report might be considered. A decision on the institutional affiliation of the FORAPE still needs to be taken.

Initially, grant contributions are expected mainly from the EC and from EU member states. These will possibly be complemented by resources of ECOWAS, UEMOA and their member states as well as by funding provided by other donors. During a joint meeting, several EU

⁶² Diop, Chimère, Diouf Oumar, Honliasso Anani et Seck Galaye, *Appui à la création du Fonds Régional APE Afrique de l'Ouest*, rapport provisoire première étape, ECO, octobre 2007. For a presentation of the report, see the presentation by Chimère Diop, at the 1er Forum des affaires de la CEDEAO, Accra, 31 October 2007, www.privatesector.ecowas.int/fr/event/ecobizfr/presentation/Presentation_Accra_fonds_regional_%20APE_Mode_de_compatibilite.pdf

⁶³ ECOWAS Bank for Investment and Development (EBID) and Banque Ouest Africaine de Développement (BOAD)

member states have expressed interest and spelled out their respective conditions and requirements in order to contribute to such a fund (requirements differ across member states). However, many EU member states have traditionally been active at national level and may prefer to continue using bilateral project funding instead of contributions to the FORAPE at regional level.

Several issues need to be clarified with respect to contributions by the EC and EU member states. These relate to amount and purpose of financing available as well as to the timing (one-time contribution or more long term financing). According to West African sources, EU donors are demanding clarity on the PAPED and on management procedures of the FORAPE⁶⁴ before deciding on their contributions. EC officials similarly expressed that before the FORAPE could become operational, appropriate mechanisms had to be put in place both at regional and at national levels.

The 2007 study suggests grant financing to be allocated to projects through a multi-annual programming process, based on proposals made by member countries of the fund. Potential beneficiaries are governments and regional organisations as well as the private sector and public-private partnerships. Another study is currently being carried out to develop a proposal for the eligibility criteria. But until the objectives of the fund and the institutional anchorage of the FORAPE have been determined, it is difficult to address the concrete questions related to implementation and monitoring procedures.

Note that while a fund could be set up independently from the state of play of the EPA negotiations, the needs from fiscal adjustment and reform to be addressed by the FORAPE can only be defined in the context of market access commitments to be agreed in the EPA.

4.5 SADC

The creation of a SADC Development Fund was considered at ministerial level in 2002/2003. Following an assessment carried out by the development finance institutions in the region, it became apparent that sufficient amounts of financing were available in the region, but that there was a shortage of capacity to define bankable projects. Accordingly, the decision was taken to set up a Project Preparation and Development Fund (PPDF), which should assist public and private actors in the development of infrastructure projects and in identifying appropriate sources of financing among the existing mechanisms⁶⁵. According to EC sources, the 10th EDF Regional Strategy Paper and Regional Indicative Programme foresees the possibility of supporting both to the PPDF and the SADC Development Fund, should these become operational and meet the criteria required under EDF regulations.

The PPDF will be hosted by the Development Bank of Southern Africa (DBSA). A Memorandum of Understanding on principles, roles and areas of cooperation was signed between SADC and DBSA in August 2008 and approved by the 28th Summit of SADC Heads of State and Government⁶⁶. A management framework still needs to be elaborated, with a view to making the PPDF operational by the end of 2008⁶⁷.

⁶⁴ The EC is already supporting existing regional financing mechanisms. The UEMOA compensation mechanism has been audited and EC contributions are made to it, as an activity under the contribution agreement with UEMOA. The ECOWAS compensation mechanism is still to be audited, there have been some delays. EC funds are allocated to the mechanism but will not be disbursed before a successful audit.

⁶⁵ Thomas, Dr. Rosalind H., Identifying & developing strategies for funds mobilization & investment as an input to The Southern Africa Productive Capacity Facility – Do we need the APCF?, Presentation to the SADC Experts Group Meeting, Johannesburg, South Africa, 6-8 December 2006, www.unido.org/fileadmin/import/60527_SADCDFRC.ppt

⁶⁶ DBSA, The DBSA and SADC Secretariat sign an agreement for the establishment of a working relationship aimed at establishing a regional development fund institution, media release, 27 August 2008, www.dbsa.org/MediaRoom/Documents/DBSA%20%20SADC%20Secretariat%20MoU%20Media%20release%2008.docx

⁶⁷ SADC and DBSA sign development pact, afrol News, 29 August 2008, www.afrol.com/articles/30543

In addition, according to a SACU press release, SACU member states have decided at a workshop in September 2008 to develop “a trade financing package at a regional level”.⁶⁸

4.6 Caribbean Development Fund

The Agreement Establishing the Caribbean Development Fund (CDF) was signed by some CARICOM member states at the CARICOM Summit on 1-4 July 2008⁶⁹. The creation of the fund is based on Article 158 of the Revised Treaty of Chaguaramas establishing CARICOM. It has the objective of providing financial or technical assistance to disadvantaged countries, regions and sectors to compensate them for loss experienced as a consequence of moving to deeper integration under CARICOM.

General policy direction of the CDF is given by the CARICOM Community Council, which is advised by the Council for Finance and Planning (COFAP) and the Council for Trade and Economic Development (COTED). A Board of Directors appointed by the COFAP oversees the CDF, while management of operations is expected to lie with a Chief Executive Officer appointed by the Board of Directors. The Board held its first meeting on 30 September – 1 October 2008, at which the structure of the CDF was addressed. The first Chief Executive Officer has taken up his responsibilities on 1 November 2008⁷⁰.

The initial size of the fund will be US\$250 million, out of these US\$120 million will be contributed by CARICOM member countries (US\$20m from the Trinidad & Tobago Petroleum Fund) and the rest is to be sought from development partners, from the private sector and from other sources. The contribution formula for CARICOM member states takes into account the size of the country, per capita income and other minor indices. In June 2008, contributions totalled US\$44 million, with an additional \$8.4 million expected shortly⁷¹.

Financing instruments that the CDF is expected to use for disbursement of funds include capital or technical assistance loans, capital or technical assistance grants and interest rate subsidies.

A Regional Development Agency (RDA) is expected to be created as a sub-agency of the CDF. Its objectives are investment promotion and mobilization, support to enterprise competitiveness and business development as well as review and evaluation of the Chapter 7 provisions of the CARICOM Treaty.

Article 8.3 of the CARIFORUM-EU EPA states that parties agree on the benefits of a regional development fund to mobilise and channel EPA related development resources from the EDF and other potential donors. It further sets out that CARIFORUM States endeavour to establish such a fund within two years of the date of signature of the EPA. Accordingly, the CDF might be used for EPA support in this sense.⁷² However, in its current form, the CDF does not correspond to the ideas of the EC for an instrument to channel EPA support, as only less developed CARICOM countries⁷³ are eligible for support. Hence, a solution would need to be found to allow funding to all EPA signatories, including to more developed CARICOM countries

⁶⁸ SACU, SACU hosts Aid for Trade Workshop, 08 – 09 September 2008, Windhoek, Namibia, press release, www.sacu.int/docs/pr/2008/pr0910.pdf

⁶⁹ See Communiqué of the Twenty-Ninth Meeting of the Conference of Heads of Government of the Caribbean Community (CARICOM), Bolans, Antigua and Barbuda, 1-4 July 2008, press release 216/2008, CARICOM, 5 July 2008, www.caricom.org/jsp/pressreleases/pres216_08.jsp

⁷⁰ Jamaican diplomat appointed CEO of the CARICOM Development Fund, press release 325/2008, CARICOM, 3 November 2008, www.caricom.org/jsp/pressreleases/pres325_08.jsp

⁷¹ CARICOM, CARICOM Development Fund soon to be a reality, press release 193/2008, 27 June 2008, www.caricom.org/jsp/pressreleases/pres193_08.jsp

⁷² On EPA development support in the Caribbean, see ODI, ECDPM and CaPri, *The Cariforum-EU Economic Partnership Agreement (EPA): The Development component*, European Parliament study, March 2009, www.europarl.europa.eu/activities/committees/studies.do?language=EN

⁷³ The definition of less developed countries used in the CARICOM context differs from the UN classification of least developed countries.

and to the Dominican Republic. Possibly, an additional window could be added to the CDF in this respect⁷⁴.

4.7 Pacific - Trade and Development Facility

The creation of a Trade and Development Facility (TDF) is planned by Pacific ACP (PACP) countries. The option of creating a regionally owned fund was first discussed at a joint ministerial meeting on 1 March 2007 and has since then been explored further at technical as well as ministerial level.

The rationale for this facility originated out of discussions at the all ACP level on an EPA adjustment facility, hence EPA support is a central element; but the focus of the TDF has been broadened to support Aft measures in the region in general. The overall objective of the TDF will be to enhance the ability of Pacific countries to participate in the international trading system, in terms of supporting negotiations and implementation of trade agreements as well as addressing supply side constraints. A political decision has been taken that the fund is to cover all categories of Aft defined by the WTO Task Force⁷⁵.

In the area of trade facilitation, the added value of a new regional fund needs to be defined with respect to the Regional Trade Facilitation Programme (RTFP) under the Pacific Agreement on Closer Economic Relations (PACER). However, in other Aft categories, there will be no overlap as the scope of the proposed TDF is much larger than that of the RTFP, which consists of a customs component, a quarantine component and a standards and conformance component⁷⁶.

The region envisages funding for the TDF to come from the EC, EU member states and other donors such as Australia, New Zealand and the World Bank. Donors will need to determine whether they will make general contributions to the fund – possibly through a contribution agreement in the case of the EC - or provide funding earmarked for specific projects to be carried out under the facility.

Several options are being considered concerning the legal status of the fund. These range from creating it as a stand-alone legal entity over associating it to an existing legal instrument (e.g. creating it as a protocol to the Agreement Establishing the Pacific Islands Forum) to establishing the TDF as a Memorandum of Understanding, i.e. as a less than legally binding instrument. In any of these options, a decision needs to be taken as to whether donors should be parties to the fund or whether it should be created as an agreement among PACPs only.

In early 2008, Pacific experts favoured the option of using a Memorandum of Understanding among PACPs only. However, when this recommendation was formulated it was unclear whether the fund was expected to cover infrastructure or not; hence, experts noted that in case infrastructure were to be included among the intervention areas, which would likely imply large amounts of funding, a more binding legal instrument might be more appropriate.

The host institution of the TDF has not been determined yet. It might be managed by the Pacific Islands Forum Secretariat (PIFS), while being clearly delineated from the institution as such. A possibility that is being considered would be to create the TDF as a protocol to the Forum Secretariat Agreement⁷⁷.

⁷⁴ Caribbean Regional Negotiating Machinery, CRNM Participates in the 13th Meeting of COFAP, RNM Update 0901, 2 February 2009,

http://new.crnw.org/index.php?option=com_docman&task=doc_download&gid=575&Itemid=113

⁷⁵ An initial study on PACP needs covered categories 1,2, 4 and 5; an additional study is to cover trade-related infrastructure needs.

⁷⁶ For more details on the RTFP, see www.forumsec.org/fi/pages.cfm/economic-growth/regional-trade/regional-trade-facilitation-programme.html

⁷⁷ The February 2008 TWG-LICB Meeting considered that creating it as protocol to PICTA was not appropriate for non-Parties to PICTA.

The EC envisages possible contributions to the TDF under the 10th EDF Regional Indicative Programme⁷⁸. Further, EC officials indicated that from an EU point of view such a facility would provide an important opportunity for EU member states not present in the Pacific with bilateral cooperation activities to support the regional AfT agenda. The EC would further like to see the TDF as an open fund beyond EPA support, to which also non-EU donors such as Australia and New Zealand could contribute. Open questions from an EC perspective in operationalising the TDF include: (i) the management procedures - to be verified by an audit in order to allow a contribution agreement, (ii) the institutional affiliation of the TDF, including considerations of management absorption capacity of different institutions and (iii) details of financing modalities. While the responsibility for setting up the TDF lies with the region, the EC plans to offer support in this process.

A round table meeting on AfT and the TDF held on 23-24 October 2008 provided an opportunity for PACPs and development partners to discuss the AfT needs in the region, working towards a regional strategy on mobilising funding for these, but did not result in any specific commitments for the TDF.

5 Conclusion

The discussion on establishing regional funds seems mainly to be driven by political motivations of different actors. The issues at stake for both ACP and EU actors are manifold, including considerations of ownership, donor coordination, showing follow-up on commitments on aid effectiveness and AfT, the need to foster and accompany regional integration processes and address regional imbalances, locking in AfT promises obtained during trade negotiations and tapping new innovative sources of funding.

Efforts towards creating regional funds to support AfT and regional integration agendas are ongoing in all ACP regions, but based on the current state of play most regions (except possibly COMESA) appear to have a long way to go for this ambition to materialise. More reflection is required both on the desired purpose of the regional fund and on the appropriate design to operationalise this purpose. It may be useful to allow sufficient time for such reflection and to give priority to a well thought out concept instead of aiming at setting up a regional fund as fast as possible. Nonetheless, all ACP regions and countries are already experiencing major AfT needs and addressing them becomes even more urgent as integration processes gain speed in several regions and EPA implementation is expected to begin soon.

Accordingly, it may help to consider regional funds as one delivery mechanism among several others and to make use of existing mechanisms to address immediate needs instead of waiting for regionally owned mechanisms to be in place. In parallel to starting the implementation of AfT agendas (once these will have been better defined) with existing instruments, policy-makers may wish to continue discussions on how to complement these with new regional funds – while avoiding excessive multiplicity of instruments - with a view to improving delivery and availability of resources in a sustainable way in the longer term.

Strong political will, leadership, a coherent regional development strategy as well as clear political guidance are prerequisites before addressing a number of more technical questions in order to successfully create a regional fund. Based on the findings of this paper, some of the points that appear useful to consider are the following:

⁷⁸ European Commission, The Regional Strategy Papers and Indicative Programmes of the 10th European Development Fund, Commission Staff Working Document accompanying the Communication on Regional integration for development in ACP countries, 1 October 2008, p.40, <http://register.consilium.europa.eu/pdf/en/08/st13/st13816-ad01.en08.pdf>

- Would a new regional fund have added value at this point in time in a particular region? Answering this question requires being clear about the political objectives of a new fund and about the likelihood of meeting these technically through the creation of such a new instrument. In particular complementarity and coordination with existing mechanisms (at national and multilateral level and in bilateral development cooperation) are crucial aspects of determining the added value of a new fund.
- What kinds of projects should be financed? A clear definition of the intervention areas, including the type of AfT measures to be targeted, is essential, as different ways of institutional and legal setup, management procedures, financing instruments for disbursement and sources of funding may be preferable based on the type of AfT measures to be financed.
- How should resources be allocated among countries within a region? Should funding target only disadvantaged countries or should all members of the region be able to benefit from funds? And if so, with fixed shares or on a first-come first-serve basis? These questions involve political decisions on the purpose of the fund, e.g. whether or not it entails an element of redistribution within the region.
- How can efficient and transparent management be ensured? This question relates to the choice of a regional organisation or development bank as institutional home as well as to the legal instrument for creating a fund. With respect to regional organisations and development banks, management capacity as well as potential needs and opportunities for capacity building need to be verified.
- What sources of funding are envisaged? This potentially includes defining a contribution formula for members of the region (which is politically sensitive), attracting donor financing (taking into account different procedural requirements by donors; considering that no additional ODA may be available under the AfT initiative) and private investment (meeting investors expectations on returns and risk) as well as ensuring sustainability of funding.
- If large donor contributions are foreseen, is there a common understanding between members of the region setting up the fund and main donors on objectives and operationalisation of the fund? Is sufficient outcome-oriented communication taking place with a view to match expectations of both sides and ensure the availability of finance in line with shared objectives?

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Personal interviews, phone interviews and email exchanges with experts and officials, including the following:

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- Alexandre Borges Gomes, DG Trade, European Commission
- Giorgio Cocchi, DG Development, European Commission
- Chimere Diop, International Consultant
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