

Annex

1. IDENTIFICATION

Title/Number	ESA-IO Support to Eastern and Southern Africa-Indian Ocean (ESA-IO) region African Technical Assistance Centre (AFRITACs) / CRIS Code: FED/022-550		
Total cost	Total Cost of the Project: EUR 92 143 612 EU contribution: EUR 15 000 000 (ESA-IO 10th EDF)		
Aid method / Method of implementation	Project approach – Partially decentralised management and joint management with International Monetary Fund (IMF)		
DAC-code	15110	Sector	Economic and development policy/planning

2. RATIONALE

2.1 Sector context

The ESA-IO Regional Strategy Paper/Regional Indicative Programme (RSP/RIP) makes provision for deepening regional integration through trade and economic reforms, which are complex and difficult processes for which the International Monetary Fund (IMF) has extensive competence and experience. It is proposed that a collaboration between the ESA-IO Regional Organisations and the IMF/AFRITACs is developed in order to further deepen regional integration and economic and trade reforms through a Project “Support to ESA-IO AFRITACs” henceforth referred to as the “Project”.

Countries of the Eastern and Southern Africa and Indian Ocean (ESA-IO) region have adopted regional integration as a strategy to strengthen their trade and production capacities through the unification of national markets as well as a stepping stone to integrate into the global economy. Three regional trade arrangements (RTAs) co-exist, under the respective agenda of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern Africa Development Community (SADC).

The COMESA Free Trade Area (FTA) which was launched with nine Member States in October 2000 now encompasses fourteen countries¹. COMESA has made significant strides in the implementation of the Customs Union (CU), which was launched by the Summit on 7 June 2009. The East African Community (EAC) has established a Customs Union and also launched the process towards the establishment of a Common Market in November 2009 and a Monetary Union. Discussions are on-going on the establishment of a Political Federation aiming at deepening economic, social and political cooperation and integration. The SADC Trade Protocol, launched in 2002, provides for a gradual reduction of tariffs on products other than sensitive products amongst SADC Member States until 2008 and a full tariff reduction on all products by 2012. The strategies of the three Regional Economic Communities (RECs) further include the establishment of Monetary Unions within the medium- to long-term perspective. In October 2008, the Heads of States of COMESA, EAC and SADC agreed to establish a single Free Trade Area and subsequently a Customs Union. They also agreed to work towards the merger of the three RECs.

At their Summit of June 2008, the Inter-Governmental Authority for Development (IGAD) Heads of States directed the IGAD Secretariat to “develop and implement regional integration policies and programmes to make IGAD an important building bloc of the African Union”. IOC has made significant contribution in strengthening cooperation among its Member States in the areas of marine resources conservation and in championing the cause of small and vulnerable economies in

¹ Burundi, Comoros, Djibouti, Egypt, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Zambia and Zimbabwe.

multilateral fora. The Indian Ocean Commission (IOC) Council in March 2008 decided to reinforce the organisation's activities in economic and trade cooperation, focusing on the insularity specificities of the region to facilitate the participation of its member states in the Eastern and Southern Africa's regional and global economic integration process. Thus, capacity-building will be needed both in order to support the continued integration process and also to ensure that opportunities offered by deeper integration can be exploited.

In order to ensure the implementation of regional integration policies at national level and to support high economic growth and a rapid reduction of poverty rates, it is critical to have strong national and regional institutions. A number of studies have established the centrality of governance to economic development.² Countries of the ESA-IO region rank very differently according to the World Bank's government effectiveness indicators with many countries showing low scores. This is echoed in the World Bank's Doing Business Indicators, which suggest that the investment climate in the ESA-IO region is still poor, including regional cross border trade. The following highlights the issues in the four main areas: (1) revenue and customs policy and administration; (2) Public Financial Management (PFM); (3) financial sector management; and (4) statistics.

ESA countries face a twofold challenge: Strengthening tax administration to enhance domestic collections while modernizing and harmonizing customs operations.

- Customs union arrangements exist in some countries while other countries are at the planning stage. Also, for almost all countries, the costs of trading across borders tend to be high compared with international standards. This not only raises challenging trade policy coordination issues, but also the management of customs unions has far-reaching fiscal implications for member countries and requires in their views harmonization of countries' indirect, and ultimately direct, tax systems.
- Some of the lower income countries in the region have very low domestic revenue bases. This requires new or sustained efforts to mobilize collections through tax policy reform and/or revenue administration modernization in line with the principles of good governance in tax matters³. Taxpayer segmentation would also assist in enhancing revenue such as through establishing or significantly strengthening large taxpayer offices, supplemented by strategies to appropriately tax small businesses.
- For resource-rich countries, strengthening the effectiveness of resource taxation administration in line with the principles of good governance in tax matters will be a priority, requiring specialization of methods necessary for operational tax management with large taxpayers.

Public financial management (PFM) in many countries needs upgrading. While some progress has been made, much still needs to be done. With poverty alleviation remaining a serious challenge, it is critical that budgetary resources are allocated efficiently and their use transparently reported. This is not only important for stakeholders in the countries (taxpayers and, in many countries, agencies involved in monitoring the Poverty Reduction Strategic Paper (PRSP), but also for budget support donors. The Public Expenditure and Financial Accountability (PEFA) indicators for many lower income countries (LICs) (Burundi, Comoros, Democratic Republic of Congo, Djibouti, Ethiopia, Eritrea, Madagascar, Malawi, Mozambique, Rwanda, Sudan, Somalia, Uganda, Tanzania, Zambia, and Zimbabwe) indicate that PFM could be improved by reforms of key public institutions. In particular, there is a need to improve macro-fiscal analysis, including Medium-term Budgetary Frameworks, budget formulation and implementation, and auditing processes. Also in middle income countries (Botswana, Mauritius, Seychelles and South Africa, Angola, Kenya, Lesotho, Namibia, and Swaziland), significant improvement in many areas of PFM is still required. In terms of regional

² See, for instance, Gupta, S., Powell R. and Yang Y. (2005) "Macroeconomic Challenges of Scaling up Aid to Africa," IMF Working Paper, No WP/05/179.

³ COM (2009) 201, 28.04.2009, Promoting Good Governance in Tax Matters and COM (2010) 163, 21.4.2010, Tax and Development, Cooperating with Developing Countries on Promoting Good Governance in Tax Matters

integration, harmonization of budget laws and promotion of a common transparency code to improve PFM is needed, including on budget classification, accounting and public finance statistics.

While financial intermediation has improved in many countries, there is scope in most for strengthening the financial sector. All countries should strengthen their crisis preparedness. There is also a need to develop the depth, efficiency and competitiveness of the financial sector to increase access to credit particularly in LICs, modernize financial systems in middle-income countries and overall further develop capital markets. RECs are also seeking progress toward the objective of monetary union. COMESA has already established a Monetary Institute. Monetary integration toward a union entails achieving common benchmark interest rates across and stable exchange rates between member countries. The capacity for monetary management, and the functioning of central banks, varies substantially across countries and many face considerable challenges in the formulation and implementation of monetary/exchange rate policies.

Macroeconomic statistics need to be significantly improved to meet best international practices and assess regional convergence. Statistical practices in many countries are significantly below the average data quality for countries around the world with similar per capita income levels. It is crucial, in particular, to update the countries' national accounts base years, which are older than 10 years in most countries, and the development of industrial production indices. Most countries also confront challenges in terms of a timely dissemination of key macroeconomic variables, including through the General Data Dissemination Standard (GDDS).

2.2 Lessons learnt

The European Union is a long-standing partner to regional integration. In recent years, support to regional integration has gained significant momentum as can be observed by the growing number of initiatives by key players such as the World Bank and the African Development Bank. Lessons learnt from the European Union suggest the need for enhancing coordination between support at the regional and the national level⁴. More follow-up and coordination are in particular required in relation to the transposition and application of legislation and the implementation of regional policies. In that respect, a partnership between AFRITACs and the regional organizations would offer a good opportunity to address that issue. A recent independent external evaluation of the existing AFRITACs⁵ found that the centers are “effective vehicles for delivering technical assistance (TA), were responsive to client needs, enhanced country ownership of reforms, increase regional cooperation, increase the use of African experts and improved accountability in the delivery of TA.” In that respect, a partnership between the regional organizations and AFRITACs would offer a good opportunity to strengthen national capacities to improve implementation of economic reform while also ensuring higher sustainability of results.

The proposed Project is coherent with the 10th EDF Regional Integration Support Programme (RISP) Continuation and the 9th EDF Regional Integration Support Mechanism (RISM) especially in its future expanded scope. The RISP Continuation and the RISM are designed to work in tandem in order to strengthen the capacity of regional organizations to integrate their markets and facilitate the implementation of regional policies at national level. The Support to ESA-IO AFRITACs' Project will supplement those initiatives by ensuring that reforms undertaken by ESA-IO countries contribute in creating a macro-economic environment that is conducive to trade and investment and policy harmonization amongst them. With macroeconomic reforms toward trade liberalization likely to entail substantial costs, strong linkage with support of RISM is key to compensate countries interested in reforming their trade system for adjustment costs and possible revenue losses. RISP will provide for downstream activities to further strengthen the regional integration process.

2.3 Complementary actions

The Project will take into consideration the COMESA-EAC-SADC Tripartite process. Hence, although the ESA-IO Regional Indicative Program has a specific geographical coverage, it is important for the project to ensure that members of the three RECs fully benefit from this Project.

⁴ *Effectiveness of EDF Support for Regional Economic Integration in East Africa and West Africa*, European Court of Auditors, Special Report No. 18, Luxembourg, 2009, Mid Term Review of the Regional Integration Support Mechanism.

⁵ See <http://www.imf.org/external/np/pp/eng/2005/040105d.htm>.

The Project will closely coordinate with the Regional Multidisciplinary Center of Excellence (RMCE), which is a regionally owned training and advisory centre for the regional organizations (ROs). The RMCE is intended to improve member/partner states' professional capacity for addressing issues of Regional Economic Integration with a comprehensive approach. The RMCE will complement activities of the AFRITACs. Action by the institutions will be coordinated via the annual work plans.

The AFRITACs will be complementary with other initiatives such as the TradeMark Southern Africa⁵, TradeMark Eastern Africa⁶ and the Africa Capacity Building Foundation. Synergies will also be built with the forthcoming COMESA/World Bank project to set up a Regional Integration M&E System.

The Project will promote peer review and the dissemination of best practices as part of the methodology. Several of the middle income countries in the region have strong government institutions, as well as a very good track record of policy implementation and lasting growth. Lessons from those experiences will be an important input for the AFRITACs, as well as providing a benchmark for assessing the other countries' TA needs and priorities. At the same time, knowledge of best international practices will be an asset in the AFRITACs' engagement with upper middle income countries in specialized TA areas.

2.4 Donor Coordination

The AFRITACs provide a robust platform for implementing the March 2005 Paris Declaration and the Accra Accord. Through the centers' Steering Committees (SC), and the relationships and expertise at regional level of AFRITACs' staff and advisors, TA activities would be coordinated with those of other TA providers and are integrated with the member countries' poverty-reduction and development strategies.

The AFRITACs would emphasize coordination with other TA providers in their core areas of expertise. TA is being provided to the region by multilateral and bilateral agencies. To help ensure complementarities and synergies with other TA, the AFRITAC coordinator will be the focal point for this liaison in the field.

3. DESCRIPTION

3.1 Objectives

The **Overall Objective** of the project will be to contribute to the regional economic integration process and higher growth and poverty reduction in the ESA-IO region.

The **Specific objective** of the project is to improve the design, implementation, and monitoring of sound macroeconomic policies, and enhanced regional harmonisation and integration, in ESA-IO Member States and Regional Organisations.

3.2 Expected results and main activities

The project will achieve four results, as follows:

- **Result 1:** Improved analyses and effectively implemented customs and tax policy and administration to support trade and development strategies.

⁶ The TradeMark Southern Africa (TMSA) Programme is funded by DfID (UK) and builds on the work of the recent Regional Trade Facilitation Programme (RTFP) to support the regional integration process of East and Southern Africa. TMSA will work closely with TradeMark East Africa (TMEA) in support of the activities of the COMESA-EAC-SADC Tripartite process. This mainly involves support of the design and planned implementation of the COMESA-EAC-SADC Free Trade Area and reducing costs of cross-border transactions through a transport corridor approach addressing both trade facilitation issues and infrastructure constraints. Other activities will include supporting the WTO LDC Group in Geneva and supporting the improvement of market access of the region's agricultural products through addressing standards and compliance.

- **Result 2:** Improved public financial management capacity and harmonisation towards international standards to effectively and transparently use resources.
- **Result 3:** More stable and sound financial sector conducive to private sector development and regional integration.
- **Result 4:** Improved quality, coverage and frequency of statistics informing macroeconomic policy and regional convergence.

The following core activities will therefore be undertaken under each result area:

Result 1: Customs and Tax Administrations

The project will assist in:

- greater use of risk based selectivity with less pre-clearance intervention;
- more post-release controls;
- harmonization of transit rules ;
- standardizing customs processes and procedures, including valuation ;
- establish efficient and automated procedures and systems;
- establish effective organizational arrangements;
- developing appropriate risk-based and compliance strategies;
- introducing and improving taxpayer segmentation and services;
- promoting cross-border communication and cooperation among customs and tax administrations in the region in line with the principles of good governance in tax matters..

Result 2: Public Financial Management

The project will assist in:

- the development of harmonized legal and regulatory frameworks;
- modernising accounting, auditing and reporting systems and practices;
- upgrading budget preparation frameworks;
- upgrading cash management systems and government banking practices.

Result 3: Financial sector and Private sector development

The project will assist in (national and regional context):

- developing monetary policy frameworks;
- liquidity monitoring and forecasting frameworks;
- developing monetary instruments;
- developing of primary and secondary capital markets;
- harmonising legal and regulatory frameworks for banks and non-banks;
- improving early warning systems and crisis preparedness ;
- migration from compliance-based supervision to risk-based;
- integrating security settlement systems with central bank systems;
- promoting cross-border communication and cooperation among central banks and supervisory authorities in the region.

Result 4: Statistics

- Improve the dissemination of statistic data through General Data Dissemination Standard (GDSD) and Selected Data Dissemination Standard SDDS frameworks;
- Promoting cooperation and exchanges among national statistics agencies in the region;
- Develop comprehensive annual Gross Domestic Product (GDP) estimates from both production and expenditure sides and quarterly GDP estimates;
- Develop or improve, as needed, Consumer Price Indexes and Product Price Indexes;
- Identify data gaps and set priorities for source data development.

Further refinement and planning for the activities will be adopted by the respective AFRITACs Steering Committees and will require individual country adaptation as per the need and speed of reforms while conforming to maximum regional value-addition.

The whole ESA-IO region will be covered by the Project and will involve the two main AFRITACS concerned which are the followings:

- AFRITAC East covering Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda was established in 2002. It started its third funding cycle, expanded from three to five years, on November 1, 2010. The contribution to AFRITAC East's ongoing funding cycle would allow for expanding of the Centre's activities toward strengthening its technical assistance in the area of regional integration.
- AFRITAC South covering Angola, Botswana, Comoros, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Zambia and Zimbabwe. This would be a new centre, which would be opened as soon as the full financing for the centre has been established.

3.3 Risks and assumptions

Key assumptions are as follows:

- Macro-economic factors do not undermine the implementation of the project activities.
- No adverse climatic conditions or conflicts prevailing in the region.
- Appropriate accompanying measures are implemented, and resources, as needed, provided, by the Member States and regional organisations.
- Absence of exogenous shocks.
- Sustained commitment to national and regional reforms by Member countries.

3.4 Crosscutting Issues

The activities of the project will be implemented according to the following principles:

- Promotion of good governance issues, including in the tax area (transparency, exchange of information and fair tax competition);
- Visibility will be ensured notably by publications valorising programme results.

3.5 Stakeholders

AFRITAC South aims at providing support to 13 countries from ESA-IO and SADC; AFRITAC East aims at providing support to seven countries. The programme targets countries covered by the 10th EDF ESA-IO Regional Indicative Programme. Regional coordination and monitoring of activities form the central thrust of the programme. Stakeholders for the programme are the National Governments and institutions, notably Ministries of Finance, Central Banks, Financial Supervisory and Statistical Agencies; and ESA-IO Regional organisations (COMESA, SADC, EAC, IGAD and IOC) and their relating institutions. The programme will place a strong focus on longer-term sustainability, most notably in the context of the Tripartite process and of furthering the regional integration agenda under the respective mandates of the ESA-IO RECs. A meeting among the host country, the IMF and the regional stakeholders on the 14-15 June 2010 at the IOC Secretariat confirmed this overall orientation of the programme.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The Programme will be the subject to a Financing Agreement between the Commission and the Indian Ocean Commission for an amount of EUR 15 000 000. It will be implemented via:

- 1) Joint management through the signature of two Contribution Agreements with the IMF as per Article 29 of 10th EDF Financial Regulation and;
- 2) Partially decentralised management through programme estimates to be managed by the Indian Ocean Commission.

Each AFRITAC has its governance structure and a Steering Committee (SC) that consists of representatives from recipient countries, donors and the IMF. The SC will provide strategic guidance to the Center and assists in setting its policies and priorities of the project. It will provide input on the topics to be covered by the team of the Center’s experts, and endorses the Center’s work plans. The SC holds annual meetings. Additional meetings may be convened as necessary. The SC is chaired on a rotating basis by the principal representative of one of the beneficiary countries (e.g. the deputy governor of the central bank). Observers of the Steering Committee (SC) can be permitted, from neighboring countries, interested donors or other TA providers. ESA-IO Regional Organizations (ROs) will participate in the AFRITACs Steering Committees. An AFRITAC’s annual work-plan will be developed in consultation with member countries, regional organizations and within the context of the IMF’s TA prioritization processes. The center coordinator will seek strategic guidance from SC members on the work-plan, prior to seeking their formal endorsement.

In order to ensure that there is an overall coordination for the whole ESA-IO region and the imperative to ensure regional value-addition, ownership and effective down-streaming of the project’s outputs and benefits, linkages with the RISP, RISM and RMCE activities and generate synergies with other RECs, the IOC will set-up a Technical Steering Committee (TSC) within the Inter-Regional Coordinating Committee (IRCC) process. The TSC will meet two to three times a year back to back to IRCC technical meetings. This will involve extensive coordination and monitoring functions with AFRITACs and RIOs for which a Regional Coordination Unit will be set up within the IOC secretariat. The IOC will thus ensure overall co-ordination of the project and AFRITACs’ activities. The implementation of the Programme will require substantial coordination efforts and thus will be supported with a Programme Coordinator, who will be recruited to support the IOC Secretariat and funded by the Programme Estimate resources. In the specific area of European Development Fund (EDF) funding and in view of the Programme, the following measures are under way:

- The IOC Finance and Administration Department will undertake the internal control function (which will also verify PE expenses) fully with its own staff who are fully paid and funded by IOC own resources.
- The Officer in Charge of the Programme will act as Imprest Administrator who is fully paid and funded by IOC own resources. The Programme Coordinator will come as a direct support to the Officer in Charge of the Programme based at the IOC Secretariat, Mauritius. The following functions: (i) control of expenses, (ii) the Imprest administration and (iii) the procurement, will be undertaken by IOC General Secretariat personnel.

The Commission controls ex ante all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies ex ante control for procurement contracts > 50,000 EUR and may apply ex post for procurement contracts ≤ 50,000 EUR. The Commission controls ex ante the contracting procedures for all grants.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The Regional Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below:

Works	Supplies	Services	Grants
< 300,000 EUR	<150,000 EUR	< 200,000 EUR	≤ 100,000 EUR

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ACP-EU partnership agreement.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Article 20 of Annex IV of the revised Cotonou Agreement.

With regard to Joint Management with the IMF, all contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the IMF.

4.3. Budget and Calendar

The total project cost is estimated at EUR 92 143 612, equivalent to USD 110 572 334 (at a current rate of 1.20 USD per EUR) of which EUR 15 million shall be financed from the ESA-IO 10th EDF RIP within the framework of the revised Cotonou Agreement.

Programme budget Items	AF-South Estimated Budget EUR	AF-East Estimated Budget EUR	TOTAL BUDGET EUR (including EU Contribution)	10 th EDF ESA- IO RSP
Result 1: Customs and Tax Administration	8,665,420	4,775,218	13,440,638	14,675,000
Result 2: Public Financial Management	12,998,129	14,325,653	27,323,782	
Result 3: Financial sector and Private sector	10,099,593	7,272,953	17,372,546	
Result 4: Statistics	5,110,877	6,943,213	12,054,090	
Office coordination and management	10,397,047	8,609,821	19,006,868	
Regional IOC Programme Coordinator			250,000	250,000
Evaluation IMF	250,000	250,000	500,000	
Evaluation and audit EDF			40,000	40,000
Contingencies*	2,155,688		2,155,688	35,000
TOTAL	49,676,754	42,176.858	92,143,612	15,000,000

* The European Union's contribution to the "Contingencies" heading may be used only with prior agreement of the Commission.

The EU will contribute EUR 14,675,000 to Result 1, to Result 4 and to "office coordination and management". Two contribution agreements (one for East AFRITAC and one for South AFRITAC) between the Commission and IMF will be signed for this total amount although the final amounts for each contribution agreement are still under discussion.

An amount of EUR 250,000 will be managed by the IOC under Programme Estimate modalities. This will be used to fund the Regional Coordination Unit functions; namely for office running and equipment costs, regional coordinator, and meetings.

Audits and evaluations (EUR 40,000) will be launched by the Commission on behalf of the beneficiary. Finally EUR 35,000 are allocated as contingency funds.

The programme will be implemented over a period of 60 months as from the signature of Financing Agreement by the last of the two Parties.

4.4. Performance monitoring

The project's Logical Framework provides for a set of indicators at project purpose and results level. The quantification of indicators of process and outcomes for the internal monitoring of the programme will be established and adapted at the relevant AFRITAC's Steering Committee along the broader lines defined in the logical framework and on EuropeAid Standard Indicators and monitoring systems adopted accordingly. The IOC will liaise with the AFRITACs to monitor the activities and feed into the IRCC process on the programme's achievements. The IRCC members will be invited to attend the relevant AFRITACs' Steering Committees as well as the Technical Steering Committee that will be set up by IOC in order to ensure coordination of the programme throughout the ESA-IO region and linkages with the RISM, RISP and RMCE.

4.5. Evaluation and audit

A budgetary provision is made for evaluations and audits.

4.6. Communication and visibility

The project's budget make due allowance for Information, Communications, and Visibility activities. These will be aligned with the requirements for visibility of EU aid while demonstrating the regional ownership of this project outputs. The IOC's Internet website including the dedicated website for Project shall be the main tool to ensure communication, visibility and dissemination of the project's achievements and of its current and forthcoming events. The project will, in addition, work out its own communication strategy and develop specific awareness-raising, information and dissemination activities within the concerned AFRITACs in order to inform partner countries and potential stakeholders of the opportunities that it provides. Due regard will be given to the linguistic necessities in the region.