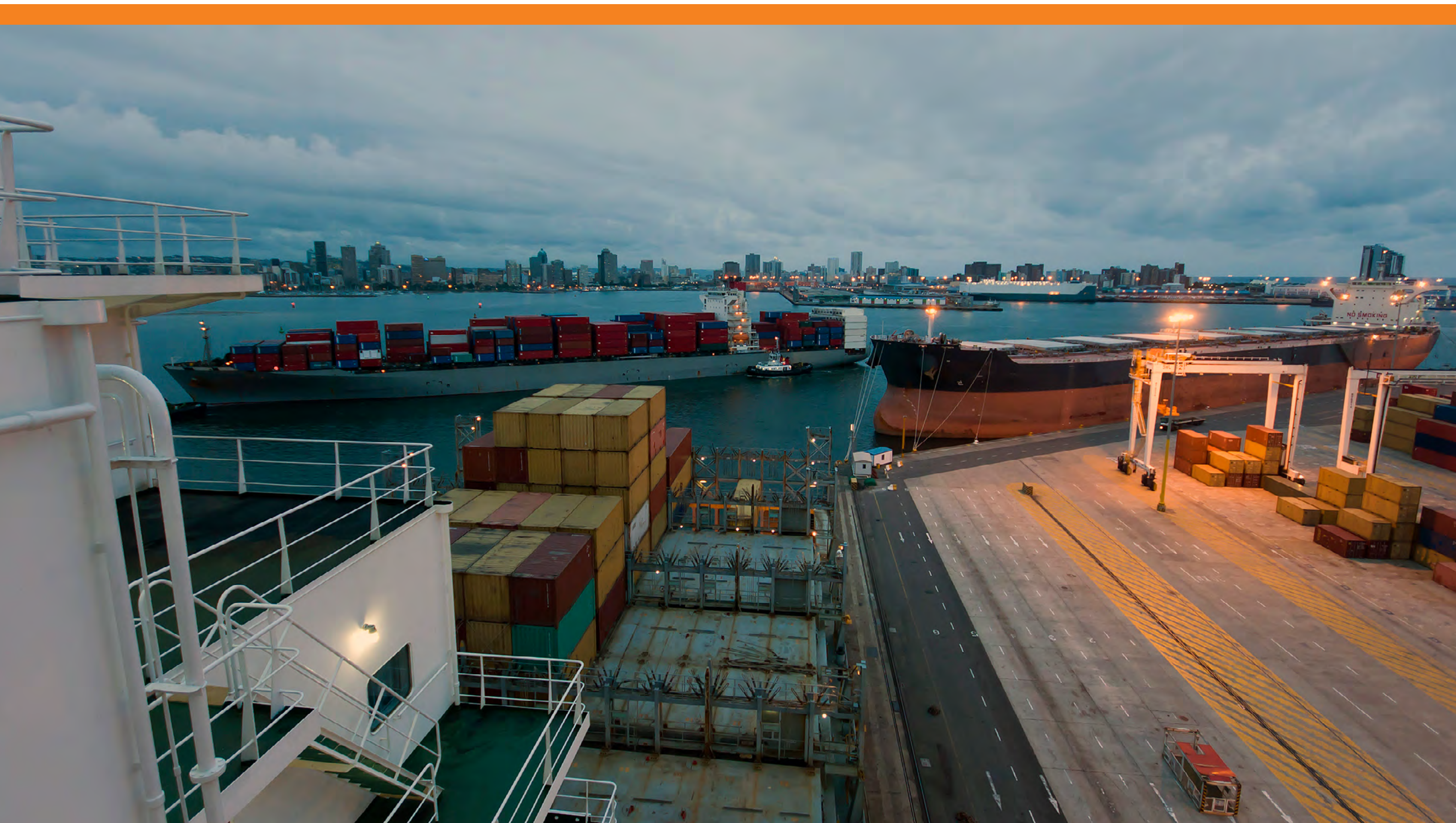
GEGAFRICA
GLOBAL ECONOMIC GOVERNANCE

DISCUSSION PAPER | FEBRUARY 2018

WHY DOES A SACU DEVELOPMENT FUND MATTER?

LESSONS FROM OTHER REGIONAL DEVELOPMENT FUNDS AND SACU TRADE PRACTITIONERS

Rebecca Ramsamy



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ABOUT GEGAFRICA

The Global Economic Governance (GEG) Africa programme is a policy research and stakeholder engagement programme aimed at strengthening the influence of African coalitions at global economic governance forums such as the G20, BRICS, World Trade Organization and World Bank, among others, in order to bring about pro-poor policy outcomes.

The second phase of the programme started in March 2016 and will be implemented over a period of three years until March 2019.

The programme is expected to help create an international system of global economic governance that works better for the poor in Africa through:

- undertaking substantial research into critical policy areas and helping South African policymakers to prepare policy papers for the South African government to present at global economic governance platforms;
- ensuring that African views are considered, knowledge is shared and a shared perspective is developed through systematic engagement with African governments, regional organisations, think tanks, academic institutions, business organisations and civil society forums; and
- disseminating and communicating research and policy briefs to a wider audience via mass media and digital channels in order to create an informed and active policy community on the continent.

The programme will be focused on three thematic areas: development finance for infrastructure; trade and regional integration; and tax and transparency.

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ABSTRACT

The 2010 Southern African Customs Union (SACU) Vision and Mission sets out a clear mandate that supports regional integration, values the role of development in the region, and ultimately strives to better the lives of its citizens. However, the implementation of the 2002 SACU Agreement and the constraints that SACU trade practitioners contend with hinder SACU's progress towards meeting these goals. Furthermore, the barriers that currently exist in intra-SACU trade limit the growth of regional value chains and long-term regional economic development. This discussion paper explores how a regional development fund could help SACU to deepen regional integration, mitigate trade constraints, and sustain development in priority areas within the region. Lessons are drawn from other regional development funds to provide key recommendations for stakeholders to consider in developing a SACU development fund – namely, the European Structural and Investment Funds and the Caribbean Community Development Fund. Their experiences help to inform how a development fund can be capitalised, how funds are disbursed, the associated governance rules and procedures, and the types of projects and priorities that development funds address.

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LIST OF ABBREVIATIONS AND ACRONYMS

BLNS	Botswana, Lesotho, Namibia and Swaziland
CAM	country allocation model
CAP	country assistance programme
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CDF	CARICOM Development Fund
CEF	Connecting Europe Facility
CF	Cohesion Fund
CIF	cost, insurance and freight
CRP	common revenue pool
CSME	CARICOM Single Market and Economy
DBSA	Development Bank of Southern Africa
EAEU	Eurasian Economic Union
EAFRD	European Agricultural Fund for Rural Development
EBRD	European Bank for Reconstruction and Development
EDAF	Emergency Disaster Assistance Facility
EDB	Eurasian Development Bank
EFSD	Eurasian Fund for Stabilization and Development
EIB	European Investment Bank
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESI Funds	European Structural and Investment Funds
ESF	European Social Fund
GDP	gross domestic product
LDC	less-developed country
MDC	more-developed country
NGO	non-governmental organisation
NTB	non-tariff barrier
SACU	Southern African Customs Union
SMEs	small and medium enterprises
TEN-T	Trans-European Transport Network
TFP	Trade Facilitation Programme
VAT	value-added tax
YEI	Youth Employment Initiative

INTRODUCTION

For over 100 years the Southern African Customs Union (SACU) has enabled the free flow of goods among member countries at varying levels of development. SACU has collected revenue in a common revenue pool (CRP) and distributed it to member states' national budgets through a revenue-sharing formula (RSF). The 1910 SACU Agreement included a common external tariff, the free movement of SACU manufactured products within SACU countries, and an RSF. The renegotiated 1969 SACU Agreement added excise duties into the CRP and a multiplier in the RSF that increased the annual revenues of Botswana, Lesotho and Swaziland by 42%. The latest 2002 SACU Agreement further included joint decision-making processes, a revised RSF with a customs excise and a development component, and an aspiration to develop broader regional integration outside of SACU trade.[1] However, the implementation of the 2002 SACU Agreement has been fraught with difficulties and, as a result, discussions on how to reform SACU to reflect current circumstances and realities have stalled. There are also several practical challenges and constraints experienced in trade and business among SACU member states, including deficiencies in infrastructure, capacity development, permits and

1 SACU (Southern African Customs Union), 'History of SACU', http://www.sacu.int/show.php?id=394, accessed 17 August 2017

standards, ease of access for moving goods across borders, and access to finance for businesses.[2]

One of the options considered to deepen regional integration in SACU is to use all or part of the revenue from the customs union to create a SACU development fund.[3] The proposal for a SACU development fund has not yet been agreed to or finalised. However, why a SACU development fund is needed and what a SACU development fund could look like are important questions to consider, because the mandate that creates a SACU development fund would need to have strong objectives and outcomes. Furthermore, the structure of the development fund, and the development issues it addresses, would have a direct impact on SACU stakeholders (both contributors and recipients of the support from the fund). Many SACU governments' budgets and national fisci rely heavily on the revenue from SACU, and several industries rely on the relationships forged within SACU. A development fund would affect all these stakeholders in some way; and the fund could work towards achieving the overall SACU mandate. Accordingly, this discussion paper addresses the question of why a SACU development fund is needed, drawing insights from other development funds between states within a geographical region.

The paper begins by considering how a development fund could help to achieve the 2010 SACU Vision and Mission, and assesses its potential to advance development for SACU citizens. It then examines the specific constraints that trade practitioners within SACU contend with, and the need to mitigate these constraints in order to meet SACU's objectives. Mitigating trade constraints would also enable the development of regional value chains. The paper uses examples of existing regional development funds – namely, the European Structural and Investment Funds (ESI Funds) and the CARICOM Development Fund (CDF) – to show how these have assisted in mitigating similar challenges. It concludes with key findings and lessons that will be relevant to establishing a SACU development fund.

Desktop research and consultations with experts from the ESI Funds and the CDF are used to inform most of the paper's recommendations of the paper, with additional insights gained from the structure of the Eurasian Fund for Stabilization and Development (EFSD). These recommendations also draw on a discussion paper by Global Economic Governance (GEG) Africa,[4] and discussions emanating from GEG Africa workshops focusing on bettering SACU trade and the prospects for

2 Ginindza P *et al.*, 'The Economic Reform of SACU: Country Case Studies on Regional Integration', GEG (Global Economic Governance) Africa Discussion Paper, Johannesburg: GEG Africa, forthcoming..

3 Van Rensburg D, 'Sacu reforms plod on', *City Press*, 26 June 2016, http://city-press.news24.com/Business/sacu-reforms-plod-on-20160624.

4 Ginindza P *et al.*, *op. cit.*

a SACU development fund. The workshops hosted several SACU stakeholders, including representatives from business sectors within SACU member states[5].

WHY A SACU DEVELOPMENT FUND?

The analysis in this section is two-fold. Firstly, it discusses how a SACU development fund could help to achieve SACU's broader vision and objectives; and secondly, how it could address existing constraints to trade and development.

SACU's 2010 Vision and Mission

Reflecting on its 100-year existence in 2010, SACU deliberated on the future of the organisation's strategic direction. The SACU Heads of State and Government meeting in Namibia in April 2010 presented a new vision and mission.[6] SACU's new vision is to be 'an economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future.'[7]

SACU's new vision is to be 'an economic community with equitable and sustainable development, dedicated to the welfare of its people for a common future

This vision reflects a broadening of SACU's scope outside its function of facilitating the free flow of goods, to include the development needs of its members. The vision's focus on equitable and sustainable development suggests a commitment to ensuring that each member state benefits equitably from development initiated within SACU. Currently there is a gap in the sizes of SACU member-states' economies. This is most evident in South Africa alone contributing 92% of SACU's gross domestic product (GDP), and representing over 87% of the region's population. There are also variances in poverty and development among the SACU member states, although common development characteristics also exist, such as high unemployment and poverty rates.[8]

5 GEG Africa Workshop, Making Trade Better – The Role of a Regional Development Fund, Pretoria, 24 January 2017

6 SACU Secretariat, 'Final Communiqué: The Heads of State and Government meeting of the Member States of the Southern African Customs Union (SACU)', Press statement, SACU/HOSG/1, 22 April 2010, http://www.sacu.int/docs/pr/2010/pr0422-10.pdf, accessed 2 March 2017.

7 *Ibid*.

8 Ginindza P *et al*., *op. cit*.

SACU's accompanying new mission has six main points that emphasise the importance of pursuing regional integration and cooperation among member states:[9]

- To serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intra regional trade and investment, and global competitiveness.
- To build economic policy coherence, harmonization and convergence to meet the development needs of the region.
- To promote sustainable economic growth and development for employment creation and poverty reduction.
- To serve as a building block of an evercloser community among the peoples of Southern Africa.
- To develop common policies and strategies for areas such as trade facilitation; effective customs controls; and competition.
- To develop effective, transparent and democratic institutions and processes.

The first point of SACU's mission refers to regional integration and development, which supports the notion that SACU endeavours to support regional projects and policies that would facilitate deeper economic integration. The first point also focuses on industrial and economic diversification, which provides scope to the type of development that SACU aims to create or support. SACU member states have economies that rely on the same industries and sectors for economic growth, and the lack of infrastructure in several areas is flagged as a constraint to regional trade.[10] Further focus on expanding intraregional trade and investment and global competitiveness highlights the need for SACU to intervene in processes of trade to promote investment and make the region more globally competitive. A development fund could provide a vehicle for driving these initiatives and processes forward, through supporting projects (in providing financial assistance or mobilising technical assistance) and supporting both individual member states and the region as a whole.

The 2010 SACU Vision and Mission sets out a number of objectives for SACU as an agent of regional economic integration. It also broadens the mandate of SACU

A dedicated fund would provide SACU with an instrument to execute its broader mandate by supporting projects targeted at specific areas of development, and supporting SACU institutions and infrastructure to implement regional initiatives

9 SACU Secretariat, *op. cit.* SACU (2010 Press Statements database), 22 April 2010, 'SACU Final Communiqué: The Heads of State and Government meeting of the Member States of the Southern African Customs Union (SACU)', page 2, http://www.sacu.int/docs/pr/2010/pr0422-10.pdf, accessed 02 March 2017

10 Ginindza P *et al.*, *op. cit.*

beyond its current function of implementing a CRP and RSF that provides direct compensation to member states (see Box 1). The current arrangement does not serve to support SACU policies or infrastructure. A dedicated fund would provide SACU with an instrument to execute its broader mandate by supporting projects targeted at specific areas of development, and supporting SACU institutions and infrastructure to implement regional initiatives. This offers an alternative to the current SACU RSF arrangement, where member-states' national budgets receive direct transfers. As direct transfers from the SACU RSF constitute a large proportion of the national fisci of Botswana, Lesotho, Namibia and Swaziland (BLNS), they would be reluctant to change the status quo into a SACU RSF that would reduce this revenue. South Africa is the biggest contributor and recipient of the total CRP collections. However, the BLNS countries receive substantially more than their contributions to the CRP as a result of South Africa's high contribution. A reformed RSF arrangement could result in South Africa receiving a higher percentage of the CRP, proportionate to its contribution, but at the cost of a significant loss of revenue to the BLNS national budgets.[11]

A SACU development fund could reform the CRP and RSF component of the SACU Agreement. It could also ensure better accountability, working as an instrument for development projects that focus on bettering the lives of SACU's citizens and the region – rather than solely supporting natiåonal governments' budgets

Discourse on the CRP and RSF from the 2002 SACU Agreement, as well as the agreement's imbalances and the potential impact of its reform, has been ongoing. A SACU development fund could reform the CRP and RSF component of the SACU Agreement. It could also ensure better accountability, working as an instrument for development projects that focus on bettering the lives of SACU's citizens and the region – rather than solely supporting national governments' budgets. National governments are able to support development projects through their national budgets, and are arguably better placed to determine the development needs of their countries. However, development projects may require financial and technical support that national governments cannot provide – but external donors and funds can. Better structured support and larger amounts of funding could be accessed through a development fund, which has several sources of revenue, rather than a single donor or partner. An independent development fund could also solidify SACU's character as a regional body that addresses the development needs of both the SACU region as a whole and individual member countries.

11 Nkambule N, 'South Africa, Namibia adamant SACU formula must be reviewed', *The Swazi Observer*, 19 November 2015, https://www.tralac.org/news/article/8542-south-africa-namibia-adamant-sacu-formula-must-be-reviewed.html.

BOX 1 SACU'S CURRENT RSF ARRANGEMENT, BASED ON THE 2002 SACU AGREEMENT[a]

The SACU RSF currently has three components.

- The customs component, which is a proportion of the CRP distributed to each member state, based on a calculation of the cost, insurance and freight (CIF) value at border posts of goods imported from all other SACU member states into the area of each member state. This is calculated as a percentage of the total CIF value of intra-SACU imports.
- The excise component, which is 85% of the excise revenue distributed to each member state. This distribution is based on each member-state's GDP in a specific calendar year, as a percentage of total SACU GDP in such a year.
- The development component, which is the remaining 15% of the excise revenue distributed to member states more or less equitably. This 15% shall be reviewed from time to time and adjusted on the agreement of all member states.

a SACU, 'Trade Facilitation: SACU revenue management', http://www.sacu.int/show.php?id=419, accessed 02 February 2017

SACU TRADE CONSTRAINTS

A SACU development fund could support the objectives of the 2010 SACU Vision and Mission by addressing the main constraints to trade that currently hinder deeper regional integration. These constraints, and proposed opportunities for improvement, are listed in Box 2.

BOX 2 TRADE CONSTRAINTS TO DEEPER INTEGRATION IN THE SACU REGION[a]

There is evidence of numerous and, in some cases, prohibitive non-tariff barriers [NTBs] in place between SACU member states. There are also many domestic challenges that raise the cost of exporting within SACU. These include:

- Infrastructure constraints, specifically in energy, water and irrigation.
- Insufficient standards harmonisation and product certification facilities.

- The availability of short-term trade finance.
- Access to management and supervisory and other specialist skills (such as artisanal and maintenance specialists highlighted in the case studies) together with constraints on the movement of business persons in the region.
- The high cost of key service inputs, such as transport and telecommunications.

Most of the opportunities for improvement identified by the firms are cross-cutting and would require substantive reforms to SACU; or the development of SACU-wide rules or facilities. These include:

- The harmonisation of standards and regulations or the development of a common SACU accreditation process or institution.
- Increased competition or improved regulation in critical network services, such as transport and telecommunications.
- Improved access to skills, and particularly management and supervisory skills, possibly through the negotiation of a SACU movement of people agreement. This may also require the development of mutual recognition agreements for key skills and sectors.
- More efficient border controls and systems, including the establishment of at least one 24-hour one-stop border post between each SACU member state.
- The establishment of a SACU-wide border agency cooperation or trade facilitation project to address inefficiencies and the prevalence of unnecessary NTBs at SACU borders.
- Reducing the need for trade finance (though better [value-added tax] VAT refund procedures) and making trade finance more widely available in SACU (through a regional trade finance facility, or possibly by extending the mandate of existing development finance institutions in South Africa).
- The establishment of a regional agriculture finance facility to provide financial support to the agricultural value chain (this could enable the more efficient procurements of key inputs such as fertiliser, seedlings and equipment).

a Box 2 is an excerpt from the discussion paper by Ginindza P *et al., op. cit.*; see also GEG Africa Workshop, Making Trade Better – The Role of a Regional Development Fund, Pretoria, 24 January 2017

These trade constraints limit business growth, revenue and capabilities for intra-SACU trade. SACU's Trade Facilitation Programme (TFP) is aimed at addressing such trade constraints by improving trade at regional and national levels.[12] Its agenda focuses on a regional customs modernisation programme; supporting negotiations and implementation of trade agreements that SACU member states have signed with third parties; a transport programme; and a customs-to-business programme that aims to strengthen existing partnerships with stakeholders regionally and nationally. The SACU TFP shows potential for development-focused programmes and projects for the SACU region as a whole. It also creates partnerships with international organisations and agencies such as the Sub-Saharan Customs Modernization Programme, which is implemented with technical assistance from the World Customs Organization and financial support from the Swedish International Development Cooperation Agency. However, progress in implementing the SACU TFP has been slow and member states are currently at different levels of implementation.[13]

A SACU development fund could work with the SACU TFP, providing financial and technical support for the programme as well as individual SACU member states

A development fund could support regional TFPs as well as the existing SACU TFP, while also building infrastructure for logistics or a capacity-building initiative in a particular SACU member state. SACU member states are at different levels of development and have different development needs. A development fund could tailor its projects to address both regional and individual member-state needs, whereas the existing SACU TFP has an established agenda and list of actions that each member state is required to implement. A SACU development fund could work with the SACU TFP, providing financial and technical support for the programme as well as individual SACU member states.

The trade constraints identified by several SACU business firms involve many aspects of trade relations between SACU member states. A development fund could be structured in a way that addresses several of these constraints while also working towards greater regional integration.

COUNTRY CASE STUDIES

There are approximately 12 customs unions internationally – which may be part of broader economic or regional unions – that either have a development fund, reserve

12 *Ibid.*

13 *Ibid.*

fund, compensation fund, regional integration fund, or special funds for specific projects. Each may be structured differently; however, each play a significant role for member states by supporting various projects and development areas. This section identifies two regional development funds from which SACU could derive relevant lessons.

The European Structural and Investment Funds

The ESI Funds are derived from the EU Cohesion Policy, which was created to promote economic and social cohesion among EU member states and reduce the development gap between regions and social groups. The ESI Funds aim to achieve this objective by supporting job creation, business competitiveness, economic growth, sustainable development, and improving the quality of life for member-state citizens. The EU Cohesion Policy is executed through three main funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Cohesion Fund (CF). These funds, together with the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), make up the ESI Funds.[14] The ESI Funds target member-states' development needs in the areas of employment, growth and investment, creating a digital single market, energy union and climate, the EU internal market, the overall economic and monetary union, justice and fundamental rights, and migration.[15]

The EU Cohesion Policy and ESI Funds have their roots in the establishment of the European Economic Community and are mentioned in the 1957 Treaty of Rome. The first ERDF was formally established in 1975, thus the EU has a long history in sustaining a regional development fund with an established mandate. The ESI Funds have been through several processes of deliberation and reform over the years, and even the current Cohesion Policy funding cycle (the 2014–20 programme) has implemented changes to how the ESI Funds are structured and function.[16]

The EU contains a broad constituency of member states that are at various levels of development, and the development gap between EU member states (as well as regions in Europe) is an issue that resonates with SACU. Therefore, examining the ESI Funds can offer valuable input into developing a SACU development fund.

14 European Commission, *An Introduction to the EU Cohesion Policy 2014–2020*, 2014, https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwirxM_4sJLVAhVMDMAKHaH8DXsQFgggMAA&url=http%3A%2F%2Fec.europa.eu%2Fregional_policy%2Fsources%2Fdocgener%2Finformat%2Fbasic%2Fbasic_2014_en.pdf&usg=AFQjCNGhPubyVXSZjE4rABac18wer_EjjQ, accessed 12 December 2016.

15 European Commission, 'European structural and investment funds', https://ec.europa.eu/info/funding-tenders/european-structural-and-investment-funds_en, accessed 12 December 2016.

16 European Commission, *An Introduction to the EU Cohesion Policy 2014–2020*, *op. cit*.

The CARICOM Development Fund

The CDF's existence is rooted in the revised 2001 Treaty of Chaguaramas, which established the Caribbean Community (CARICOM) and it also provides the mandate for implementing the and the CARICOM Single Market and Economy (CSME).[17] Article 158 of the revised treaty mandates the creation of the CDF, whose purpose is to mitigate the challenges of implementing the CSME and the impacts of the temporary economic downturn; mitigate the effects of adverse shocks and natural disasters that the member states experience; and facilitate the smooth implementation of the CSME and deeper economic integration among member states.[18] The CDF's mandate differs from SACU's mandate, with the latter being a customs union that is not integrated into a single market or economic union. However, they both aim to foster regional economic integration and mitigate the challenges associated with this aim. Operational since 2008,[19] the CDF also offers experience on issues of capitalisation, disbursement rules and instruments, and the type of projects a development fund could support. Like SACU, CARICOM membership consists of developing countries, and there is the potential for Haiti and Montserrat to also become members. Haiti is classified by the World Bank as a low-income country, whereas Lesotho is considered a low middle-income country. CARICOM member, Guyana, and SACU member, Lesotho, fall within the lending categories of the World Bank's International Development Association[20] owing to their weaker economic status. This has broader implications, especially since low-income countries could claim preferential treatment in accessing funds and certain kinds of projects from financiers.

HOW ARE OTHER DEVELOPMENT FUNDS STRUCTURED TO HELP REGIONAL INTEGRATION, DEVELOPMENT AND TRADE?

Having assessed the landscape of SACU's objectives, its specific trade constraints, and broadly considering the role a development fund could play in addressing these issues, the selected case studies of development funds offer more detailed insights.

17 CARICOM (Caribbean Community) Secretariat, Revised Treaty of Chaguaramas Establishing the Caribbean Community Including the CARICOM Single Market and Economy, 2001, http://cms2.caricom.org/documents/4906-revised_treaty-text.pdf.

18 GEG Africa Workshop 'Making trade better, the role of a Regional Development Fund', 24 January 2017, Pretoria. Presentation delivered by Lennox Forte, CARICOM Development Fund.

19 CARICOM Development Fund, 'CARICOM Development Fund Strategic Plan 2015–2020' (Latest Publications database), http://www.caricomdevelopmentfund.org/images/stories/documents/CARICOM%20Development%20Fund%20Strategic%20Plan_wv.pdf, accessed 28 November 2016

20 The World Bank, 'World Bank country and lending groups', database, https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups, accessed 20 July 2017.

This section looks at how the ESI Funds and the CDF are structured to support their member states in regional integration and addressing trade issues between member states.

Capitalising development funds

The ESI Funds

The ESI Funds receive the bulk of their funding from the EU's overall budget, and are also supplemented by member-states' national co-financing. The EU's budget relies on revenue from its own resources, which includes customs duties on imports from outside the EU; sugar levies; VAT levied on the harmonised VAT base of each member state; and a standard percentage of member-states' gross national income.[21] For the spending period of 2014–20, the combined amount invested from the EU's budget in the ESI Funds is approximately EUR[22] 454 billion.[23] In addition, member-states' national budget contributions to the ESI Funds for the same period are approximately EUR 183 billion (approximately $529.2 billion). This means that the estimated total amount potentially available to the ESI Funds exceeds EUR 637 billion (approximately $743.7 billion).[24]

The budget and rules for the ESI Funds are decided by the European Council and the European Parliament based on a proposal from the European Commission. There are common rules for all the ESI Funds, and specific rules for each fund.[25] These are discussed in the upcoming section, 'Disbursement processes and instruments of funds'.

Even though all member states benefit from the Cohesion Policy, priority is given to regions where development is lagging.[26] The amount each EU member state or region is allocated depends on a number of factors, such as the development status of the region. This is classified as developed countries, where the GDP per person is above 90% of the EU average; transition countries, where the GDP per person is between 75%–90% of the EU budget and less-developed countries (LDCs), where

21 European Commission, 'The EU's own resources', http://ec.europa.eu/budget/mff/resources/index_en.cfm, accessed 14 March.

22 EUR is the three-letter currency code for the euro.

23 This amount was cited by guest speaker, Steven Ayres (UK House of Commons), at the GEG Africa Workshop, *op. cit.*; and correlates with the European Commission's Open Data Portal for the ESI Funds (European Structural and Investment Funds). See European Commission, ESI Funds: Data, 'EU overview', database, https://cohesiondata.ec.europa.eu/overview#, accessed 11 December 2016.

24 European Commission, ESI Funds: Data, 'EU overview', *ibid*.

25 European Commission, Regional Policy, 'Programming and implementation', http://ec.europa.eu/regional_policy/en/policy/how/stages-step-by-step, accessed 11 December 2016.

26 European Commission, Regional Policy, 'Cohesion policy frequently asked questions', http://ec.europa.eu/regional_policy/en/faq/#1, accessed 2 February 2017.

the GDP per person is less than 75% of the EU average. The development needs in particular areas or sectors of development (for example, education) and the funding requirements of the projects and programmes that fall under each ESI Fund are also considered.[27]

The CDF

The CDF works in four-year replenishable contribution and subvention cycles. Member states pay contributions to the capital fund before a funding cycle starts, and funds are disbursed during this period for development projects. The capital fund is the core resource base of the CDF, and is primarily derived from the mandatory contributions from member states. Member states pay contributions in two tranches and funds can only be disbursed once contributions have been paid in time. A 'modified headquarters contributions model' is used to determine country contributions. LDCs contribute an amount according to the percentage paid to the CARICOM Secretariat. More-developed countries (MDCs) pay contributions according to the following formula:[28]

$$C_i = w_1 Y_i + w_2 y_i + w_3 B_i$$

where Ci is country i's percentage share of the CDF funding

Y_i is country i's percentage share of regional GDP

y_i is country i's percentage share of regional GDP per capita

B_i is country i's percentage share of total regional net exports

$$w_1 = 0.5,\ w_2 = 0.2,\ w_3 = 0.3$$

This formula is used to establish MDCs' contributions to the capital fund and is based on their economic indicators in relation to the region as a whole. It does not attempt to rebalance or redistribute the inequality in development between LDCs and MDCs. Instead, the formula specifically guides MDCs that are capable of providing more resources to the fund. Each of the indicators is weighted differently in the formula. An MDC with the highest percentage share of regional GDP would contribute more to the CDF, but would also have access to a greater share in the CDF funding. This is an interesting concept, as MDCs in the region could have widely varying results in the percentage share of regional GDP, regional GDP per capita and total regional net exports – depending on their respective resources. Generally, the CDF contributions work on a 'pay-to-play' principle. This suggests that the more

27 GEG Africa Workshop, *op. cit.*, presentation delivered by Steven Ayres, UK House of Commons (European Regional Development Fund).

28 GEG Africa Workshop, *op. cit.*, presentation delivered by Lennox Forte, CDF.

a country contributes to the CDF, the more it stands to gain from it. This principle means that larger economies could and could benefit more than smaller economies. However, LDCs' contributions are determined through a different method, which endeavours to ensure that they are not disadvantaged.[29]

Resources from the CDF that are not immediately required for CDF operations are invested to maximise income while ensuring liquidity and availability of funds when needed. The responsibility for making these investments is designated to an investment management committee and a dedicated investor for the fund, where levels of risks are assessed and investments are monitored regularly.[30] The CDF's investment portfolio is guided by an investment policy statement and focuses on balancing income growth and preserving capital, which is approved by the CDF Board.[31] Significantly, the bulk of the CDF's capitalisation comes from these investments.[32] The counterpart agencies or external partners that provide the rest of the funding for these programmes are reviewed on a quarterly basis to ensure that disadvantaged countries, regions and sectors are not denied access to and benefits from CDF resources.[33]

A minimum of $76 million will be available for programming in the CDF's second replenishment cycle, which runs from 2015–20. This includes $65.8 million from member-states' contributions and $10.2 million carried over from uncommitted funds from the first cycle. The CDF will also receive funding from external development partners such as the EU, the US, Turkey, Japan, China, and Trinidad and Tobago,[34] which could be in the form of financial and technical assistance or through traditional modalities and trust funds. Since member states have to pay their contributions in two tranches, full resources would not have been immediately available for disbursement (before 2016). It is expected, however, following the lessons of the first cycle, that the CDF's Country Assistance Programmes (CAPs) – the programmes and projects to which CDF funds are directed for each member state – will be prepared in anticipation of financial compliance.

The CDF is self-financing in that the administrative expenses are covered from the income generated from its investments and reflows from loans.[35] Guyana stands

29 *Ibid*.

30 *Ibid*.

31 CDF, *CARICOM Development Fund: Strategic Plan 2015–2020*, *op. cit*.

32 Personal interview, Lennox Forte, CDF, Pretoria, 24 January 2017.

33 CDF, *Appraisal and Disbursement Guidelines and Procedures: 2010 Update*, 2010, http://www.caricomdevelopmentfund.org/images/stories/CDF_Programme_Guidelines_-_2010.pdf, accessed 1 December 2016.

34 CARICOM , 'Montserrat can benefit from CARICOM Development Fund, says minister of trade', 23 September 2015, http://caricom.org/communications/view/montserrat-can-benefit-from-caricom-development-fund-says-minister-of-trade, accessed 18 December 2016.

35 CDF, *Strategic Plan 2015–2020*, *op. cit*.

to be the first country to receive assistance from the CDF's CAPs in its second replenishment cycle (2015–20). Guyana is eligible to receive this support because it has paid its full assessed contribution to the CDF.[36]

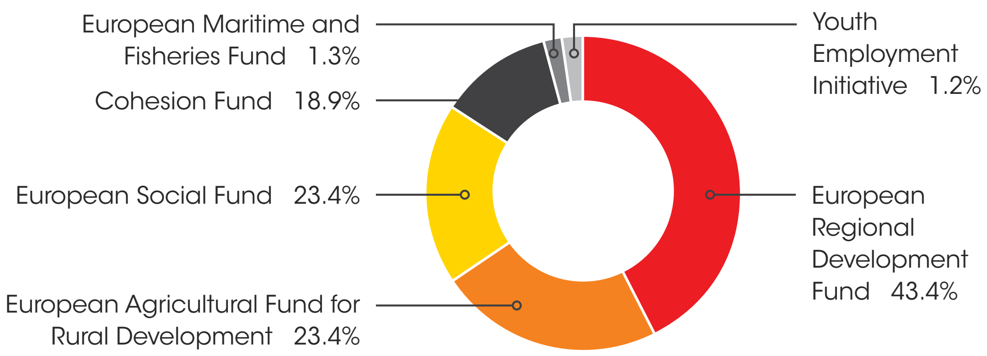
Disbursement processes and instruments of funds

The ESI Funds

Disbursing and allocating money to each fund from the EU budget involves several processes. The entire Cohesion Policy (including all the ESI Funds) is allocated an amount from the EU budget. Regulations determining the amounts available for the entire Cohesion Policy for the period 2014–20 came into force in December 2013 as part of the seven-year European budget, and discussions are already under way for the post-2020 Cohesion Policy.

Figure 1 depicts (as a percentage) the amount that each ESI Fund is allocated from the total budget allocated to the Cohesion Policy from the EU Budget.

FIGURE 1 EU BUDGET FOR COHESION POLICY ALLOCATED TO EACH ESI FUND (%), 2014–20



Note: These percentages and their associated amounts are updated daily on the website

Source: European Commission, ESI Funds (European Structural and Investment Funds): Data, 'EU overview', database, https://cohesiondata.ec.europa.eu/overview#, accessed 11 December 2016

36 CDF, 'Guyana stands to be first country to receive assistance from CDF in second funding cycle', January 2015, http://finance.gov.gy/media/guyana-stands-to-be-first-country-to-receive-assistance-from-cdf-in-second#sthash.r9loya9h.dpuf, accessed12 March 2017.

The European Commission proposes the EU budget and regulations. It then negotiates with member-state governments over how they plan to spend the ESI Funds. Each ESI Fund is allocated a certain amount from the entire amount provided to the Cohesion Policy, and priorities are identified for each of the ESI Funds for the funding period (usually seven years).

TABLE 1 AN OVERVIEW OF THE EU ESI FUNDS

ESI FUND	BRIEF MANDATE
European Regional Development Fund (ERDF)	The ERDF aims to strengthen regional economic and social cohesion. Its key priority areas include research and innovation, the digital economy, small and medium enterprise (SME) competitiveness and the low carbon economy. The ERDF also finances cross-border, transnational and interregional cooperation under the European Territorial Co-operation initiative.[a]
European Social Fund (ESF)	The ESF invests in people, helping them to find employment, create businesses, supporting disadvantaged groups, improving education, and making public services more efficient.[b]
Cohesion Fund (CF)	The CF invests in green growth, sustainable development, and improves connectivity in member states with a GDP lower than 90% of the EU members' average.[c]
European Agricultural Fund for Rural Development (EAFRD)	The EAFRD assists rural areas within the EU to meet their different challenges and opportunities.[d]
European Maritime and Fisheries Fund (EMFF)	The EMFF is the financial instrument that will be used to implement the objectives of the reformed Common Fisheries Policy and the EU Integrated Maritime Policy. The EMFF focuses on intelligent, sustainable and inclusive growth for the 2014–20 period.[e]
Youth Employment Initiative (YEI)	The YEI supports youth obtaining education and training and finding jobs.[f]

a European Commission, ESI Funds: Data, 'European Regional Development Fund', database, https://cohesiondata.ec.europa.eu/funds/erdf#, accessed 20 July 2017.

b European Commission, ESI Funds: Data, 'European Social Fund', database, https://cohesiondata .ec.europa.eu/funds/esf, accessed 11 December 2016.

c European Commission, *An Introduction to the EU Cohesion Policy 2014–2020, op. cit.*

d European Commission, ESI Funds: Data, 'sEuropean Agricultural Fund for Rural Development', database, https://cohesiondata.ec.europa.eu/funds/eafrd, accessed 11 December 2016.

e *Ibid*.

f European Commission, Employment, Social Affairs & Inclusion, 'Youth Employment Initiative (YEI)', http://ec.europa.eu/social/main.jsp?catId=1176, accessed 11 December 2016.

Source: Author

Data from the European Commission's website on the ESI Funds shows detailed amounts allocated to the ESI Funds; specifying the planned, decided and implemented amounts for each project and the countries that are receiving support and co-financing projects.[37]

The ESI Funds are seen as a means for gaining further public and private funding; therefore, member states need to co-finance projects from their national budgets. At the national level, each EU member-state government prepares a draft strategy, called a partnership agreement, which identifies national priorities, instruments, and performance indicators for fund delivery. This is further negotiated and finalised with the European Commission at the start of the programming period. Operational programmes are also created to define the action plans for how the partnership agreements are implemented.[38] The Commission finalises the partnership agreements – which detail the allocation of funds to projects and the disbursement instruments – with the national authorities in each member state, particularly the content and implementation of the partnership agreements.

The partnership agreements lead to a series of **investment programmes** chanelling the funding to the different regions and projects in policy areas concerned.[39] Governments engage with other stakeholders to prepare a strategy that selects the priorities, instruments and performance indicators for what the funds are to deliver. The European Commission commits the funds and pays the certified expenditure to each country's programmes or projects. After the funds have been committed, the Commission pays the certified expenditure to each country and monitors each programme along with the country concerned. Both the Commission and the member countries submit reports throughout the programming period.[40] Finance is directed to projects and not directly to national governments' budgets, although national governments may be expected to co-finance projects.

Funding opportunities are made available online, and project calls for local enterprise partnerships are uploaded.[41] These partnerships are voluntary, and engage with local authorities and businesses. Those eligible to receive financing from the ESI Funds include businesses (especially small businesses), public bodies, associations, and even individuals. Foreign firms with a base in Europe are also eligible.

Each EU country is required to publish up-to-date lists of all those receiving assistance from the ESI Funds (the beneficiary, activity, and the amount of public funding allocated).[42] The EU's Cohesion Policy funds provide financial and technical

37 European Commission, ESI Funds: Data, 'EU overview', *op. cit*.

38 GEG Africa Workshop, presentation delivered by Steven Ayres, *op. cit*.

39 European Commission, 'European structural and investment funds', *op. cit*.

40 European Commission, Regional Policy, 'Programming and implementation', *op. cit*.

41 GEG Africa Workshop, presentation delivered by Steven Ayres, *op. cit*.

42 European Commission, Regional Policy, 'Cohesion policy frequently asked questions', *op. cit*.

support in various forms. For example, the ERDF provides support to enterprises by providing grants, financial instrument support (non-grants), advice, supporting start-ups, and private investment matching public support to enterprises (grants and financial instruments).[43]

The CDF

The CDF uses a country allocation model (CAM) for determining how much each member state is allocated from the fund. The CAM is based on the five principles of transparency, objectivity, adherence to principles of development and assistance effectiveness, fairness among beneficiaries, and sensitivity to the impacts of external vulnerabilities. The model consists of two components: predetermined allocations by contract or partnership agreements, and allocation determined by country circumstances computed by applying indices to the value of available CDF resources. The indices are cohesion, resilience, and vulnerability. This formula, developed from the CAM, is used as an internal indicative tool developed by the CDF Board. It was presented to and discussed with the CDF National Focal Points[44] of the member states but was never taken to the heads of government for final sanction. Currently the national results of the model are given to the relevant member state at the beginning of the cycle to indicate the available envelope that it can use for planning purposes.[45]

The CDF can reallocate resources based on a periodic review of the absorptive capacity of the beneficiary countries, enabling some flexibility in directing funds to projects. When funds are allocated to a member state, they need to commit those funds to a project within two years of being notified of the allocation by the CDF. If the funds are not committed during this time, they will be considered unused and may be reallocated to other member states or to where a demand exists.[46] This may pressure states to commit and successfully plan projects in a short space of time. However, the CDF emphasises it will only support projects that have already been through processes of feasibility and project planning.[47] Although the CDF sets a funding limit of up to 85% of the estimated programme budget of a project, it does review both the funding for projects and the agencies that are co-financing the projects to ensure that disadvantaged countries are not denied access to benefitting from the CDF. This suggests that should a disadvantaged country require more than 85% of project financing from the CDF, or require more financing than its partner agencies provide, the CDF could provide this financial support.

43 European Commission, ESI Funds: Data, 'EU overview', *op. cit*.

44 National Focal Points are the CDF's main points of liaison in each of the CDF's member states. The National Focal Points help to determine how member states negotiate and make decisions in relation to the CDF.

45 GEG Africa Workshop, presentation delivered by Lennox Forte, *op. cit*.

46 CDF, *Appraisal and Disbursement Guidelines and Procedures: 2010 Update*, *op. cit*.

47 GEG Africa Workshop, presentation delivered by Lennox Forte, *op. cit*.

In terms of eligibility, both public and private-sector entities in all CDF member countries are eligible to apply for CDF financial and technical assistance. The CDF CAPs have provided loans, concessionary loans, grants, lines of credit for finance corporations and banks, and technical assistance to member states. The CDF Chairman has indicated that it would also consider using trust funds to provide for more energy-efficient projects, support cross-country programmes, and offer grants to subsidise interest payments for large-value project loans from other sources.[48]

Governing structures of development funds

The ESI Funds

Managing authorities of each EU member state choose individual projects that will be financed by the appropriate fund in the Cohesion Policy. If the total cost of a project is more than Euro 5 million ($5.8 million), it must be approved by the European Commission.[49] As discussed, the Commission works with member states and regions to develop partnership agreements and operational programmes outlining investment priorities and development needs. These agreements not only determine the amounts allocated to a project, but also determine how the project will be governed. Projects are managed by the managing authorities within the member states.[50]

Selection of projects is done by the national and regional authorities responsible for managing the programmes (via the managing authorities) who set out the selection criteria, organise selection committees, and decide which projects receive funding through a project tendering process that is open to all.[51]

The ESI Funds' programmes are monitored diligently with on-the-spot checks and audits by the Commission and the member state, both of which are also required to submit reports throughout the seven-year budgetary period.[52] Initiatives are also taken to prevent fraud in the use of these funds. Before any project is granted money, a managing authority is required to ensure that conditions and checks have been met and are adhered to; a certifying authority is required to submit statements of expenditure and payment requests to the Commission (also ensuring that accounting systems comply with national and European rules); and an audit authority is appointed to audit systems and check projects, reporting to the managing and

48 *Caribbean News Now!*, 'CARICOM Development Fund well positioned for second funding cycle 2015–2020', 7 October 2015, http://www.caribbeannewsnow.com/headline-CARICOM-Development-Fund-well-positioned-for-second-funding-cycle-2015---2020-27823.html, accessed 19 December 2016.

49 European Commission, *An Introduction to the EU Cohesion Policy 2014–2020*, *op. cit*.

50 European Commission, Regional Policy, 'Cohesion policy frequently asked questions', *op. cit*.

51 *Ibid*.

52 European Commission, An Introduction to the EU Cohesion Policy 2014–2020, *op. cit*.

certifying authorities. If significant weaknesses are detected, the Commission and national authorities will agree on a plan of action and, if national authorities do not take action, the Commission may suspend or stop payments. The Commission also considers audits by the European Court of Auditors and investigations by the European Anti-Fraud Office.[53]

The CDF

The CDF is fully governed by the CARICOM member states and is accountable to the CARICOM Community Organs and the Conference of Heads of Government. It is emphasised that the CSME's priorities and polices are reflected in the operation of the CDF, and not those of the development partners. The CDF is a treaty-based CARICOM institution with its own legal identity. It reports to the CARICOM community through the Community Council of Ministers, which is advised by the CARICOM Council for Finance and Planning and the Council for Trade and Economic Development.

The CDF has its own board consisting of nine members. Two members are representatives of the LDCs, two the MDCs, one the host member state (currently Barbados), one the regional private sector, one the Organisation of Eastern Caribbean States Secretariat, and one is a representative of the CARICOM Secretariat. The board holds the position of the highest authority in the CDF, followed by the CDF's CEO and then the CDF's Regional Development Division and the Internal Review Committee. The Regional Development Division shares information and collaborates with each CARICOM member-state's CDF Programme Monitoring Committee and National Focal Points.[54]

The CDF National Focal Points are important process aspects of implementing the CAPs. Focal points are groups for dialogue to discuss the experiences of the CAP development and address any complaints or challenges. A 'National Focal Point Agreement' will be formalised soon to establish the duties and function of focal points to better support countries.[55]

The CDF has established several frameworks in its Strategic Plan 2015–2020. It has developed a strategic review and analysis from the first cycle of CDF operations; a strategic framework that identifies priorities for action; a strategic implementation framework; and a strategic monitoring and evaluation framework. The CDF is required to periodically assess the needs of stakeholders, select the most appropriate interventions, and evaluate the impacts of its operations and programmes. It is also required to conduct regular scans and make strategic analyses of the programmes' external and internal environments.[56]

53 European Commission, Regional Policy, 'Cohesion policy frequently asked questions', *op. cit*.

54 GEG Africa Workshop, presentation delivered by Lennox Forte, *op. cit*.

55 *Ibid*.

56 CDF, *Strategic Plan 2015–2020*, *op. cit*.

Largely comprising developing countries, CARICOM is also cognisant of the development gap between states in their union. The CDF has engaged in research to develop new ways of making a comparative economic analysis of different regions and states within CARICOM. The conventional approach – which the EU uses – to define states by GDP per capita does not reflect some of the complexities of states' characteristics, such as being small and vulnerable.[57] This is something that may resonate with some SACU countries that experience economic disadvantages as a result of being landlocked. Landlocked developing countries in particular face numerous challenges in trade, transport and infrastructure, which not only negatively affect their GDP but also their Human Development Index.[58] The Commonwealth (including both SACU and CARICOM members) asserted in discussions at the Aid for Trade Global Review, held in Geneva in July 2017, that the remoteness and vulnerability of many small and developing Commonwealth countries make them less competitive in trade.[59] This CDF research aims to find more equitable ways of classifying member states, as their development status can affect the amounts allocated from the fund, and form a better sense of the impact of the CDF interventions and programmes that it supports.[60]

What do development funds finance and who benefits?

The ESI Funds

The EU's Cohesion Policy has the overarching aim of supporting a more competitive European region, fostering growth and creating jobs. There are 11 thematic objectives supporting growth from 2014–20.

1. Strengthening research, technological development and innovation.
2. Enhancing access and quality of information and communication technology.
3. Enhancing the competitiveness of SMEs.
4. Supporting the shift towards a low-carbon economy.
5. Promoting climate-change adaptation, risk prevention and management.
6. Preserving and protecting the environment and promoting resource efficiency.
7. Promoting sustainable transport and improving network infrastructures.

57 CDF, 'Research on Cohesion Policy in the context of the CSME', http://www.caricom developmentfund.org/programs/cohesion, accessed 14 March 2017

58 UN Information Service Vienna, 'Landlocked developing countries', database, http://www.unis.unvienna.org/unis/en/topics/lldc.html, accessed 26 July 2017.

59 The Commonwealth, 'The Commonwealth at Aid for Trade Global Review 2017', http://thecommonwealth.org/media/event/aid-trade-global-review-2017, accessed 26 July 2017.

60 CDF, 'Chief Executive Officer's address to the meeting to review the consultant's draft report on the development of a cohesion index', 26 September 2013, http://www.caricomdevelopmentfund.org/88-latest-news/181-ceo-s-address-to-meeting-to-review-draft-report-on-the-development-of-cohesion-index, accessed 18 December 2016.

8. Promoting sustainable and quality employment and supporting labour mobility.
9. Promoting social inclusion, combating poverty and any discrimination.
10. Investing in education, training and life-long learning.
11. Improving the efficiency of public administration.

Although investment from the ERDF will support all 11 objectives, objectives 1–4 will be prioritised. The ESF will prioritise objectives 8–11, although this fund also supports objectives 1–4; and the CF will focus on objectives 4–7 and 11.[61]

The Cohesion Policy seeks to benefit all EU regions. However, as discussed, the level of investment that the funds implement in each member state depends on its development needs. Regions within countries are categorised as being 'more developed', 'transition' and 'less developed'. Depending on this classification (although not on this classification alone), the Cohesion Policy ESI Funds could finance from 50% up to 85% of the total requirement for a development project in the member state. The remaining financing usually comes from national or regional public and private sources.[62]

The Cohesion Policy seeks to benefit all EU regions. However, as discussed, the level of investment that the funds implement in each member state depends on its development needs

Potential beneficiaries or implementing agencies of the Cohesion Policy and its ESI Funds include public bodies, enterprises (especially SMEs), universities, associations, non-governmental organisations (NGOs) and voluntary organisations. The Cohesion Policy also encourages EU member states to work together on joint programmes, projects and networks; accordingly, cross-border transnational and interregional programmes receive funding through the ERDF. This means that a certain amount of cooperation is possible with states surrounding the EU, which are not part of the EU, to benefit the broader neighbouring areas of the EU.

The Cohesion Policy also has a certain amount of flexibility in the form of a crisis support mechanism, which redirects funding to where it is most needed. Targeted reductions in national co-financing requirements and frontloading of financial allocations to member states in crisis have provided the needed liquidity in times of budgetary constraint. The EU Solidarity Fund specifically provides for major natural disasters.[63]

61 European Commission, *An Introduction to the EU Cohesion Policy 2014–2020*, *op. cit*.

62 *Ibid*.

63 *Ibid*.

BOX 3 ERDF SUPPORT TO THE GERMAN ENERGY BUNKER POWER STATION AND ROMANIAN RESEARCH CENTRE[a]

One example of an ERDF-funded project is the Energy Bunker power station in Germany. The power station was converted from a Second World War air-raid bunker into a power station to generate renewable energy that used biogas, woodchips, and waste heat from a nearby industrial plant. The estimated cost of the project was EUR 9.8 million (approximately $11.4 million), and the ERDF's contribution was EUR 3.1 million (approximately $3.6 million). This project shows support for the fourth objective of the ESI Funds, namely to support the shift towards a low-carbon economy.

Another example of ERDF financing is the development of a new research centre for the study of advanced materials, surfaces and interfaces in Romania. The research centre studies new materials and phenomena with applications in electronics, biophysics, magneto-chemistry and biology. The total cost of the project was EUR 12 million (approximately $13.9 million), and the ERDF's contribution was EUR 8 million (approximately $9.3 million). This shows support for the first objective of the ESI Funds, namely to strengthen research, technological development and innovation.

a GEG Africa Workshop, presentation delivered by Steven Ayres, *op. cit*.

Further to funding projects that are specifically targeted at meeting the list of objectives, there are several ways in which member states derive benefits from initiatives of trade and cross-border activity. The impact assessments of the ESI Funds have multiple avenues and indicators for assessing benefits to countries. For example, firms within the EU may benefit from winning EU-funded projects, as was evident in investments in Poland that led to additional profits for UK enterprises to the value of EUR 257 million (approximately $31.3 million) between 2004 and 2015. Indirectly, firms may also benefit from increased exports within and outside the EU. An example of the EU supporting SMEs in trade is the '2 Seas Trade' project that received support for the 'Two Seas' area (including the coastal areas of England, France, Belgium and the Netherlands connected by the English Channel and North Sea), by creating a cross-border support network, providing familiarisation visits and providing 'doing business' guides in several languages. This support helped over 1 000 SMEs, and significantly contributed to facilitating trade in the region.[64]

The CDF

Priorities are set for the CDF for each subvention cycle. The Regional Development Division reviews data and holds meetings with member-state governments and key

64 *Ibid*.

stakeholders to determine how the CDF can help to converge national priorities with the broader CSME.[65] The priorities and themes that the CAPs set in the first tranche are retained for the second funding cycle (2015–20). These priorities are as follows:[66]

- Reducing regional disparities through support for programmes which mitigate the negative economic and social impact of the CSME as well as pre-existing structural constraints;
- Enhancing competitiveness and business development;
- Promoting investment through support for specified infrastructure to facilitate private sector trade and investment; and
- Human Resource Development and Energy Efficiency for SMEs have been added for special attention in the second cycle.

In terms of allocation by thematic priorities, the CDF's *Strategic Plan 2015–2020* allocates 51% to enhancing competitiveness, 31% to reducing regional disparities, and 18% to addressing the implementation and effects of integrating into the CSME.[67] The CDF's CEO is authorised to approve emergency grants of up to $20,000 as an emergency response to trade-related dislocations. These resources must be disbursed, used, and verified based on the submission of original receipts by the beneficiary organisations. Unused balances also need to be payable to the CDF. The maximum amount of this facility is $100,000 per year. There are certain cases where the CDF can participate in a consortium with different contributors to a project.[68] The CDF's 2010 Appraisal and Disbursement Guidelines and Procedures outline certain limitations regarding the kinds of projects and priorities that the CDF will fund. Generally, the CDF will fund operations linked to building capacity for trade competitiveness within intraregional and extra-regional markets. Support for non-trade-related programmes and technical assistance interventions could be sought from other external development partners.[69]

CARICOM has also established a separate Emergency Disaster Assistance Facility to support relief efforts in Saint Lucia and Saint Vincent and the Grenadines after Hurricane Tomas in November 2010.[70] This facility may provide immediate relief for the effects of emergency disasters, to which the region is prone. However, the CDF's focus is on supporting sustainable livelihoods, going beyond immediate and short-term relief.

65 CDF, *Appraisal and Disbursement Guidelines and Procedures: 2010 Update*, *op. cit.*

66 CDF, *Strategic Plan 2015–2020*, *op. cit.*

67 *Ibid.*

68 CDF, *Appraisal and Disbursement Guidelines and Procedures: 2010 Update*, *op. cit.*

69 *Ibid.*

70 CDF, *Strategic Plan 2015–2020*, *op. cit.*

BOX 4 CDF SUPPORT OF THE ARGYLE INTERNATIONAL AIRPORT PROJECT

An example of CDF support is the Argyle International Airport project in Saint Vincent and the Grenadines. This airport facilitates trade and supports infrastructure that can be used for many transport purposes, such as tourism. The finance required for the project was large, and funding was sourced from difference areas. The specific needs of the project were assessed and specific elements were provided to support the building of the airport. The CDF provided the grates needed on the runway, along with the lights, paving, earth-moving equipment, navigation aids, and a solar photovoltaic plant. Thus the CDF's commitment was not manifested in funds simply being transferred to the project based on a project proposal and an agreement made with the country's champion of the project.

The risk carried by the CDF in supporting this project was reduced because the specific provisions that the CDF provided were guaranteed to go towards the intended outputs. The amount of finance that the project needed from the CDF was also minimised due to co-financing and support from other investors and donors.[a]

This example raises the issue of ownership of development projects. Building the Argyle International Airport was not a CDF development project in the traditional sense of the CDF ultimately controlling how the project was delivered. The EU ESI Funds maintain ownership of certain development projects because finance largely comes from the EU budget for the funds and, therefore, they also control how projects are implemented through their operational agreements at various levels. However, this CDF example shows that support can be provided to a project that developed without the consideration of how best to use the CDF's resources. Targeted support and input – no matter how small – can be very effective in achieving specific outputs.

a GEG Africa Workshop, presentation delivered by Lennox Forte, *op. cit.*

Because the CDF has a specific mandate to facilitate the effective implementation of the CSME, the fund is finite. Therefore, the CDF has been emphatic in saying that once it has achieved its specific targets and goals for integrating member states into the CSME, and dealing with the related consequences of implementing the CSME, it will cease to exist. Other development funds may have more longevity because they have more long-term goals. Nevertheless, the CDF's mandate highlights the importance of identifying specific targets and outcomes in order to justify the existence of the development fund. The CDF has a role to play in supporting long-term regional integration and tackling some of the difficulties that member states encounter in the processes of integration.[71] In spite of its short-term targets and ultimate disbanding, the CDF will still make a significant contribution towards long-term development.

The CDF has been emphatic in saying that once it has achieved its specific targets and goals for integrating member states into the CSME, and dealing with the related consequences of implementing the CSME, it will cease to exist

The role of regional development banks in development funds

In the broader landscape of institutions that provide finance, a development fund could be a form of competition to the financing that regional development banks supply. However, in many cases, regional development banks work with development funds.

The ESI Funds

From 2014–20, the European Investment Bank (EIB) will support the EU's objectives of European integration, balance development within the Union, and support the EU'S commitments to development aid and cooperation policies throughout the world. The EIB coordinates its operations with other EU institutions while maintaining independence owing to its own decision-making processes, as provided for in EU treaties.[72] The EIB is involved in ESI Funds' financial instruments through:

- providing a technical assistance platform for financial instruments to facilitate the use of financial instruments and the ESI Funds;
- providing bilateral ex-ante assessments and advisory activities;
- participating in blending activities (combining EIB finance with other sources to maximise financial impact); and
- fund management activities.[73]

The EIB will co-finance projects with the EU's CF and ERDF, such as the Connecting Europe Facility (CEF) within the programming period of 2014–20 in Hungary.

71 *Ibid*.

72 EIB (European Investment Bank), 'Part of the EU family', http://www.eib.org/about/eu-family/index.htm, accessed 20 July 2017.

73 EIB, 'EIB role in Financial Instruments in 2014–2020', http://www.eib.org/products/blending/esif/eib-role-in-2014-2020/index.htm, accessed 12 December 2016.

The EIB will provide support in the form of a structural programme loan, in line with the Partnership Agreement and the Europe 2020 Strategy.[74]

The CDF

The CDF cooperates with regional and national development banks, as well as development funds and regional institutions.[75] The first joint programme by the CDF in collaboration with one of its development partners, the Caribbean Development Bank (CDB), has been finalised recently. The programme involved the CDB co-financing the cost of a key connector bridge on the Philip SW Goldson Highway Upgrading Project in Belize.[76]

BOX 5 THE EURASIAN FUND FOR STABILIZATION AND DEVELOPMENT (EFSD)

The EFSD is a regional Development Fund of the Eurasian Economic Union (EAEU).The EAEU and its EFSD were established by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan in 2009. The EFSD was created to help member states to maintain long-term economic stability and progress economic integration between member states. The Fund offers financial credit to support stabilization programmes that would make states' economies more resilient to external and domestic shocks. It also offers investment loans and grants to support regional projects and government programmes for development.[a] In the EFSD, instruments and mechanisms of stabilization do not have to work in isolation, but can be a collaborative effort of different instruments (loans, Financial Credit or Investment Credits) as well as different financiers that work together to create the appropriate stabilization program with the member state's government.

The Eurasian Development Bank manages the Eurasian Fund for Stabilization and Development (EFSD) and plays a key role in supporting integration in Eurasia. The Bank was conceived by the Presidents of the Russian Federation and the Republic of Kazakhstan and established in 2006.

74 EIB, 'EIB supports co-financing of projects with EU Cohesion Funds, European Regional Development Funds and Connecting Europe Facility in Hungary with EUR 500 million', Press Release 29 June 2015, Ref: 2015-148-EN, http://www.eib.org/infocentre/press/releases/all/2015/2015-148-eib-supports-co-financing-of-projects-with-eu-cohesion-funds-european-regional-development-funds-and-connecting-europe-facillity-in-hungary-with-eur-500-million.htm, accessed 17 August 2017.

75 CDF, 'Development banks', http://caricomdevelopmentfund.org/development-banks, 14 March 2017.

76 *Caribbean News Now!*, *op. cit*.

The member states include: The Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation and the Republic of Tajikistan.[b] As the manager of the EFSD, the EDB cooperates with the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the International Monetary Fund, several United Nations agencies, the World Bank group as well as other international financial institutions.[c]

a Eurasian Development Bank, 'Member states', https://eabr.org/en/about/states-participants/.

b *Ibid.*

c Eurasian Fund for Stabilization and Development, 'Projects', https://efsd.eabr.org/en/projects/.

Successes and constraints of development funds

The ESI Funds

Key achievements for the EU's Cohesion Policy from 2007–12 are listed as follows.

- Creating jobs and growth. Income and GDP per capita have increased in the poorest EU regions.
- Investing in new people. An estimated 15 million people participated annually in the thousands of projects financed by the ESF, and many of these participants found employment within six months (during 2007–10).
- Supporting enterprises, including SMEs and start-ups.
- Strengthening research and innovation in research projects, increasing Internet access, and creating long-term research jobs.
- Improving the environment in providing water-supply systems, and improving sustainability and attractiveness in town and cities.
- Modernising transport, and working towards creating an efficient Trans-European Transport Network (TEN-T).[77]

Key attributes of the EU's Cohesion Policy have recently been assessed in discussions concerning the EU post-2020 Cohesion Policy reform[78]. These include the following.

- How the EU's Cohesion Policy can best contribute to its two complementary objectives of competitiveness and cohesion.

77 European Commission, *An Introduction to the EU Cohesion Policy 2014–2020*, *op. cit*.

78 Margaras V, 'Challenges for EU Cohesion Policy: Issues in the Forthcoming Post-2020 Reform', European Parliamentary Research Service, Members' Research Service, Briefing, PE 582.017, May 2016, http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/582017/EPRS_BRI(2016)582017_EN.pdf, accessed 12 December 2016.

- How best to support lagging regions, especially those which have not converged to the EU average.
- Whether the EU should continue to invest in advanced EU regions, especially in wealthy metropolitan areas.
- How the Cohesion Policy can better support growth, jobs and innovation outside the heavily populated areas.
- What role the urban dimension plays in the Cohesion Policy.
- How to simplify the Cohesion Policy.
- Which indicators should be used that are alternatives to GDP.
- How the Cohesion Policy should address economic governance and structural reform.
- Which financial instruments should be used with the ESI Funds.

BOX 6 THE COHESION FUND SUPPORTS INFRASTRUCTURE THROUGH THE CONNECTING EUROPE FACILITY

As part of the TEN-T, the CEF was developed to provide financial support through grants, which are non-reimbursable investments from the EU budget; and provide contributions to innovative financial instruments, which have been developed with institutions such as the EIB. Examples of these financial instruments include the Marguerite Fund, the Loan Guarantee Instrument for TEN-T Projects and the Project Bond Initiative. Thus the CEF works as a key EU funding instrument for promoting growth, jobs and competitiveness through targeting specific infrastructure projects in Europe.The financial support goes towards developing efficient interconnected trans-European networks in transport, energy and digital services.[a]

Under the CEF, EUR 26.25 billion (approximately $30 billion) will be made available from the EU's 2014–20 budget to co-fund TEN-T projects in EU member states. EUR 11.305 billion (approximately $13 billion) of this amount will be available only for projects in member states that are eligible for support from the CF.[b]

a European Commission, Innovation and Networks Executive Agency, 'Connecting Europe Facility', https://ec.europa.eu/inea/en/connecting-europe-facility, accessed 02 February 2017.

b European Commission, Mobility and Transport, 'Connecting Europe Facility', http://ec.europa.eu/transport/themes/infrastructure/ten-t-guidelines/project-funding/cef_en, accessed 02 February 2017.

Some of the proposals to address the above-mentioned issues were discussed by the European Parliamentary Research Service in May 2016.[79] They presented the following insights.

- Some solutions require technical changes, while others are more political in nature.
- Possible re-allocation of funds by re-prioritising policy targets could open up a debate between net contributing or receiving member states (or between different political agents wanting to prevent their possible losses or transfer of funds).
- In allowing transfers of money, the Cohesion Policy may be seen as a flexible source of funding that could easily be redirected to new issues when political priorities change.
- Information about the effectiveness and results of the Cohesion Policy would be needed in future, to stand against some of the scepticism received. Partial evaluations of the programmes in the years to come will be needed in this regard.

BOX 7 THE GUYANA COUNTRY ASSISTANCE PROGRAMME SUPPORTS THE CONSTRUCTION OF FARM-TO-MARKET ROADS

The CDF's *2015 Annual Report* notes that the CAP for Guyana was financed by a concessionary loan, which blended $6.22 million from CDF loan resources and $3.50 million from grants. The government of Guyana requested to augment finance previously received from the Inter-American Development Bank to upgrade its farm-to-market road network.

Four farm-to-market roads were identified for upgrading. As of December 2015, three of these roads were upgraded and it was reported in November 2016 that up to 35 000 farming households have benefited from the farm-to-market access road project in Guyana alone.[a]

a Seoraj, N, '35,000 farmers benefit from new access roads', *Guyana Chronicle*, 05 November 2016, accessed 06 November 2017, http://guyanachronicle.com/2016/11/05/35000-farmers-benefit-from-new-access-roads

The CDF

Critical success factors identified in the CDF include the following.[80]

- Focusing on creating programmes that respond to the needs of disadvantaged countries and regions, and ultimately maximising their benefits from the CSME.

79 *Ibid*

80 GEG Africa Workshop, presentation delivered by Lennox Forte, *op. cit*.

- Adopting systems and processes to enable the CDF to be flexible and responsive to specific problems.
- Disbursing resources swiftly once requests have been made.
- Minimising operational costs.
- Initiating a proactive mobilisation strategy for financing the second funding cycle operations.
- Using human resources strategically.
- Maintaining efficient corporate governance.
- Maintaining close relationships with stakeholders and partners.

LESSONS LEARNT AND RECOMMENDATIONS FOR A POTENTIAL SACU DEVELOPMENT FUND

The ESI Funds and CDF case studies help to inform the purposes of a regional development fund, how it could be structured, and how it could benefit a region. The successful implementation of a SACU development fund relies on several factors. However, a major point of deliberation would be how the fund is capitalised, and how funds are disbursed. As discussed, the revenue received from the SACU CRP is a major contributor to SACU countries' national budgets, especially smaller economies. Therefore, the way in which a SACU development fund is structured, and the formulas used for capitalisation and disbursement, will be important points of agreements for all SACU member states. The projects that the fund supports, and the stabilisation mechanism that it could offer, need to be considered as viable, worthwhile alternatives to the current SACU CRP and RSF arrangements. In a region that has member states at different levels of development and different structures of government, negotiations for developing a SACU development fund could be challenging. With this in mind, the examples of the ESI Funds and the CDF can offer valuable insights.

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Having explored the structure and operations of the ESI Funds, the CDF and the EFSD, the following lessons can be derived and recommendations given for a potential SACU development fund intended to facilitate regional integration among its member states, mitigate trade constraints, and contribute to sustainable development.

A SACU development fund should have a clear and measurable mandate

The CDF has a specific role to play in the implementation of the CSME and, theoretically, on fulfilment of its objectives it will cease to exist. However, the longevity of the CDF is not as important as the emphasis it places on having a clear mandate and specific targets that drive its existence. A clear understanding of the rationale behind a SACU development fund, and the outcomes and impacts it should achieve, will allow SACU member states to decide how the fund will contribute towards meeting short-term and long-term objectives. These decisions will affect how the fund is structured and the type of projects it is able to support.

Development levels of member states should be factored into the decision-making and operationalisation of a development fund

Levels of development are an important factor (in countries, regions and sectors) in regional development funds, having implications for how much each member state contributes to the fund, how much money is disbursed to member states (or projects within member states, regions and sectors), and the type of projects prioritised by the fund. The EU's classification of levels of development is largely based on GDP, whereas the CDF has attempted a more nuanced classification. SACU could attempt to develop its own classification of member states to determine how they contribute to and benefit from the fund. This would need to include some attempt to address the development gap between SACU member states and to ensure that there is equitable allocation of resources for development, thus providing more resources or funds to states, regions or sectors that are less developed.

A capitalisation strategy for a SACU development fund should include member-state contributions and a formula

The ESI Funds and the CDF rely on member-state contributions in various ways. The ESI Funds rely on an allocated amount from the overall EU budget to fund a part of their projects, while member states are required to co-finance, or find alternative financing options to support the outstanding funds required. The CDF relies on initial member-state contributions, based on a formula, to unlock their ability to receive further support from the CDF. The CDF also relies on donor contributions. Depending on how much funding would be availed to a SACU development fund, a capitalisation strategy could incorporate all aspects of the above-mentioned mechanisms. An allocation of revenue from SACU's CRP could form the base of capital in the fund, which could be supplemented by additional member-state contributions to co-finance projects (either for projects in their own countries or for regional projects). Additionally, the CDF's practice of creating a formula for individual member-state contributions could have value in the context of SACU's arrangement, since some SACU member states face developmental challenges that others do not; and there is a limit to how much each SACU member state could contribute from their own budgets.

The capitalisation strategy of a SACU development fund contributes to the region's overall sustainable development, and member states can have a 'stake' (or direct investment) in their own development projects. BLNS member states that rely on the current SACU arrangement as a guaranteed source of revenue for their government budgets, such as Lesotho, may find it difficult to redirect this money to capitalising a development fund that is also shared by other member states. The terms and conditions of a SACU development fund thus need to be resolute in securing adequate finance and relevant support for disadvantaged member states; and ensuring that each member state feels secure that they have a say in how the fund is capitalised and how money will be disbursed.

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A SACU development fund could co-finance projects and initiatives with other financiers

Development funds rarely fund a development project in its entirety. Even when projects are created and planned under the auspices of the development fund, additional member-state contributions, revenue from investments, co-financing from other financiers (like regional banks), and support from external donors all contribute to the capitalisation of development funds and their proposed projects. A SACU development fund could adopt a co-financing strategy that not only informs appraisal and disbursement guidelines on the fund's projects, but also helps SACU member states to evaluate a specific project, determine whether it could find other financiers to support it, and whether the project is practically viable. Development projects for SACU countries financed either entirely or partly by financiers such as the African Development Bank and the World Bank may already exist. However, a SACU development fund that is governed by SACU members may be an added advantage in enabling members to develop their own conditions for development projects, rather than having to accept the conditions of external financiers. In this way, traditional donor–recipient relationships could be avoided, enabling SACU countries to be more assertive in the conditions they accept. However, developing a SACU co-financing strategy could be difficult, as SACU member states would want to have their individual interests represented and their political and economic interests are not always aligned. This would need to be taken into consideration in negotiating a strategy for SACU's engagement with donors as a region – rather than individual states.

Currently South Africa is by far the largest contributor to SACU's CRP, and a development fund could see a reduction of its contribution. Acquiring donor contributions could make up for this shortfall, and disadvantaged countries within the BLNS countries in particular would most likely want to secure this finance.

A lesson can be learnt from the CDF's emphasis on having the CSME's priorities and polices reflected in the operation of the CDF, and not those of the development partners

Donor contributions to a SACU development fund would also reduce the BLNS reliance on South Africa's contribution. The dynamic of South Africa's regional economic dominance would be less of a factor within SACU, which may enable member states to share more equitable status. However, donor contributions to a SACU development fund could also create an additional layer of complexity, as SACU member states could be wary of donor interests being spread in the region. A SACU development fund co-financing strategy would thus need to take this into consideration. A lesson can be learnt from the CDF's emphasis on having the CSME's priorities and polices reflected in the operation of the CDF, and not those of the development partners.

An investment plan should be incorporated into a SACU development fund

The CDF's main source of capital comes from the revenue it receives from its investments. Delays in receiving member-state contributions not only limit the fund's ability to disburse, but could also limit the predictability and stability of the fund's resources. For a SACU development fund to be sustainable, it should prepare an investment plan that can generate revenue for projects and keep the fund active – especially if the flow of member-state contributions has stalled.

Eligibility to borrow or receive support from a development fund should be open to public and private sectors

As in the case of the CDF, allowing members of the private sector to borrow finance from the CDF makes the fund more sustainable because it does not rely on member-state contributions and commitments alone. Repayment of loans from the private sector would help to sustain the fund and could provide support to any viable project or business – not just member-state governments.

A governance structure for a SACU development fund should represent member-state governments as well as local actors

The ESI Funds' managing authorities and the CDF's National Focal Points are examples of governance structures that engage with local actors within member states to make decisions on their funds and implement fund projects. In the context of a SACU development fund, a similar structure in each member state could allow the local actors and beneficiaries to gain more representation and ownership of development projects and their outcomes. Implementing such a principle of governance is admittedly complex in the case of SACU, because the influence of NGOs may conflict with government interests. However, incorporating non-governmental actors into a governance structure may also serve to maintain member-state governments' mindfulness of the needs of civil society. The governance structure of the development fund could also facilitate deeper regional integration, incorporating representation from many public and private-sector stakeholders and finding ways for them to work and make decisions together.

Private-sector representation and an external managing body should be incorporated into the governance structure of a development fund

The CDF's inclusion of a private-sector representative on its board shows the potential for more inclusivity of the private sector into an otherwise national government-dominated board governing the fund. In a SACU development fund, this could lessen the political nature of the functioning of the fund and incorporate views of what is needed across borders (in terms of areas of development) for corporate business and even SMEs to mitigate constraints in trade.

The influence of regional banks in both case studies varies in their contribution to the development fund, yet they all perform a function or provide some support. A regional bank could be sought as a managing body of the Fund, as in the case of the EFSD and the Eurasian Development Bank. However, this too, has implications for how 'independent' and objective the Fund can be in its decision-making. Regional banks that finance projects in the SACU region, such as the Development Bank of Southern Africa and the New Development Bank, could provide technical and financial support to individual trade projects or to the SACU development fund. This would also deepen regional integration, as a SACU development fund could cooperate with other regional financiers – rather than just replicating the same function of these financiers in the region. A SACU development fund thus offers a unique structure to bring together different financiers and stakeholders to support the SACU region as a whole, rather than just individual member states.

A SACU development fund could incorporate elements of a stabilisation mechanism, support for infrastructure projects, and support for larger industrialisation plans for the region

The ESI Funds and the CDF have demonstrated the possibility of supporting several areas of need for member states. The ESI Funds each support specific and different areas of development. The CDF is able to support various development projects as

The EFSD has a dual function of providing a stabilisation mechanism and supporting development projects and initiatives for its member states

well as provide a support structure for adverse shocks and natural disasters. The EFSD has a dual function of providing a stabilisation mechanism and supporting development projects and initiatives for its member states. A stabilisation mechanism that provides financial credit and loans to governments could assist with regional economic stabilisation for the SACU region, as the revenue that SACU member states receive from the SACU customs union depends on the economic performance of the other member states (such as the South African economy). Providing support for both national and regional infrastructure projects would help to mitigate trade constraints identified. Support for infrastructure projects could also contribute to a long-term strategy for industrialisation in the region.

Priorities and key themes of a SACU development fund should focus on trade facilitation

SACU trade practitioners highlight many trade constraints that a development fund could take on. However, SACU member states may derive greater benefit from a development fund that does not attempt to address all development issues, but focuses instead on a few important ones. This is important to consider, since there is no agreement or consensus as to how much capital the fund could acquire. A SACU development fund could provide the impetus for supporting small-scale infrastructure projects that would address several short-term trade constraints while also working towards a long-term, sustainable industrialisation programme in the region. The CDF has a specific focus on funding operations that are linked to trade competitiveness within intraregional and extra-regional markets. Similarly, a SACU development fund could prioritise infrastructure-related projects, such as supplying secure water, electricity and transport networks to firms. This would support the first point of its mission, namely 'to serve as an engine for regional integration and development, industrial and economic diversification, the expansion of intraregional trade and investment, and global competitiveness'.[81] Trade-facilitation projects would also help to ease cross-border trade and stimulate regional integration.

81 SACU Secretariat, *op. cit*. SACU (2010 Press Statements database), 22 April 2010, 'SACU Final Communiqué: The Heads of State and Government meeting of the Member States of the Southern African Customs Union (SACU)', page 2, http://www.sacu.int/docs/pr/2010/pr0422-10.pdf, accessed 02 March 2017.

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