

# **AFRICAN DEVELOPMENT FUND**



## **MULTINATIONAL**

### **INSTITUTIONAL SUPPORT PROJECT FOR THE AFRICAN UNION: AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) IMPLEMENTATION**

#### **PROJECT APPRAISAL REPORT**

**RDGE/PIFD/PGCL**

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## Acronyms and Abbreviations

ADF	African Development Fund
ADB/AfDB	African Development Bank
AEC	African Economic Community
AfCFTA	African Continental Free Trade Area
AFREXIM	Africa Export Import Bank
AU	African Union
AUC	African Union Commission
BIAT	Boosting Intra-African Trade
CFTA	Continental Free Trade Area
CFTA - NF	Continental Free Trade Area - Negotiating Forum
CTF	Continental Task Force on the CFTA
COMESA	Common Market for East and Southern Africa
DTI	Department of Trade and Industry (AUC)
EAC	East African Community
FM	Financial Management
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HATC	High Level Africa Trade Committee
HS	Harmonized System (of product and tariff classifications)
ITC	International Trade Centre
JPA	Joint Partnership Arrangement
M&E	Monitoring and Evaluation System
NTBs	Non-Tariff Barriers
PIU	Project Implementation Unit
PTB	Physikalisch-Technische Bundesanstalt
REC	Regional Economic Community
RISF	Regional Integration Strategic Framework
RMCs	Regional Member Countries
ROO	Rules of Origin
SADC	Sothern Africa Development Community
SPS	Sanitary and Phyto-Sanitary Measures
TAF	Trade Assistance Facility
TRALAC	Trade Law Advisory Centre
TRAPCA	Trade Policy Training Centre in Africa
TBT	Technical Barriers to Trade
TFTA	Tripartite Free Trade Agreement
TWGs	Technical Working Groups
UA	Units of Account
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
MOU	Memorandum of Understanding
WTO	World Trade Organisation
WTO TFA	WTO Trade Facilitation Agreement

## **Financing Information**

Client Information	
<b>Grant Recipient:</b>	African Union
<b>EXECUTING AGENCY:</b>	African Union Commission

## **Source of financing**

<b>Components</b>	<b>UA (Total)</b>	<b>USD (Total)</b>
<b>ADF (RPG)</b>	<b>3,500,000.00</b>	<b>4,867,765.00</b>
<b>AU In-Kind contribution</b>	229,885.06	322,000
<b>Grand Total</b>	<b>3729,885.06</b>	<b>5,189, 9765.00</b>

## **CURRENCY EQUIVALENCE**

(As at 8 February 2019)

<b>Currency Unit</b>	=	<b>Equivalent</b>
1UA	=	USD1.40
1UA	=	ETB39.36
1USD	=	ETB28.10

## Project Summary

<p><b>Project Overview</b></p>	<p><b><u>Project Name:</u></b> Institutional Support Project for the African Union: African Continental Free Trade Area (AfCFTA) Implementation</p> <p><b><u>Project Objective:</u></b> To establish solid Institutional Structure for the effective and efficient implementation of the AfCFTA.</p> <p><b><u>Expected Outputs:</u></b> Enhanced AU Institutional capacity to manage the AfCFTA implementation; Improved stakeholders inclusiveness, buy-in and ownership of AfCFTA Agreement</p> <p><b><u>Geographical Scope:</u></b> Continental</p> <p><b><u>Overall Timeframe:</u></b> 24 months (April 2019 – March 2021)</p> <p><b><u>Grant Amount:</u></b> UA 3.5 million / US\$ 4.8 (AfDB contribution)</p> <p><b><u>Project Direct Beneficiaries:</u></b> The African countries shall be the direct beneficiaries of the Project. The project is also designed for the AUC to extend support to the RECs and member states, and the private sector. This is particularly in the area of capacity enhancements for the RMCs to meet implementation obligations, such as scheduling of commitments, supporting domestic processes leading to full ratification of the AfCFTA. For the private sector, it will be by way of sensitisation and advocacy to familiarise with the AfCFTA, with the view to better understanding, buy-in and taking advantage of the enormous opportunities created by the AfCFTA, including support to the installation of an African Business Council. The broader spillover effects are further highlighted in Section III on Project Feasibility, including multiplier effects on gender and cross border trade.</p> <p><b><u>Project Components:</u></b> The project comprises two main components: (i) establishment of the AfCFTA Secretariat and (ii) Roll out AfCFTA implementation programs/tools and stakeholder awareness</p>
<p><b>Needs Assessment</b></p>	<p>The AfCFTA Agreement provides for a stand-alone Implementation Secretariat, with a distinct legal personality, similar to the World Trade Organisation. The AU has never had experience in managing implementation of a major Free Trade Agreement involving all African countries. A major weakness often associated with the AU is the establishment of durable, goal efficient and reliable institution with adequate capacities to undertake implementation. The AU is undertaking a study tour to major trade related institutions to better understand how they function; draw insights from best practices, while also commissioning studies to complement this exercise. This project is to help materialize an institutional structure that can best facilitate efficient service delivery and the full-scale implementation of the AfCFTA programmes. It will also build skills, catalyse inclusiveness and ownership by stakeholders, a requisite for the successful implementation of AfCFTA.</p>
<p><b>Bank's Added Value</b></p>	<p>Respective AU Summit Decisions on the AfCFTA have consistently called on the Bank and other development partners to support the AU to implement the Agreement successfully. In this regard, the Bank is a member of the Continental Task Force of the AfCFTA, which has oversight responsibility of managing the process. Membership to the task force has provided an opportunity for the Bank to help shape the direction and eventual outcome of the Phase 1 negotiations. This Institutional Support project will further give the Bank the vantage position to leverage well known advantages of knowledge brokerage, catalytic financing, policy advocacy and astute project management, to help shape the structure and modus operandi of the AfCFTA Secretariat.</p>
<p><b>Knowledge Management</b></p>	<p>New knowledge will be delivered through: (i) meetings, workshops, consultations and dialogue with stakeholders. In addition, research and analysis on targeted impact studies will assist national government in fulfilling their implementation obligations, including in the critical area of ratification of the Agreement. Furthermore, policy reform initiatives and related audits/verification exercises to ascertain the levels and success of the implementation programme. It will also engender better and deeper insights on trade policy formulation and implementation processes, at national, regional and continental levels, among others.</p>

## RESULTS-BASED LOGICAL FRAMEWORK

### Institutional Support Project for the African Union: African Continental Free Trade Area (AfCFTA) Implementation

<b>Country and project name:</b> Multinational (Africa) – Institutional Support Project for the African Union: African Continental Free Trade Area (AfCFTA) Implementation							
<b>Purpose of the project:</b> To establish solid Institutional Structure for the effective and efficient implementation of the AfCFTA Agreement							
Results chain		Performance indicators			Means of verification	Assumptions/Risks/mitigation measures	
		Indicator (including CSI)	Baseline	Target			
<b>Impact</b>	<b>Impact:</b> Effective implementation of the AfCFTA	Growth in share of intra-African trade	18% (2018)	2% (2022)	AfDB/AUC/ECA African Reg. Integration Report		
	<b>Outcomes</b>	<b>Outcome 1:</b> Enhanced AU Institutional capacity to manage the AfCFTA implementation	Establish AfCFTA Implementation Secretariat	Interim support unit within AUC Trade Dept.	Fully functional AfCFTA Secretariat established in accordance with AfCFTA Agreement (Dec.2019)	AUC/Project quarterly reports	<b>Outcome Risks:</b> <b>Risk:</b> Insufficient political level support <b>Mitigation:</b> Regular reporting/showcasing progress in key continental events to maintain AfCFTA on the AU's political agenda <b>Risk:</b> Delayed ratification of the AfCFTA. <b>Mitigation:</b> AU to appoint high-level AfCFTA envoys to complement efforts of the AfCFTA Champion in rallying governments/ national stakeholders towards timely ratification <b>Risk:</b> Delays in national level implementation <b>Mitigation:</b> Assess national readiness/ provide targeted support, to the strategic implementation coordination office. <b>Risk:</b> Inadequate capacity (human and institutional) to effectively implement obligations <b>Mitigation:</b> Undertake capacity needs assessment, recruit appropriate specialists on short or long term basis to provide the required services/skills for targeted activities/assignments <b>Risk:</b> Ineffective monitoring and evaluation processes to assess implementation progress
Installation of AfCFTA implementation Structures			No structure in place	All functional AfCFTA Implementation structures installed (Dec 2019)			
<b>Outcome 2:</b> Improved stakeholders buy-in, inclusiveness and ownership of AfCFTA Agreement		Number of ratifications submitted	18 Ratifications submitted (Jan.2019)	30 ratification submitted (June 2020)	AUC/Project quarterly Reports		
		No. of countries implementing AfCFTA tariff regime	Not yet implemented	30 schedules of commitment submitted (Dec. 2020)			
		Utilization of AfCFTA trade preferences by traders/the private sector	Not yet implemented	80% of inter-REC trade conducted under AfCFTA regime by 2022		AUC: AfCFTA Preference utilization tool	
<b>Outputs</b>		<b>Component 1:</b> Establishment of the AfCFTA Secretariat and related capacity enhancement	Recruitment of short-term consultants and staff	Not yet recruited	5 consultants recruited and assigned to AfCFTA Implementation Secretariat (at least, 2 female), by Dec 2019	AUC/Project quarterly reports	
			Trainings and capacity building activities for relevant implementation structure at AUC, RECs and RMCs	0	At least 5 training activities/(450 AUC/REC/RMC and private sector representative trained, o/w 30%=women)		
	Design and establish AfCFTA website		Not yet established	Website launched and functional (2020)			
	<b>Component 2:</b> Roll out AfCFTA implementation programs/tools and stakeholder awareness	Update tariff schedules to HS17 tariff & product classification nomenclature	Only few countries have migrated to HS17	All ratified tariffs migrated to HS 2017 (Dec. 2020)	Verification audits/reports AUC/project quarterly reports AUC Reports		
Support RMCs/RECs to adopt tariff liberalization for goods trade and trade in services		Liberalization regime not yet in place	All ratified countries have scheduled commitments by Dec. 2020				

	Undertake preference utilization assessment and monitoring using tool	Assessments not yet conducted/Tool not yet developed	Assessment done by 2020 using preference utilization tool to be developed	Evaluation report	<b>Mitigation:</b> Project to establish robust M&E system as part of the institutional support <b>Risk:</b> Delayed Release of funds <b>Mitigation:</b> Ensure the preparation submission of clear work/procurement plans and for clearance well ahead of activity implementation dates
	Develop and roll out stakeholder sensitization strategy	Not yet done	Strategy developed by 2020		
	Establish M&E mechanism	M&E mechanism not yet in place	M&E mechanism developed and adopted by AUC, RECs and RMCs		
<b>Components</b>				<b>Inputs</b>	
<b>Key activities</b>			<b>UA million</b>	<b>SOURCE Amount (in UA million)</b>	<b>Amount (in UA million)</b>
	1	<b>Establishment of the AfCFTA Secretariat and related capacity enhancement</b> <ul style="list-style-type: none"> <li>Establishment of AfCFTA technical implementation Structure</li> <li>Recruitment of Short/Long term consultants</li> <li>Trainings and capacity building exercises for AUC/RECs/RMCs/private sector bodies</li> <li>Website design, installation and launch</li> </ul>	(Comp.1) 1.35	ADF	RO (RPG) 3.5
			(Comp.2) 2.15	RO(RPG) 3.5	
			<b>3.5</b>	<b>TOTAL</b>	<b>3.5</b>
	2	<b>Roll out AfCFTA implementation programs/tools and stakeholder awareness</b> <ul style="list-style-type: none"> <li>Implementation of tariff liberalisation programme (scheduling of commitments)</li> <li>Verification/audits of tariff schedules/specific commitments in Services</li> <li>Support RMCs to migrate their Customs Administration to HS 2017</li> <li>AfCFTA Preference utilisation Assessment</li> <li>Development Sensitisation Strategy</li> <li>Roll out Stakeholder dialogues/consultation in each REC</li> <li>Develop and facilitate adoption of M&amp;E tool by RMCs and RECs</li> </ul>			
	<b>PROJECT COST (PLUS CONTINGENCIES)</b>				

## Project Implementation Timeframe (2019-2021)

YEAR	2019				2020				2021				ACTION BY
Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Project Cycle Activities													
Grant approval													AfDB
Effectiveness													AU
Launching workshop													AfDB & AU
Joint supervision and monitoring													AfDB
Mid-term review													AfDB
Disbursement of funds													AfDB
Submission of annual audit reports													AUC
AfDB project completion report (PCR)													AfDB
<b>All Components</b>													
General procurement notice published													AUC
Procurement of goods and technical assistance													AUC
General Programme Implementation													AUC
Submission of progress reports													AUC

# **REPORT AND RECOMMENDATION OF MANAGEMENT TO THE ADF BOARD OF DIRECTORS FOR A PROPOSED GRANT FOR THE INSTITUTIONAL SUPPORT PROJECT FOR THE AFRICAN UNION: AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA) IMPLEMENTATION**

Management submits the following report and recommendation for a proposed ADF Grant of UA 3.5 million (US\$ 4.8 m) to the African Union for Institutional Support for the establishment of the African Continental Free Trade Area and related Implementation programmes. The project will help to establish a durable, efficient purpose driven AfCFTA Implementation Secretariat, whose objective is to facilitate the successful implementation of the AfCFTA Agreement, to improve intra-African and intra-regional trade; reduce barriers and therefore reduced costs of doing business. Others are to facilitate efficient movements of goods, services and persons across borders; improve competitiveness; expand production and overall economic growth for Regional Member countries (RMCs).

## **I STRATEGIC THRUST AND JUSTIFICATIONS**

### **1.1 Project Link with Regional Strategies and Priorities**

**1.1.1** Regional Economic integration is essential for Africa’s development. The African Continental Free Trade Area, along with the other components of the Boosting Intra-Africa Trade and Agenda 2063, have been assigned the central role of forging deeper integration on the continent, through the promotion of freer, expanded trade and the reduction or elimination of other non-tariff obstacles.

**1.1.2** Africa also faces huge infrastructure deficits. The deficiencies in infrastructure add to the cost of production, the costs of doing business, reduce efficiency, undermine competitiveness and contribute to the poor state of intra-African trade and trade with the rest of the world. Part of the challenge is also attributed to deficiencies in soft infrastructure. Studies conducted<sup>1</sup>, indicate that substantial improvement of trade facilitation measures (soft infrastructure) can help significantly to reduce the costs of doing business, and improve efficiency and competitiveness.

**1.1.3** At the core of the Bank’s overall aspirations and mandate are also the attainment of the foregoing objectives: development and improvement of both hard and soft infrastructure, linking markets and improving the business environment among others. This is further amplified by the Bank’s key strategic priorities, in particular the Hi-5s: (Industrialize Africa and Integrate Africa) and the Regional Integration Strategic Framework (RISF 2018 – 2025), among whose major pillars are ‘infrastructure connectivity’ and “Trade and Investment Development”. The Institutional Support project for the AfCFTA is therefore, firmly aligned to the Bank’s core objectives as well as the aforementioned strategic priorities and initiatives as well as the AU Agenda 2063. The project seeks to enhance AU institutional Capacity, through the establishment of a AfCFTA Secretariat, in order to coordinate and bridge the gaps between the continental, regional and national levels implementation, for efficient coordination and delivery of the AfCFTA.

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<sup>1</sup> Mervel, S and Karingi S, (2013), “Towards a Continental Free trade Area in Africa: A CGE Modelling Assessment” in Cheong, D., Jansen, M. and Peters, R (eds.). 2013. *Shared Harvests: Agriculture, Trade, and Employment*. International Labour Office and United Nations Conference on Trade and Development”

## 1.2 Rational for Bank Involvement

### The Trade Development context

**1.2.1** Trade is widely acclaimed as the key engine or catalyst for the promotion of economic growth and development in today's globalized economy. Thus, a key objective of African continental integration as enshrined in the 1991 Abuja Treaty establishing the Africa Economic Community (AEC) is the enhancement of intra-African trade. In spite of the high importance attached to regional integration in Africa's development strategy, however, at a paltry 18 percent, the continent has the lowest level of intra-regional trade among the major regions of the world. Comparatively, intra-regional trade in Latin America, Asia and the Europe accounts for 22 percent, 50 and 70 percent, respectively. As a result, Africa has not been able to harness the benefits of a large integrated internal market and has been vulnerable to external trade shocks.

**1.2.2** Concerned about the low level of intra-African trade, Africa's political leaders dedicated their 18th Summit in January 2012 to the theme of "Boosting intra-African Trade (BIAT.) Complementary to the AU Assembly Decision (Assembly/AU/Dec. 394 [XVIII]) on Boosting Intra-African Trade was the task of fast tracking the establishment of the AfCFTA by 2017. The AfCFTA was however launched in March 2018, following conclusion of Phase 1 negotiations. In summary, the AfCFTA; the African Common Passport<sup>2</sup>; Single African Air Transport Market<sup>3</sup> and the Africa High Speed Rail Network, are among the quick-wins/fast-track initiatives under the ambitious continental initiative, Agenda 2063.

**1.2.3** The AfCFTA will bring together all African countries with a combined population of more than one billion people and a combined gross domestic product of more than USD 2.2 trillion dollars<sup>4</sup>. The AfCFTA can push regional trade levels up from 18% to 25% within a decade. Analysis further show that the AfCFTA could stimulate intra-African trade by up to USD 35 billion per year. It could also lead to a USD 10 billion decrease in imports from outside the continent, while boosting agriculture and industrial exports by up to USD 45 billion (7 percent) and USD 21 billion (5 percent) respectively. Gains in real income and employment could be twice as large, if the AfCFTA is complemented by trade facilitation reforms, reduction of non-tariff barriers, improved infrastructure and measures to counter-balance some of the negative effects associated with liberalisation reforms such as loss of tariff revenues<sup>5</sup>.

**1.2.4** Given this, more emphasis is also being placed on scaling up interventions in the critical areas of corridors and transit facilitation projects. Inefficient and ineffective trade facilitation processes, severely add to the cost of doing business and therefore renders a country with poor trade facilitation infrastructure, uncompetitive. According to UNCTAD, average customs transaction involves 20 – 30 different parties; 40 documents, 200 data elements (30 of which are repeated at least 30 times) and Re-keying of 60 – 70% of all the data at least once. Thus, with increasingly lowered tariffs across the globe, the cost of complying with customs formalities has

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<sup>2</sup> Although the situation is improving, Africans still need visas to travel to 54% of other African countries. The Common Passport launched in 2016, is aimed at facilitating freer movement of persons.

<sup>3</sup> As at 2014, Africa's aviation sector contributed around USD 72.5 billion and created more than 6.8 million jobs. This is in spite of the challenges that abound in 55 countries, with 55 different civil aviation authorities and 55 sets of rules relating to travel, trade and tourism. If these rules are collapsed into one common regulatory framework, expectations are that it would have the capacity to turbocharge the African Aviation market. Reports further show that the immediate impact in just 12 key markets out of the 55 countries across Africa, will provide a potential 5 million extra passengers a year, with opportunity to travel and trade, while creating 155,000 additional jobs and increasing GDP of the 12 countries by an additional USD 1.3 billion. (Reports by Aviation Benefits Beyond Borders, Air Transport Action Group, Geneva).

<sup>4</sup> IMF World Economic Outlook database (see box 1.3 of IMF Regional Economic Outlook for Sub-Saharan Africa, May 2018).

<sup>5</sup> Mervel, S and Karingi S, (2013), "Towards a Continental Free trade Area in Africa: A CGE Modelling Assessment". See also Tanyi KT (2015) Assessing Africa's Two Billion Populated Market by 2063: The Facts and Fallacies of a Continental Free Trade Area (CFTA). *Bus Eco J* 6:154. doi:10.4172/2151-6219.1000154.

reportedly exceeded in many instances, the cost of duties paid. Given this situation among others, the Peterson Institute for International Economics, estimates that the WTO Trade Facilitation Agreement, if well implemented, could create USD 1 Trillion worth of global trade, add 21 million new jobs and lower the cost of doing international trade by 10 – 15%.

## **Institutional context**

**1.2.5** Over the decades, several major initiatives have been adopted for the promotion of Africa’s socio-economic development. Unfortunately, many of these initiatives have failed to achieve their stated objectives. The missing link between goals and achievements has been effective implementation of programmes and policies. Quite often, there is the absence of a strategic framework and effective institutional arrangements, including a monitoring and evaluation mechanism, to drive the process of implementation of the initiative towards the attainment of its stated objectives. Here a quick example that comes to mind is the erstwhile “Lagos Plan of Action”.

**1.2.6** To further underscore the challenge of implementation that has come to characterize the AU ability to perform, it is necessary to recall that the concerns that had led to the constitution of high level panel led by President Paul Kagame of Rwanda, to reform the AU. Indeed, the sentiment was expressed that “there is no shortage of ideas within Africa about how to create prosperity for the continent’s peoples, and there is huge potential. Making the most of the opportunities ahead will increasingly require Africa’s economies to work together, and for its institutions to improve their governance and performance. (AU) has a key role to play in this, but it needs to be more effective. The institution has previously launched several reform initiatives that have eventually foundered because of a lack of implementation. President Kagame was to bemoan the sad situation in his own speech upon submission of the Report to his colleagues in 2016, when he noted that “Serious problems were repeatedly identified. Solutions were found. Decisions were made to apply the solutions. And very little happened”<sup>6</sup>.

**1.2.7** To ensure that the AfCFTA achieves its laudable objectives of boosting intra-Africa trade and accelerating Africa’s market integration, the AU Summit established an AfCFTA Architecture, among which is the High-Level African Trade Committee (HATC). This comprises of Heads of State and Government (the Chairs of the respective Regional Economic Communities (RECs) to play a facilitating role and unlock any blockages that might arise in the implementation processes. In addition, in endorsing the BIAT Action Plan, the Summit directed the AUC, in collaboration with the RECs and development partners, “to develop an implementation strategy for the Action Plan, entailing a number of levels of responsibility at national, regional and continental levels.

**1.2.8** The AUC has been designated the AfCFTA Transitional Secretariat, pending the formal establishment of the substantive secretariat. The AU has a Department of Trade and Industry that manages continental trade policy. Within the Department is a skeletal CFTA Support Unit headed by a Coordinator and about seven professional staff. The Department itself is no more than about 25 professional staff, including the CFTA Support Unit. Majority of the crop of the Unit’s staff is funded from Donor funds, such as the Joint Partnership Arrangement, European Union, United Kingdom Department of International Trade, Germany’s GIZ. The CFTA Support Unit, remain grossly understaffed for the magnitude of work and coordination responsibility shouldered.

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<sup>6</sup> Cited in Acha Leke, “Reforming the African Union: The vital challenge of implementation” Africa in Focus, 5 May 2017, Brookings Institution, Washington DC

**1.2.9** Meanwhile, the AfCFTA Agreement has now provided for the establishment of separate Secretariat to handle the AfCFTA implementation. A full-blown secretariat will require the full compliments of at least a hundred staff strength of different skills/skills sets and expertise spanning a number of administrative and technical departments, somewhat comparable to the WTO. The WTO deals with regulation of trade in goods, services and intellectual property between participating countries by providing a framework for negotiating trade agreements and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements. It employs 640 staff and has a 197.2 million Swiss francs (approximately USD209million) budget in 2018.<sup>7</sup>

**1.2.10** The Kagame report produced four key recommendations. (i) The AU to finance itself in the long term; (ii) Focus the organization on key priorities with continental scope (among which is regional integration one of whose key drivers is the AfCFTA); (iii) Realign AU institutions to deliver against those priorities; (iv) manage the business of the AU effectively in both political and operational terms. It is against this background, especially the last two recommendations, that it becomes necessary for the AfCFTA to be a separate secretariat, similar to the WTO. Yet it is also critical to note that the AU does not have prior experience in implementing a major Trade Agreement, whose scope is enormous and crosscutting. Interestingly, while the RECs have experience dealing with Trade Agreements and are at various stages of implementing their trade integration programmes, they do not also deal with as much as 55 countries and eight RECs, arguably the currently biggest free trade area arrangement around the world.

**1.2.11** Therefore, in view of the lack of experience, among others, the AUC plans to embark on a study tour to a number of international organizations with similar trade remit. These include the WTO, UNCTAD and the International Trade Centre in Geneva; the Secretariat of the Association of South East Asian Nations (ASEAN), in Jakarta, Indonesia; and the RECs, to get better insight of their structure and operations. This is in addition to the commissioning of a study that can provide guidance on the structure, form, modus operandi and staffing of the AfCFTA Secretariat.

**1.2.12** It is for these foregoing reasons, especially “Recommendation 3” of President Kagame’s report, above, that this Institutional Support Project becomes critical, as it puts the Bank in a vantage position to contribute to the process of establishing a durable, efficient, purpose driven AfCFTA Implementation Secretariat. The main objective of the Bank Intervention is to contribute to the creation of a sustainable institutional foundation, upon which incremental progress can be made. In spite of the foregoing analysis, it is important to emphasise that in furtherance of the implementation objective, the AfCFTA is a “stand-alone” Agreement with distinct oversight body, “the AfCFTA Secretariat”, annexed to the overall AU policy structures. It is therefore, in light of this Treaty Provision and to provide an efficient and effective institutional structure, that can handle implementation; bridge the gaps between national, regional and continental processes, that this project is designed, to set up the institutional support facility for the AU. The objective is to support the establishment of the AfCFTA Secretariat and the roll out of the AfCFTA implementation programme.

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<sup>7</sup> [https://en.wikipedia.org/wiki/World\\_Trade\\_Organization](https://en.wikipedia.org/wiki/World_Trade_Organization)

### **1.3 Donor Coordination**

**1.3.1** All AU Summit Decisions regarding the AfCFTA have always acknowledged the contributory role of development partners. In the prelude to the launch of the AfCFTA, UNECA announced plans to develop a “AfCFTA Country Index”, to monitor country level implementation of the Agreement. The Geneva-based International Trade Centre (ITC) will support with the development of a “Business Guide” to guide businesses on taking advantage of the opportunities created by the Agreement. AFREXIM Bank with the AfDB as co-sponsor) supported the organisation of an Intra-African Trade Fair in December 2018, as a key instrument to support the expansion of intra-African trade. Indeed, the Trade Fair is considered the first major deliverable of the AfCFTA.

**1.3.2** Other development partners have equally provided funding targeted at both broad and specific trade objectives, including the AfCFTA first phase negotiations. Four partners: Sweden, the United Kingdom’s Department for International Development (DFID), United States Agency for International Development (USAID) and European Union (EU) signed a Joint Programme Arrangement (JPA) in December 2014, to support the Programmes of the Department of Trade and Industry (DTI), covering the period 2015 – 2017. The Agreement ended on 31 December 2017 and negotiations are currently ongoing, to renew or extend the JPA.

**1.3.3** The total contributions for the JPA from all the four partners amounted to USD 3,173,019.33 plus technical assistance amounting to USD 620,783.00. Though Canada is not a signatory to JPA, it also provides support to DTI and currently co-chairs the JPA. The German Government also provides support to AfCFTA activities through PTB and GIZ. Several other partners, including UNCTAD, UNECA’s Africa Trade Policy Center (ATPC), UK’s TAF, TRALAC, and TRAPCA amongst others, provided technical support and capacity building for the AU Commission, RECs and AU Member States. There are indications that other partners such as Turkey, Korea, China, and AFREXIM Bank have also shown interest in providing funding support to the AfCFTA and related programmes.

**1.3.4** The main challenge observed in all of these processes, has been the late release of funds for implementation and lengthy procurement processes, leading to delays in programme execution. Despite these challenges, the Department’s execution rate, considering the expenditures of all the partners funding, is more than 85%. A critical lesson here is the JPA experiment seem to have worked very well. The JPA ensured streamlining of activities, while serving as a forum for consultations, co-ordination and definition of common lines of action, regarding support for the project, among others. As there is indication of possible entry of additional partners, albeit with divergent objectives, the JPA idea could be carried forward into the next phase of the AfCFTA implementation, with a view to ensuring improved co-ordination, while equally making efforts to fine-tune and improve upon the weaknesses observed with delayed release of funds.

## II. PROJECT DESCRIPTION

### 2.1 Project Objectives

**2.1.1** The main objective of the Bank Intervention is to contribute to the creation of a sustainable institutional foundation, upon which incremental progress can be made. The AfCFTA is a “stand-alone” Agreement with distinct oversight body, “the AfCFTA Secretariat”, annexed to the overall AU policy structures. It is therefore, in light of this Treaty Provision and to provide an efficient and effective institutional structure, that can handle implementation; bridge the gaps between national, regional and continental processes, that this project is designed, to set up the Institutional support facility for the AU. The objective is to support the establishment of the AfCFTA Secretariat and the roll out of the AfCFTA implementation programme. The project objectives will be achieved through: development of strong, efficient institutional foundations of the AfCFTA and related capacity enhancements, to facilitate robust implementation, including for the RMCs and RECs, to better engage in the implementation process; and interventions that target the reduction of tariff and non-tariff barriers. Others are effective monitoring and evaluation mechanisms for assessing the implementation process; and sensitization, outreach and advocacy, especially for key stakeholders such as parliamentarians, private sector, Civil society, the youth and women, to create the necessary buy-in, inclusiveness and ownership of the AfCFTA.

### 2.2 Project Components

**2.2.1** The project comprises two main components: **(i) establishment of the AfCFTA Secretariat and (ii) Roll out AfCFTA implementation programs/tools and stakeholder awareness.**

**2.2.2 Component One: establishment of the AfCFTA Secretariat** is the core of the AfCFTA implementation. It will deal with the critical issue of institution building and relevant capacity enhancements. It will facilitate the establishment of the Transitional Secretariat and thereafter, a functional AfCFTA Implementation Secretariat (as already provided for in the Agreement), which is charged with implementation of the AfCFTA outcomes. It will have the responsibility to set the stage for the effective roll out of the implementation programme, and co-ordinate with other relevant implementation agencies including the AU Commission, RECs, partners and other stakeholders. It shall also deal with capacity building issues for implementing the AfCFTA at national (member states), Regional (RECs) (on demand basis) and continental levels.

**2.2.3 Component Two: Roll out AfCFTA implementation programs/tools and stakeholder awareness,** will deal with the actual implementation of the AfCFTA. As part of the implementation process, one major objective is to support the critical Agreement ratification process. It will also involve the implementation of the tariff liberalisation programme, including scheduling national commitments in goods and services. This will entail assessments and verification of the trade data, technical reviews, (i.e. factual assessment by the AfCFTA structures and political assessment, which involves bilateral discussions and approval of schedules). It further entails review and update tariff regimes/nomenclatures; elimination of non-tariff barriers; establishment of notification and enquiry points; and mainstreaming of AfCFTA into REC and national trade or development policies and strategies. To ensure inclusiveness, buy-in and ownership, Component Two, will also focus on the development of an effective advocacy and sensitisation strategy, with a view to ensure mass awareness of the launch of the AfCFTA and its

benefits. An efficient monitoring and evaluation process will be designed to monitor the progress of implementation of the AfCFTA.

#### 2.2.4 A summary of the planned activities and their associated costs presented below:

**Table 1: Summary of the planned activities and their associated costs**

Components	Cost in UA (Total) 3.5 Million	Description of Activities
<b>Component 1: Establishment of the AfCFTA Secretariat and related capacity enhancement</b>	<b>UA1.35 million</b>	<ul style="list-style-type: none"> <li>• Support for the Transitional AfCFTA Secretariat</li> <li>• Establishment of the AfCFTA Implementation Secretariat;</li> <li>• Installation of project task team/project Implementation Unit</li> <li>• Personnel recruitment</li> <li>• Establishment of relevant technical and implementation committees</li> <li>• Capacity building (crosscutting across all components)               <ul style="list-style-type: none"> <li>○ (human/regulatory/Institutional)</li> <li>○ (National, regional, continental)</li> </ul> </li> <li>• Establishment of the National AfCFTA Committees/structures</li> </ul>
<b>Component 2: Roll out AfCFTA implementation programs/tools and stakeholder awareness</b>	<b>UA2.15 million</b>	<ul style="list-style-type: none"> <li>• <b>Implementation of the tariff liberalisation programme/AfCFTA Ratification process</b> <ul style="list-style-type: none"> <li>○ Review, revise and update tariff regimes/nomenclatures</li> <li>○ Scheduling of commitments, technical reviews and Verification audits</li> <li>○ Facilitate negotiations on schedules of specific commitments on five priority services sectors and Regulatory Frameworks</li> <li>○ Establishment of notification and enquiry points</li> <li>○ Mainstreaming of AfCFTA into REC and national trade or development policies and strategies</li> <li>○ Development of sensitization and advocacy strategy</li> <li>○ Establish monitoring and evaluation mechanism/</li> <li>○ Regional/National sensitization events/Stakeholder consultations, dialogues</li> <li>○ Reviews and evaluation exercises</li> </ul> </li> </ul>

### 2.3 Technical solution retained and other alternatives explored

**2.3.1** During project preparation and appraisal, three options were explored regarding the modality for delivery of the Institutional Support for the AfCFTA Implementation. The first option considered was a Grant delivery under a Technical Assistance Arrangement. Option Two, was to pool resources with other partners under the framework of the Joint Partnership Arrangement (JPA); and the Third option was as a Grant support delivery under an existing capacity building arrangement between the Bank and the AU. Option One was retained due its advantage over the second options, in view of its ability to respond rapidly to the evolving nature of the AfCFTA implementation programmes and the related demands for fast action, to support and encourage implementation of national level obligations by member states. The preferred option was also in view of the unique nature of the Project, which is aimed at the establishment of a new “Institutional Framework” to manage the AfCFTA Implementation. Funds dedicated to this project, while allowing for effective accountability, also has the flexibility to respond to the dynamics of AfCFTA implementation, much as they are targeted at specific activities. The selected option was also based on lessons learnt in project implementation in the TCBP and the JPA. A final consideration is that the JPA has also expired. The relative advantages and disadvantages of different funding modalities are summarized in Table 2, below.

**Table 2: Project Alternatives Explored**

<b>Modality</b>	<b>Advantages</b>	<b>Disadvantages</b>
Option 1 Grant delivery under a Technical Assistance Arrangement	<ul style="list-style-type: none"> <li>• Fast disbursing and ease of access of funds for project utility</li> <li>• Efficient response to project funding needs</li> <li>• Assignment of dedicated finance officer to manage project funds</li> </ul>	<ul style="list-style-type: none"> <li>• may weaken rigorous accounting procedures</li> </ul>
Option 2 Delivery of the project under the auspices of existing Capacity building programme for the AU	<ul style="list-style-type: none"> <li>• High degree of control and accountability of funds provided</li> <li>• Will use the Bank’s disbursement, supervision, financial management and procurement processes</li> </ul>	<ul style="list-style-type: none"> <li>• May lead to diversion of resource</li> <li>• Inefficient accounting for project specific funds</li> </ul>
Option 3 Grant Support Delivery under the Framework of Pooled resources under the Joint Partnership Agreement (JPA)	<ul style="list-style-type: none"> <li>• High degree of control and accountability of funds</li> </ul>	<ul style="list-style-type: none"> <li>• May be encumbered JPA bureaucracy</li> <li>• Disparate financial accounting and reporting procedures of JPA partners</li> <li>• JPA currently expired</li> </ul>

## 2.4 Project Type

**2.4.1** This project is designed to enhance the AU’s institutional Capacity to implement the AfCFTA agreement. The project will deliver improved capacity and institutional development through a range of interventions that will facilitate the effective implementation of programmes, including development and accumulation of knowledge practical insights, improvement of analytical skills and strengthening of capacity at continental, regional and national levels.

## 2.5 Project cost and Financing Mechanism

**2.5.1** The Project implementation will span a period of two (2) years (April 2019 – March 2021). The overall cost implications is UA 3.5 Million (USD 4.8million). The project will be funded from the “grants” window of the ADF-14 (Regional Operations Envelope). The AU will provide “in-kind” contribution estimated at USD 322,000 to facilitate project implementation. This will be in the form of providing the Project Coordinator and the Task Team members; office space for consultants recruited for the project; and consular services to facilitate entry into Addis Ababa or any other destination, which Project tasks/ service delivery, may be required. in-kind contribution, especially dealing with the administrative aspects of the project. The tables presented below provide the summary cost implications for the project. Detailed breakdown of the project components, activities and related cost implications are presented in Appendix B3 in the Technical Annexes.

**Table 3: Project Cost Estimates by Component (ADF)**

<b>Components</b>	<b>UA (Total)</b>	<b>USD (Total)</b>
Component 1	1,350,000.00	1,877,566.50
Component 2	2,150,000.00	2,990,198.50
<b>Grand Total</b>	<b>3,500,000.00</b>	<b>4,867,765.00</b>

**Table 4: Sources of Financing**

Components	UA (Total)	USD (Total)
1. Establishment of the AfCFTA Secretariat and related capacity enhancement	1,350,000.00	1,877,566.50
2. Roll out AfCFTA implementation programs/tools and stakeholder awareness	2,150,000.00	2,990,198.50
AU In-Kind contribution	-	322,000
<b>Grand Total</b>	<b>3,500,000.00</b>	<b>4,867,765.00</b>

**Table 5: Cost Implications in USD Equivalents**

Components	USD (Total)	UA (Total)	Total %
1. Establishment of the AfCFTA Secretariat and related capacity enhancement	1,877,566.50	1,350,000.00	30
2. Roll out AfCFTA implementation programs/tools and stakeholder awareness	2,990,198.50	2,150,000.00	68.5
<b>Total Baseline costs</b>	<b>4,867,765.00</b>	<b>3,500,000.00</b>	<b>98.5</b>
<b>Contingencies</b>			
<b>AU In-Kind contribution</b>	<b>322,000.00</b>	<b>229,885.06.00</b>	<b>1.5</b>
<b>Grand Total</b>	<b>5,189,765.00</b>	<b>3,500,000.00</b>	<b>100</b>

## 2.6 Project Target Area and Immediate Beneficiaries

**2.6.1** The scope of this project is continental. The justification for the Project has already highlighted the overall benefits of the AfCFTA. However, the success of the agenda among others can only be facilitated by the deployment of an effective and efficient implementation mechanism. In light of the objective of establishing strong and efficient institution to deliver on implementation, the key beneficiary of the project will be the AUC. The project is also designed for the AUC to extend support to the RECs and member states, and the private sector. This is in particular with capacity enhancements for the RMCs to meet implementation obligations, such as in the area of scheduling of commitments, supporting domestic processes leading to ratification of the AfCFTA. For the private sector, it will be by way of sensitisation and advocacy, to familiarise them with the AfCFTA, with a view to better understanding, buy-in and taking advantage of the enormous opportunities now created by the AfCFTA, including support to the installation of an African Business Council. The broader spill over effects are further highlighted in section on Project Feasibility.

## 2.7 Participatory process for Project Identification, design and implementation

**2.7.1** During the preparation and appraisal missions of the project, consultations were held with the beneficiary institution, the AU and another sister continental institution, the UNECA. Project identification has been mainly demand driven from the AU, based also outcomes of the AfCFTA negotiation. The UNECA like the Bank is also a member of the Continental Task Force on the AfCFTA and had supported the AU with a number of evidenced based analyses during the AfCFTA negotiations. Consultations with the UNECA was also to enable evolving clearer ideas of what the project should entail.

## **2.8 Bank Group Experience, Lessons reflected in Project design**

**2.8.1** This project is the first intent of the Bank at providing institutional support to the AfCFTA processes since its early beginnings in 2012. It is however noteworthy that the Bank is providing support to the COMESA-EAC-SADC Tripartite Free Trade Area (TFTA) processes. The TFTA is the precursor to the AfCFTA. It blazed the noble trail to forge a more homogenous trade bloc. The TFTA covers 29 countries, with a combined population of 530 million (57% of Africa's population) and a total GDP of \$630 billion or 53% of Africa's total GDP. It also has the objective of helping to reduce the "spaghetti bowl" experience of the web of often disparate and distractive regional integration schemes that has bedevilled the continent. Furthermore, it inspired the AfCFTA and serves as the main base, for the AfCFTA implementation road map.

**2.8.2** Thus, to ensure success of the TFTA and to address effectively the capacity challenges of the Secretariat and the Members States, the Bank designed Trade Capacity Building Programme (TCBP), amounting to the tune of USD7.5million. The TFTA and the TCBP programme remain a critical experience for the Bank and one to draw inspiration from, for the proposed AfCFTA Institutional Support project. Indeed, the recently concluded Completion Report for the TCBP provide critical lessons to draw from. First, the report confirms that the project clearly aligns with the Bank objectives. This is a first critical lesson for this project on the need to ensure effective alignment with Bank Objectives but also with the objectives of the AU's Agenda 2063. A second element is the need to appreciate the enormity of such a project whose ultimate beneficiaries are the members of "Tripartite bloc" and therefore the need to ensure an appropriate project design to cater effectively to the diverse needs of the bloc. This is equally critical for the project, given the continental scope and the requirements for co-ordination at several levels of implementation: continental, regional and national. An important element here is that the AU already has an existing framework for coordination with the RECs, under whose auspices, among others that both sides meet to take stock, review developments, streamline programmes and co-ordinate their activities.

**2.8.3** In terms of project management, although there were challenges, the report notes that COMESA Secretariat have satisfactorily managed the project due in part to the constant engagement and consultation with the stakeholders. In this project, a key element to effective implementation is need for effective consultations to ensure stakeholder buy-in and inclusiveness, a critical insight shared by the TCBP. However, a flaw observed in the TCBP implementation, was that though the issues dealt with including negotiations, were longer-term oriented, consultants recruited were mostly on short-term basis, which put a strain on delivery targets. In the critical area of budget and financing, the project suffered delays vis-à-vis the purported effectiveness date (December 2013 until late 2014), a time lag which caused nearly 10% loss (USD 700,000) of the total originally estimated costs (USD 7.5 million) due to appreciation of the dollar to the Bank's Unit of Account within the time. This is indeed critical for funds effectiveness, minimising losses and optimal and efficient use of resources.

**Table 6: Summary table of lessons learned from previous operations/other analytical reports**

Lessons Learnt	Actions taken to Incorporate Lessons into project
Effective project Management and coordination, the need for constant engagement with stakeholders, including recognising the size and diverse nature of the project target countries, an area where the TCBP project is adjudged to have performed well	(i) The project design takes strong cognisance of the enormity of the task, especially the establishment of a new Institutional Secretariat, managing and coordinating implementation programmes across the Continent. The AU already has long-standing framework for AU-RECs coordination as well as convening power for stakeholder engagements, consultations, meetings etc. The project therefore draws strength from that existing framework, to cascade implementation co-ordination down the respective levels of responsibility. (ii) Although the Project focus is continental, the design clearly recognises that most implementations will be at national level. A critical number of the Project's activities entail consultations, dialogues, organisation of workshops, capacity building and meetings. The processes are designed to respond to the peculiarities of respective regions and countries, with a view to enhancing their capacity to implement their obligations.
The need to factor in the sustainability human capital, given high staff turnover in this field, in spite of long running nature of negotiations, as experienced the COMESA TCBP project.	Given the resource outlay, the project designed to undertake and deliver on specific task and assignments, which are considered, short term in nature. However recognising the challenge and impact of quick turnover of consultancy staff vis-à-vis ongoing activities, the project has made provision for the possible recruitment of long term consultants, in order to respond to specificities of given tasks as well as the dynamics of programme implementation. It is the expectation that longer-term regular appointments will be addressed through AU Regular budgeting processes.
Late Release of Funds and lengthy procurement processes leading to delays in programme execution, an experience that seemed to have belaboured the otherwise good model of the Joint Partnership Arrangement	This factor has strongly influenced the adoption of the “technical assistance” option for the Grant delivery, in order not to encumber the project with the bureaucracy involved in managing, reconciling and streamlining diverse systems of procurement, financial management and reporting practices of partners.
Delays in operationalising effectiveness, leading to the late commencement of project and subsequent loss of funds due to depreciation of the Bank's currency (UA) within the specified timeframe.	The advantages of the technical assistance Option for Grant delivery is already highlighted. The AUC will also appoint a dedicated Finance Officer to manage the Project funds. To avoid delays, the AU side has been effectively sensitised on the requirements for the release of funds. It is the expectation that all conditions precedent will be met promptly to enable the disbursement of Grant funds.

## 2.9 Key performance indicators

The key performance indicators and the expected outcomes at project completion are outlined in the results-based logical framework. In the short to medium-term, the expected project outcomes are: (i) enhanced AU institutional capacity to manage the AfCFTA implementation; (ii) Improved stakeholders buy-in, inclusiveness and ownership of AfCFTA Agreement

## III. PROJECT FEASIBILITY

### 3.1 Economic and financial Performance

**3.1.1** As an Institutional support Project, identifying and quantifying the direct and indirect economic and financial benefits of institutional capacity building interventions, is a bit complicated. It is therefore, somewhat difficult to undertake rigorous cost-benefit economic and financial analysis. Although costs are quantifiable, the benefits are indirect, and ultimately achieved in enhanced institutional capacity to manage the AfCFTA implementation and related improved ability to coordinate the implementation of AfCFTA and related BIAT programmes, spanning several layers of responsibility, public, private, national regional and continental.

**3.1.2** The extended economic justification is the overall objective of the AfCFTA if well implemented, because of the support of this project. A single continental market will allow for scale economies, stimulate and attract investments, improve competitiveness of the productive sectors and expand trade, with additional improvements in trade facilitation. By extension, these will help cut costs, allow freer movements of goods, services and persons, create employment, generate income and generally reduce poverty. The critical spill over effects of these, will positively impact small and medium scale enterprises, gender, women and the youth who are widely known to be engaged actively in cross border trade.

## **3.2 Environmental and Social impact**

**3.2.1 Impact on the Environment:** The project will not have a negative impact on the environment.

**3.2.2 Social Impact and Poverty Reduction:** The ultimate aim of the AfCFTA is socio-economic development and poverty alleviation through expanded trade and production. It could stimulate intra-African trade by up to USD 35 billion per year, and increase intra-trade from 18 to 25 percent in a decade. It could also lead to a USD 10 billion decrease in imports from outside the continent. It could also boost agriculture and industrial exports by up to USD 45 billion (7 percent) and USD 21 billion (5 percent) respectively. Increased trade performance would have momentous boost for a trade area covering all African countries, 1.2 billion people, and a combined \$2.5 trillion in GDP. Indeed, analysis show that gains in real income/employment could be higher if the AfCFTA is complemented by trade facilitation reforms, reduction of non-tariff barriers, improved infrastructure and measures to counter-balance negative effects associated with liberalization reforms. Given the foregoing, the AfCFTA, if implemented, can contribute to poverty reduction and socioeconomic development across Africa

**3.2.3 Impact on Gender: This project is assigned a Category IV according to the Gender Marker system of the Bank.** The project is not designed with immediate direct impact on gender, given its objective enhancing institutional capacity to implement the AfCFTA effectively. Possible direct impact will however be derived from targeted interventions planned for stakeholder groups to ensure inclusiveness and ownership of the AfCFTA, including in ensuring compliance with AU existing rules on gender sensitivity in recruitment of short-term staff and tendering for consultancy services. A second direct impact will derive from ensuring that women representative groups (e.g. Women in Business) are represented in the African Business Council, proposed as a policy organ in the AfCFTA implementation structures, representing private sector interests on the continent.

**3.2.4** By extension however, effective implementation of the AfCFTA is likely to have significant impact on gender. Cross-border trade is a major feature of African economic and social landscapes. According to some estimates<sup>8</sup>, it contributes to the income of about 43 percent of Africa's entire population. Such trade supports livelihoods and creates employment, including for disadvantaged and marginalised groups. Cross-border trade is also dominated by agricultural and livestock products, and so is an essential part of food security in many places. Hence, overall, such trade is essential for welfare and poverty reduction. Related to the foregoing is that analysis reveal

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<sup>8</sup> Paul Brenton and Carmine Soprano: Small Scale Cross border trade in Africa: why it matters and why it should be supported. Bridges Africa, 5 June 2018.

See also, Lily Sommer and Chris Nshimbi: the African continental Free trade Area: an opportunity for Informal cross border trade, Bridges Africa, 5 June 2018

that the vast majority of Africa’s small-scale traders are female, up to 70-80 percent, in some cases. Cross-border trade is often their only source of livelihoods: about 60 percent of non-agricultural self-employment of women in Sub-Saharan Africa comes from trade. Revenues from cross-border trade are often the main source of income for the households of cross-border traders. Anecdotal evidence suggests that by contributing to household income, trading activities can help to empower women within households. It is therefore the expectation that the AfCFTA will significantly improve trade facilitation/cross border trade procedures including simplification of the trade regime to facilitate better engagement of the cross border traders.

**3.2.5 Impact on Regional Integration:** African Economies are small, weak and fragmented. A key remedial solution proposed, has been sustained efforts at deepening regional integration. Further, Africa has been bedevilled with all shades and manner of regional integration schemes leading to the famous “spaghetti bowl” of intertwined regional integration schemes cutting across all regions, with often disparate agenda and distractive tendencies. The AfCFTA as already indicated, will bring together 55 African countries with a single trade regime, a single continental market, whose objective among others is to expand trade and the related multiplier effects on scale economies; increased production; backward and forward integration; industrialization, diversification and value chains development; improved trade facilitation measures and resultant improved competitiveness. There are 16 landlocked countries on the Continent. Trade facilitation bottlenecks such as border crossing procedures, cumbersome documentation, regulations, including police checks, account for 14% of trade costs in Africa’s landlocked countries, compared to a developing country average of 8.6%. Compared with the 70% to 85%, which Asian farmers receive, African farmers typically receive only 20% to 25% of the final market price of their goods. Most of the difference comes from transport costs. Analysis show that a 5% reduction of time spent at borders could trigger a significant 10% increase in intra-regional trade. The AfCFTA will facilitate the removal of transport and transit bottlenecks, especially suffered by this group of countries, through the harmonization and simplification of procedures. All of these will help to deepen regional integration on the continent and ginger overall development.

## **IV. PROJECT IMPLEMENTATION**

### **4 Project Implementation arrangements**

#### **4.1 Institutional Arrangements**

**4.1.1** The AU Commission will be the Project Executing Agency and will therefore, be responsible for overall coordination and project implementation. This is based on the understanding that the proposed AfCFTA Secretariat is structurally part of the AU policy organs. The AU Commissioner for Trade and Industry will provide overall guidance on Project Implementation. The AU Director for Trade and Industry will provide supervisory oversight. The AUC will designate a Project Coordinator, who will be charged with immediate management of the Project. The Coordinator will lead a Project Task Team. The Coordinator will report to the AUC Director for Trade and Industry as well as the Commissioner for Trade and Industry. The project will be implemented over a two-year period beginning in the second quarter of 2019 (April 2019 – March 2021).

**4.1.2** The Project Coordinator will also stand as a liaison with the Project Task Manager. The Project Task Manager will continue to provide immediate oversight on project implementation, including recommendations to the Supervisory Manager, for approval of disbursements. The

Country Office in Addis Ababa, Ethiopia, will provide guidance to the AUC, with regard to procurement, financial management and funds disbursement practices and procedures, to ensure coherence and synergies of both institutions practices.

## **4.2 Procurement Arrangements**

**4.2.1** All Bank financed procurement contracts of goods, works and acquisition of consulting services will be carried out in accordance with the Procurement Policy for Bank Group funded operations, dated October 2015 and the provisions stipulated in the Financing Agreement.

**4.2.2** The AUC, through its Procurement Unit, will be responsible for the procurement of the items identified in the Project. The capacity of Procurement Unit was assessed and found adequate to handle procurement. The overall project risk for procurement is moderate. It is however recommended that an additional procurement specialist be recruited to help the project. The Specialist will be recruited through a competitive process. The project's abbreviated procurement plan was discussed and prepared during appraisal and is enclosed as part of the Procurement Technical Annex. The AUC team will prepare a detailed Procurement Plan and submit prior to Board approval of the Project Appraisal Report (PAR). Technical details of the procurement arrangements under the project are summarized in Appendix B1 in the Technical Annexes.

## **4.3 Financial Management Arrangements**

### **4.3.1 Financial Management Capacity Assessment**

**4.3.2** The overall conclusion of the financial management risk assessment for the Project is moderate. (Detailed analysis shown in Appendix B2 in the Technical Annexes). The responsibility to record, account, report and audit the Project financial resources shall rest with the Program Budget, Finance and Accounting (PBFA) Department of the AUC. The Commission has adequate financial management systems and qualified staff to handle the financial transactions of the Project. The Commission has prior experience in managing Bank-financed projects. The Commission will include the Project financial resources into its annual budget and effect payments in line with approved budget. The PBFA will assign a finance officer to handle the Project financial transactions. The Commission will submit quarterly financial management reports forty-five days after the end of each calendar quarter. The Bank will provide the formats of the quarterly financial management reports. In its SAP system, PBFA Department will maintain separate records to process, account and report financial transactions of the Project.

### **Audit**

**4.3.3** The Internal Audit Department of the Commission will include the Project financial transactions into its annual work program and conduct the audit of the Project resources. The Commission will submit the annual Project audited financial statements to the Bank six months after the end of fiscal year. An independent external audit firm acceptable to the Bank will undertake the audit on annual basis. The auditors will conduct the audit in accordance with the agreed Terms of Reference between the Commission and the Bank. The Project could finance the audit fees.

## Disbursement arrangements

**4.3.4** The Project will follow the Special Account and Direct Payment disbursement methods to disburse funds to the Project. The Commission will open a dedicated special account in USD. The opening of the Special account will be a condition for first disbursement. The Bank will issue a Disbursement Letter, which will indicate key disbursement procedures and practices. Detailed guidelines on disbursement of funds could be found in the Bank’s Disbursement Manual, which could be accessed from the Bank’s website.

## 4.4 Monitoring and Evaluation

**4.4.1** The AUC will prepare and submit a monitoring and evaluation plan to the Bank, after the Grant approval. The logical framework attached to this appraisal report shall serve as the basis for a “results-based assessment” of the outputs of the project during implementation and after completion. The Bank will undertake monitoring and supervision missions, at least, twice a year, in line with the Bank’s standards for project implementation and result reporting. As part of the plan, the AUC will submit quarterly and annual progress reports. The reports will review progress made in light of the Project’s Results-Based Logical Framework and include a clear presentation of activities undertaken during the period under review. The reports will also analyse the extent to which the activities undertaken have contributed towards the realization of the anticipated project outputs and objectives. The reports will offer recommendations to address implementation challenges. The AUC will be required to prepare and submit to the Bank, a Project Completion Report within three months of the final disbursement of the Grant. The Report will draw lessons for necessary follow up actions. The Ethiopia Country Office will play an active role in project monitoring and evaluation.

**Table 7: Project Implementation Schedule**

<b>Timeframe</b>	<b>Milestone</b>	<b>Monitoring process</b>
March 2019	Grant approval	AfDB
May 2019	Effectiveness	AUC
June 2019	Launching workshop	AfDB & AUC
July 2019 – March 2021	Procurement of goods and services	AUC
December 2019	Joint supervision and monitoring	AfDB
June 2020	Mid-term review	AfDB
May 2019 – March 2021	Disbursement of funds	AfDB
June 2021	Project completion report	AfDB

## 4.5 Project Sustainability

**4.5.1** Article 14 of the Agreement Establishing the AfCFTA, states that the Secretariat shall be a functionally autonomous institutional body, with an independent legal personality, within the AU system. In particular, Article 14.4 explicitly states that the funds for the Secretariat shall come from the overall budget of the AU. The formal inscription of Treaty provisions on funding source provides the assurance for sustainability, as funding will be from regular AU budgeting processes. In this regard, it is noteworthy that the AU has regularly budgeted for the AfCFTA preparatory

processes, leading to a steady budgetary increase over the years from USD 6 million in 2016 to USD8 million in 2018. The approved budget for AfCFTA Activities in 2019 is US\$4,070,753.40.

## **4.6 Risk Management**

**4.6.1** The AfCFTA enjoys the highest level of political support from the African Heads of State, including appointment of President Mahamadou Issoufou of Niger Republic as the Presidential Champion for the AfCFTA. The challenge will be in the implementation of the outcomes of the negotiations, in particular, the capacity of the key implementation oversight agency, the AUC to effectively co-ordinate the implementation process. In addition, is the potential lack of goodwill and the ability of the RECs and in particular, the AU member states, towards meeting their own implementation obligations. The following are the key potential risks that could impede the effective implementation of the project. (i) Insufficient political level support, buy –in and ownership. (ii) Delays in signing/ ratification of the AfCFTA Agreement. (iii) Delays in national level implementation. (iv) Inadequate human and institutional capacity to effectively implement obligations. (v) Ineffective monitoring and evaluation processes to assess implementation progress.

**4.6.2** To mitigate the foregoing risks, a number of measures have been identified, among them: (i) the AfCFTA actively remains on the radar of political leaders and in major continental events. (ii) Appointment of AfCFTA special envoys is expedited, to rally leaders and stakeholders in timely ratification of Agreement (iii) undertake capacity needs assessments as to design targeted interventions to boost implementation capacity. (iv) Conducting quick assessment of readiness and organize effective RECs/national level consultations, sensitisation and mobilization, to ensure wide scale inclusiveness, ownership and participation. (v) Establishing a well-articulated and functional monitoring and evaluation process/mechanism (vi) Advance preparations of procurement related issues to facilitate early release of funds. In Table 3 below a summary table on the potential risks, their assessment rates and proposed mitigation measures.

**Table 8: Summary table on the potential risks, assessment rates and mitigation measures**

RISK	Impact on Project performance	Probability of occurrence	MITIGATION MEASURES
Insufficient political level support, buy –in and ownership	HIGH	LOW	High level of political support driven the AfCFTA processes since Summit Decision in 2012 and subsequent appointment of Presidential champion (Nigerien President) to provide oversight. It is expected that this level of commitment and momentum will continue to be retained for the implementation. To sustain the current momentum, by ensuring the AfCFTA remains on the AU’s political agenda, with regular reporting/ showcasing in key continental events
Delays in signing/ ratification of the AfCFTA Agreement	HIGH	HIGH	There are plans to appoint Special Envoys for the AfCFTA. The project will facilitate the early appointment of special envoys (including the likes of the CEO of AfDB/UNCEA) to complement efforts of the AfCFTA Champion in rallying governments/ national stakeholders towards timely ratification
Delays in national level implementation	MEDIUM	MEDIUM	Conduct quick assessment of national readiness and provide targeted support among others, to the strategic implementation coordination office; as well as organize effective RECs/national level consultations, sensitisation and mobilization, to ensure wide scale inclusiveness, ownership and participation
Inadequate capacity (human and institutional) to effectively implement obligations	HIGH	HIGH	Undertake capacity needs assessment, Recruit appropriate specialists on short or long term basis to provide the required services/skills for targeted activities/assignments
Ineffective monitoring and evaluation processes to assess implementation progress	HIGH	MEDIUM	Establish a well-articulated and functional monitoring and evaluation process/mechanism
Delayed Release of funds	LOW	LOW	Ensure the preparation and submission of clear work/procurement plans for clearance well ahead of activity implementation dates

## 4.7 Knowledge Building

**4.7.1** The project is aimed at establishing the institutional foundations for the effective implementation of the AfCFTA Agreement. It is particularly noteworthy that the AU has never implemented a “Trade Agreement” before and therefore do not have sufficient experience in managing a trade arrangement considered the largest in the world. The project will not only contribute to establishing the Institutional Framework for administering the AfCFTA, it will also build knowledge and experience in trade policy making and implementation. It will also help build capacity. Key activities are the implementation of a number of obligations, which require research and analysis on impacts on the member countries; implementation verification audits, policy harmonisation frameworks and implementation scorecards. A number of dialogues, consultations, meetings, workshops, training and capacity building exercises are also involved, all of which will impart knowledge, build skills, enhance performance, transfer Knowledge, inform and sensitise stakeholders, both public and private, as well as at continental, regional and national levels.

## **V. LEGAL AND COMPLIANCE SECTION**

### **5.1 Legal Instrument**

**5.1.1** The instrument that will be used to finance this Project will be the ADF Grant Protocol of Agreement under the ADF14 Regional Public Goods window amounting to UA 3.5 million.

### **5.2 Conditions Associated with the Bank's Intervention**

#### *A. Conditions Precedent to Grant Effectiveness*

##### *A.1 Conditions Precedent to ADF Grant Effectiveness*

The Protocol of agreements shall each become effective on signature of the Protocol of Agreement between the Fund and the Recipient.

#### *B. Conditions precedent to first disbursement*

The Grant resources shall be subject to fulfilment by the Recipient of the following conditions to the complete satisfaction of the Fund:

##### *B.1. Conditions precedent to first disbursement of ADF Grant*

Apart from Grant effectiveness, the first disbursement of the Grant resources shall be subject to fulfilment by the Recipient of the following condition to the complete satisfaction of the Fund:

- (i) Submission of evidence of the recruitment, designation, appointment of staff for the project implementation unit including the Project Coordinator, Procurement Specialist and Finance Officer with qualifications and terms of reference acceptable to the Bank;

#### **C. Other Conditions**

The Recipient shall provide evidence of the following in the form and substance acceptable to the Fund:

- i) The opening of a USD denominated Special Account into which grant proceeds shall be deposited.

#### **D. Undertakings**

The Recipient undertakes the following under the Grant Agreements:

- i) To make available the counterpart contributions in a timely manner during project implementation.

#### **Compliance with Bank Policies**

- No provision is made for exceptions to the policies.
- The proposed Project complies with all applicable Bank policies.

## **VI. CONCLUSIONS AND RECOMMENDATIONS**

### **6.1 Conclusions**

**6.1.1** The AfCFTA is quite an ambitious initiative. It also has very strong synergies with the Hi-5s. The 21 March 2018 AU Summit Decision on the establishment of the AfCFTA, particularly calls on the Bank, among others, to support the AUC in the implementation of the AfCFTA. As the AfCFTA now moves into the critical implementation mode, it puts the Bank in a strategic position to help lay a solid institutional framework and to positively influence and shape the direction of implementation, leveraging the Bank well known qualities - catalytic financier, policy advocate, knowledge broker, and astute project manager. The proposed project will contribute towards the effective implementation of the AfCFTA.

### **6.2 Recommendations**

**6.2.1** Management recommends that the ADF Board of Directors approve the proposed ADF Grant of UA 3.5 Million to the African Union, to finance the Project described in this report and in accordance with the conditions set out above.

***AFRICAN DEVELOPMENT FUND***

**BOARD OF DIRECTORS**

**Resolution N° F/21/2019/08**

Adopted by the Board of Directors, on a lapse-of-time basis, on 1<sup>st</sup> April 2019

**Multinational: Grant to the African Union to finance part of the costs of the Institutional Support Project for the African Union: African Continental Free Trade Area (AfCFTA) Implementation**

**THE BOARD OF DIRECTORS,**

**HAVING REGARD** to: (i) Articles 1, 2, 11, 12, 14, 15, 16, 26 and 30 of the Agreement Establishing the African Development Fund (the “Fund” or “ADF”); (ii) the Report on the Fourteenth General Replenishment of the Resources of the Fund (“ADF-14”); (iii) the applicable ADF-14 Country Resource Allocation; (iv) the Guidelines for the Financing of Multinational Operations; (v) the Strategic and Operational Framework for Regional Operations; and (vi) the appraisal report contained in document ADF/BD/WP/2019/34/Approval (the “Appraisal Report”);

**NOTING** the availability of sufficient resources to enable the Fund to commit the amount of the Grant;

**DECIDES** as follows:

1. To award to the African Union (the “Recipient”), from the resources of the Fund, a grant of an amount not exceeding the equivalent of Three Million, Five Hundred Thousand Units of Account (UA 3,500,000) (the “Grant”) to finance part of the costs of the Institutional Support Project for the African Union: African Continental Free Trade Area (AfCFTA) Implementation;
2. To authorize the President to conclude a protocol of agreement between the Fund and the Recipient (the “Protocol of Agreement”) on the terms and conditions specified in the General Conditions Applicable to Protocols of Agreement for Grants of the African Development Fund and the Appraisal Report;
3. The President may cancel the Grant if the Protocol of Agreement is not signed within ninety (90) days from the date of approval of the Grant by this Board; and
4. This Resolution shall become effective on the date above-mentioned.