

AFRICAN DEVELOPEMENT FUND



SADC

SUSTAINABLE FINANCING OF REGIONAL INFRASTRUCTURE AND INDUSTRIAL PROJECTS

RDGS/RDRI

May 2019

TABLE OF CONTENTS

<u>I – STRATEGIC THRUST & RATIONALE</u>	1
<u>1 Context</u>	1
<u>1.1 Project Linkages with Bank and Regional Strategies and objectives</u>	2
<u>1.2 Rationale for the Bank’s Involvement</u>	3
<u>1.3 Donor coordination</u>	4
<u>II – PROJECT DESCRIPTION</u>	6
<u>2.1 Project Objectives and Components</u>	6
<u>2.2 Technical solution retained and other alternatives explored</u>	8
<u>2.3 Project Type</u>	10
<u>2.4 Project Cost and Financing Arrangements</u>	11
<u>2.5 Project’s Target Area and Population</u>	11
<u>2.6 Participatory Process for Project Identification, Design and Implementation</u>	12
<u>2.7 Bank Group experience, lessons reflected in project design</u>	12
<u>2.8 Key performance indicators</u>	13
<u>III – PROJECT FEASIBILITY</u>	13
<u>3.1 Economic and financial performance</u>	13
<u>3.2 Environmental and Social impacts</u>	14
<u>3.3 Gender Mainstreaming</u>	15
<u>IV – IMPLEMENTATION</u>	16
<u>4.1 Implementation arrangements</u>	16
<u>4.2 Work Program</u>	16
<u>4.3 Project Governance and Implementation Structure</u>	16
<u>4.4 Financial Management (FM)</u>	16
<u>4.5 Implementation Risk and Mitigation</u>	17
<u>4.6 Procurement Arrangements</u>	17
<u>4.7 Disbursement</u>	18
<u>4.8 Monitoring and Evaluation</u>	18
<u>4.9 Governance</u>	19
<u>4.10 Sustainability</u>	19
<u>4.11 Risk management</u>	20
<u>4.12 Knowledge building</u>	20
<u>V – LEGAL INSTRUMENTS AND AUTHORITY</u>	21
<u>5.1 Legal instrument</u>	21
<u>5.2 Conditions associated with Bank’s intervention</u>	21
<u>5.3 Compliance with Bank Policies</u>	21
<u>VI – RECOMMENDATION</u>	21

Currency Equivalents

Exchange Rate as of February 2019

UA 1	=	US\$ 1.40
UA 1	=	Euro1.22

Fiscal Year

2019 – 2021

Weights and Measures

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (")
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

Acronyms and Abbreviations

ADF	African Development Fund
AfDB	African Development Bank
AIDS	Acquired Immune Deficiency Syndrome
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
DFRC	Development Finance Resource Centre
DRC	Democratic Republic of Congo
EC	East African Community
FTA	Free Trade Area
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICPs	International Cooperating Partners
JAS	Joint Assistance Strategy
JSC	Joint Steering Committee
JTF	Joint Trust Fund
KfW	Kreditanstalt für Wiederaufbau
ORQR	Quality Assurance and Results Department
PCN	Project Concept Note
PIF	Project Identification Form
PPDF	Project Preparation and Development Facility
RAS	Regional Assistance Strategy
RDF	Regional Development Fund
REC	Regional Economic Community
RIDMP	Regional Infrastructure Development Master Plan
RMCs	Regional Member Countries
RO	Regional Operation
RSP	Regional Strategic Paper
RVC	Regional Value Chain
SA	Special Account
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADC RDF	Southern African Development Community Regional Development Fund
UA	Unit of Account
USAID	United States Agency for International Development
USD	United States Dollars

GRANT INFORMATION

Client's information

RECIPIENT: Southern African Development Community (SADC)

EXECUTING AGENCY: SADC Secretariat

Financing plan

Source	Amount (UA'000)	Instrument
ADF	1,500	Grant
TOTAL COST	1,500	Grant

Timeframe-Main Milestones

Concept Note approval	November, 2018
Appraisal	February, 2019
Project approval	April, 2019
Effectiveness	May, 2019
Mid-Term Review	June, 2020
Completion	May, 2021

Project Summary

Paragraph	Topics Covered
Project Overview	<p>Project Name: Support to Sustainable Financing of Regional Infrastructure and Industrial Projects in SADC.</p> <p>Geographical Area: SADC Region</p> <p>Implementation timeframe: <u>2019-2021</u></p> <p>Project cost: UA 1.5 million</p> <p>Project Objectives: The objective of the project is to support sustainable financing of regional infrastructure and industrial projects in the SADC Region. The specific objectives include: (i) establishment of financing mechanism for regional projects including financial instruments, (ii) prioritising and developing of regional infrastructure projects, (iii) development of regional value chains in the mining sub-sectors of copper and cobalt, and (iv) capacity building in development of infrastructure and industrial project.</p> <p>Project Direct Beneficiaries: SADC Secretariat and SADC Member Countries (Angola, Botswana, Democratic Republic of Congo, ESwatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, United Republic of Tanzania, Union of Comoros, Zambia, and Zimbabwe).</p>
Project outcomes	<p>The project is expected to: (i) increase number of priority regional infrastructure projects prepared to reach financial close. (ii) Enhance the capacity of SADC Countries to prepare and implement regional infrastructure projects (iii) increase in value addition within SADC in copper and cobalt mining leading to an increase in its share of contribution to the regional economies and jobs.</p>
Needs Assessment	<p>The rationale for the project is to support sustainable financing of regional infrastructure and industrial projects which is instrumental to deepening of regional integration through the increase in the regional projects reaching financial close and industrial projects being developed for regional value chains. The project is also justified in view of the developmental approach to regional integration adopted by the SADC Member States and subsequently revised in 2015, which is anchored on the 4 priorities: (i) industrial development and market integration; (ii) infrastructure in support of regional integration; (iii) peace and security cooperation (as a pre-requisite for achieving the Regional Integration Agenda); and (iv) special programmes of regional dimension: human development and special programmes including health, gender and labour. The peace and security cooperation and special programmes of regional dimension priorities of the SADC are being supported by SADC Member States and other development partners. While other donors have been supporting SADC in preparation of regional infrastructure projects and development of regional value chains in agro-processing and pharmaceutical, these donors are however not supporting SADC in prioritising the projects as well as developing RVCs in mining sector. This leaves a gap for provision of support under the two priorities of market industrial and infrastructure development – where the Bank has so far been providing project prioritisation, preparation as well as</p>

	investment for infrastructure development. Additional resources and technical support are required to complement the Bank in supporting SADC to implement its regional infrastructure and industrial projects.
Bank's Added Value	The Bank's added value derives from a number of factors including (i) benefitting from the experience of the Bank investing in infrastructure and industrial work programme; ii) experience gained in implementing regional programmes such as the development of the Agreement of the SADC Regional Development Fund, supporting the establishment similar financing vehicles such as the Africa 50, and iii) the Bank's strengthened field presence which will; (a) contribute to business development of regional infrastructure and industrial projects; and (b) allow it to have full engagement in shaping the regional integration agenda through the establishment of SADC Regional Development Fund.
Knowledge Management	The project will contribute to institutional development and knowledge building in the SADC, particularly in developing regional infrastructure and industrial projects. Knowledge will be gained through skills and knowledge transfer from training SADC Officials who ultimately will train both public and private sector officials. The Bank will capture and disseminate knowledge and experience from this project through regular sharing of the findings of regular project review missions, monitoring and evaluation, progress reports and the Project Completion Report. Lessons learned and experience gained will be made available to inform future Bank operations.

Results-Based Logical Framework

Country and project name:		Support to Sustainable Financing of Regional Infrastructure and Industrial Projects in SADC				
Purpose of the project:		To assist SADC develop and implement instruments and mechanisms for developing and financing regional infrastructure and industrial projects sustainably				
RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (including CSI)	Baseline	Target		
IMPACT	Enhanced infrastructure connectivity and intraregional trade	% intraregional trade	15% (2018)	• 20% (2025)	• SADC Trade Statistic Indicators	
		Infrastructure development index score	34% (2018)	• 40% (2025)	• Africa infrastructure development index	
OUTCOMES	1.0 Capacity for Mobilisation of resources for regional infrastructure & industrial projects enhanced.	Financial resources mobilised through the SADC RDF and other financial instruments.	0	• US\$ 100 million mobilised by 2021	• SADC Ministers of finance and infrastructure reports.	Risk: 1. Weak implementation capacity by the Executing Agency. 2. Low utilization of the budget. 3. Delay in project start-up and procurements. 4. Low crediting rating of the mechanism. 5. Agreement of the SADC RDF not being ratified 2/3 majority of Member States 6. Investment in SADC Regional Development Fund being concentrated in RMCs Mitigations: 1. Adopting a standalone PIU dedicated to implement the project 2. Streamline procurement processes to ensure early effectiveness 3. Authorize SADC to undertake advance contracting 4. SADC engaging cooperating partners and MDBs to take equity which might lead to the attainment of the required credit rating 5. Appoint the Champion to facilitate ratification of the Agreement. 6. Additional investor in the name of Private sector, Development Partners and MDBs have been identified and included in the Agreement of SADC RDF
		Financial Resources mobilised from the GCF	0	• At least US\$ 100 million climate finance mobilised by 2021	• GCF project Approvals	
	2.0 Regional VCs in mining developed	RVCs in mining sector identified	Copper processing	• 5 RVC in copper, cobalt including mining inputs and services developed by 2021	• SADC Council of Ministers Reports	
		RVCs developed	Diamond sorting		• SADC Ministers of finance and infrastructure reports.	
	3.0 Enhanced SADC Capacity to develop and implement regional projects.	Number of regional infrastructure projects ready for financial closure.	1 project under SADC PPDF were financing agreement is being finalised with beneficiary.	• 20 regional projects ready for implementation by 2020	• SADC Council of Ministers Reports	
			0 project prioritised & presented at the AIF	At least 5 projects presented at the A	• AIF Report	
	1.1 Operationalise SADC Regional Development Fund and develop Financial Instruments: • A diagnostic report on the modalities • Implementation plan for SADC RDF developed • Agreement ratified • Financial instruments for resource mobilisation developed	Diagnostic note on SADC RDF developed and shared with SADC Countries.	0	1	• SADC RDF Diagnostic Notes Report	
		Implementation plan for the SADC RDF developed	No plan in place	SADC RDF implementation plan	SADC Ministers of finance and investment reports	
		SADC Agreement on SADC RDF signed and ratified	0%	11	SADC Council of Ministers Report	
		Number of financial resource mobilisation instruments developed.	0	5	SADC Ministers of finance and investment reports	
		Number of green bankable infrastructure projects	0	5	Project Reports and Feasibility study report	

	2.1 RVCs in the mining sector identified and prepared:	# of RVC in copper and cobalt mapped		2	SADC Council of Ministers and Ministers of finance and investment reports	
	2.1.1 Priority Regional Value Chains (RVCs) in mining mapped	# of RVC projects in copper and cobalt identified	0	3		
	2.1.2 potential RVC projects identified; and	# of pre-feasibility studies in copper and cobalt VCs conducted	0	3		
	2.1.2 pre-feasibility studies conducted through the financial mechanism put in place.	# of agreement signed by SADC Member States on RVCs	0	4		
OUTPUTS	3.1 SADC capacity in infrastructure and value chain project development improved:	Framework/tool for prioritising regional projects	No framework exists at regional level	Framework/tool for prioritising projects developed by 2019	SADC Council of Ministers Reports.	
	<ul style="list-style-type: none">Prioritisation Tool for project selection developedPipeline of priority regional projects developedRegional infrastructure projects that are ready for financial closure identified and resources mobilised through SADC RDF using innovative financial instruments.SADC regional infrastructure and industrial projects prioritized and accepted for presentation at the AIF	Pipeline of priority infrastructure projects	No pipeline of regional infrastructure	Project pipeline developed by 2019	SADC Council of Ministers Reports.	
		Number of regional bankable infrastructure projects prepared for financial close and financed through SADC RDF using its innovative financial instruments.	0	5 regional projects prepared and financed through SADC RDF and its instruments by 2020.	SADC Council of Ministers Reports.	
		AIF/SADC bankable projects	0	5 SADC Regional projects presented at the AIF	AIF Report	
	3.2 Enhanced capacity/skills of Member States in project development:	of SADC Member countries subjected to skills audit.	0	16 SADC countries by 2019	Skills Audit Report	
	<ul style="list-style-type: none">Undertake skills Audit in project developmentTrain staff in member states in project development and access climate finance	# of Official trained from SADC Member Countries on how to prepare regional projects and access climate funds	0	50 Officials trained on how to access climate finance from 16 SADC countries by 2021	SADC DFRC Report	
	COMPONENT			INPUT (UA)		
				AfDB (US\$)	SADC	Total (US\$)
	Component 1: Operationalisation of the SADC Regional Development Fund and development of Financial Instruments for resource mobilisation			600,000	0	600,000
	Component 2: Development of regional value chains in selected mining sectors			800,000	0	800,000
	Component 3: Identification, categorization, and development of priority projects from SADC RIDMP			700,000	0	700,000
	Beneficiary contribution				846,000	846,000
	Total			2,100,000	846,000	2,946,000

Project Implementation Schedule

Activities/Years	2019			2020				2021			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Project Processing and Management											
Grant Approval											
Signing Grant Agreement											
Project Effectiveness											
Project Launching											
Project Implementation											
Procurement											
Project implementation											
Supervision											
Mid-term Review											
Project Completion											
Audits											
Project closure											

REPORT AND RECOMMENDATIONS OF MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED GRANT TO SUPPORT SUSTAINABLE FINANCING OF REGIONAL INFRASTRUCTURE AND INDUSTRIAL PROJECTS IN SADC

Management submits the following Report and Recommendation on a proposed ADF grant of UA 1.5 million to finance Sustainable Financing of Regional Infrastructure and Industrial Projects in SADC.

I – STRATEGIC THRUST & RATIONALE

1 Context

1.0.1 The Southern African Development Community (SADC), made up of Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe came into effect by the signing of a Treaty in August 1992. The main thrust of SADC is to achieve meaningful development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support socially disadvantaged regions through regional integration.

1.0.2 Two strategic frameworks guide SADC's operations and provide the SADC member states with a comprehensive programme of long-term economic and social policies. The Regional Indicative Strategic Development Plan (RISDP) provides a governance framework that sets standards for good political, economic and corporate governance, and the Strategic Indicative Plan for the Organ (SIPO) focuses on the maintenance of peace and stability in the region. Other policy instruments supporting SADC's regional integration process include the SADC Regional Infrastructure Development Master Plan (RIDMP), the SADC Regional Agricultural Policy (RAP), the SADC Trade Protocol, the Industrialisation Strategy and the Roadmap (IDPF), among many other policies and strategies of SADC, provide the guiding frameworks for achieving the regional agenda for deeper cooperation and integration.

1.0.3 Despite putting in place strategic plans, the region is still beset with numerous challenges which include among others: (i) low industrial growth which in part is attributed to little participation of SADC Member States in regional value chains; (ii) deficit in infrastructure; small markets and disproportionate number of landlocked countries; and (iii) lack of mechanism to mobilise sustainable financing for SADC regional soft and hard infrastructure and industrial projects whose total investment cost is currently estimated around \$64 billion for the next five years. Despite the financing gap, there are huge financial assets of approximately \$400 billion that are held in the pension fund mechanisms and an additional \$200 billion by insurance companies (CISNA 2012, 2015 Annual Reports). These assets are for the most part invested in market-based securities (stocks and bonds) and in real estate, and do not significantly contribute to funding infrastructure or value chain projects, both at national and regional level. To this end, what is required is for SADC to put in place a proper financing mechanism which will unlock these resources for development of regional projects as articulated in Article 26A of SADC Treaty.

1.0.4 In response to these challenges, in 2016, SADC engaged the Bank to help accelerate its regional integration Agenda on a programmatic approach that focuses on SADC major priorities. This engagement was further followed up with a Bank presentation in March 2017 of a concept paper entitled “Financing Infrastructure and Industrialisation” during the SADC Strategic Retreat in Eswatini (formally known as Kingdom of Swaziland).

1.0.5 Based on the above, SADC made a request to the Bank for support to the following priorities (i) operationalisation of the SADC Regional Development Fund and other innovative financial instruments for resource mobilisation; (ii) development of regional value chain projects; and (iii) preparation and development of regional priority projects from SADC’s Regional Infrastructure Development Master Plan.

1.0.6 Following the request, the Bank, subsequently made a commitment of UA1.5 million from the RO Envelop to support SADC’s request.

1.1 Project Linkages with Bank and Regional Strategies and objectives

1.1.1 The project falls within the overall vision of the Southern African Development Community and has been endorsed by SADC Member States at the highest level of Summit. It is in line with the regional integration and development programme of SADC which is guided by the revised Regional Indicative Strategic Development Plan (RISDP), covering the duration 2015 to 2020. The key priority areas of RISDP include among others: (i) industrial development and market integration; and (ii) infrastructure in support of regional integration; and (iii) special programmes with regional dimension such as financing and resource mobilization.

1.1.2 The proposed project areas are also in line with the Bank’s key priorities. Developing priority infrastructure, creating an enabling institutional environment for private sector development and regional integration are 3 of the -5 core operational priorities of the Bank’s 2013-2022 Strategy focusing on Africa’s transformation. SADC has also frontloaded industrialization with infrastructure as an enabler, thus the project contributes to the High 5s specifically; integrate Africa, Light up and Power Africa, Industrialise Africa and contributing to improve the lives of people of Southern Africa.

1.1.3 Furthermore, project responds to the orientation of the Bank’s Regional Integration Strategic Framework 2018-2025 and Industrialisation Strategy for Africa 2016-2025. The key building blocks for these two strategies are: (i) infrastructure connectivity; (ii) trade and investment; (iii) financial integration; and (iv) value chain development. This project aims to play a catalytic role and help SADC to unlock financing for its regional transformation agenda. By supporting sustainable financing of regional infrastructure and industrial development (especially regional value chains), the project aligns with the Bank and SADC strategies for addressing regional integration through sustainable financing of regional projects and has important linkages to the development of ambitious African Union Agenda 2063 Strategic Framework and New Partnership for Africa’s Development (NEPAD).

1.2 Rationale for the Bank's Involvement

1.2.1 Sustainable financing of SADC regional Infrastructure will promote deeper regional integration through improved infrastructure connectivity and contribute to creating enabling environment to promoting industrial developments fostering economic growth, peace and security among SADC Countries. The SADC region is already committed to deeper integration as contained in the RISDP, which has become the blueprint for socio-economic integration and development and is part of the “Road Map Towards Creating a Free Trade Area (FTA) in the SADC Region. According to RISDP and Revised SADC Treaty, the region is committed to providing sustainable financing to the development of regional projects. Unfortunately, despite this commitment, the region still lack a mechanism at a regional level to unlock institutional and private sector resources required by SADC to implement regional projects, a role the SADC secretariat would like to enhance. Resource requirements for SADC to implement regional projects are estimated around \$64.5 billion over a period five years, or \$12.9 billion per year. This financing gap underscores the need for SADC to establish innovative and sustainable financing mechanism for purpose of implementing regional projects and realize the objectives of the Community. This takes into account financing from both Member Country's contributions and official Development Assistance. Table 1 below provides an estimate of the funding requirements and resource gap over the short term, covering the period 2015-2020.

Table 1: SADC Regional Programmes and Projects Short Term Funding Requirements and Resource Gap (Five Year Period) 2015-2020

Priority Areas	Required Resources (\$ Billion)	Estimated Available Resources (\$ Billion)			Resource Gap
		ICPs	MS	Alt	
Industrial Strategy Action Plan 2015-30	0.247 ¹	-	-	0	0.247
Infrastructure Development Master Plan	64.000 ²	0.200 ⁴	-	0	63.800
Revised RISDP 2015-2020	0.260 ¹	0.060 ³	0.011 ⁵	0	0.189
Total	64.507	0.260	0.011		64.236

¹ Cost estimate: SADC MS. ² SADC RIDMP Plan (Short Term Action Plan). ⁴ Resources committed by IFIs to SADC for the next five years. ³ SADC share of €600 million allocated to COMESA, EAC, and SADC. ⁵ Estimated share of total MSs' Contributions (10%).

1.2.2 In addition, weaknesses in value chain development in SADC region undermine efforts to move towards great intra-regional trade which is currently low compared to other developing regions. Most SADC economies are still dependent on the export of primary products based on a limited number of extractive sectors. This situation gives rise to low Intra-SADC trade of 12 %, compared to other regions like the Asia 52%; North America 48%; EU 29%; South and Central America 26%; Commonwealth of Independent States 19%; and Middle East 15%. This situation is further exacerbated by poor physical connectivity across SADC region resulting in high cost of production and cross border trade costs. Enhancing physical connectivity is critical for sectoral diversification, value-chain development and increased levels of competitiveness both globally and at regional level.

1.2.3 For this reason, all SADC stakeholders agree on the urgent need to establish a SADC Regional Development Fund (financing mechanism) to: (i) support Member States in their efforts to implement the SADC trade integration agenda at the national level, and (ii) significantly upgrade the SADC Region's trade-related infrastructure, thereby facilitating intra-SADC trade and contribute towards deepening of SADC's trade integration.

1.2.4 It is also worth noting that, Sub-Saharan African and on other continents' RECs tackle challenges of financing regional projects through the establishment of suitable financing mechanisms such as Regional Development Funds. In view of the other RECs' similar efforts, the already established SADC PPDF as a precursor of a Regional Development Fund and the explicit SADC Treaty and Council of Ministers' mandate to establish a SADC Regional Development Fund (SADC RDF), it is consequential for SADC to also undertake concrete steps to establish such a financing mechanism as similar initiatives in West African region through BOAD have yielded positive results through mobilising resources and developing of regional projects. For more details on the SADC RDF see Annex 1 which outlines the composition and scope of Fund.

1.2.5 The project will complement and support Bank's initiatives to explore new ways to mobilize resources within the changing development landscape. Furthermore, the support of the Bank to this project is timely and responds to a defined priority need of the Governments of the region and Bank's Strategy of Mobilizing and Leveraging resources and will assist SADC Member States as a community to unlock financing for its regional transformation agenda.

1.2.6 From the Bank point of view its worth mentioning that there are at least three development objectives why it's important for the Bank to support the establishment of this mechanism: (i) the mechanism provides the Bank with business opportunity of US\$360 million through acquisition of shares of the Fund that have been allocated to the cooperating partners and private sector; (ii) supporting members that have no capacity to acquire the allotted shares with credit facility to meet their obligation; and (iii) ensure effective mobilization of complementary financial resources through local and regional financial and capital markets to support the Bank's other resource mobilization efforts. This is partly due to the fact that the financing requirements for the majority of large regional infrastructure industrial projects in Africa are well beyond the current financial resources of the Bank and its syndication and co-financing partners.

1.3 Donor coordination

1.3.1 Donor coordination in the SADC region is governed by the Windhoek Declaration adopted in April 2006. Some of key areas stated in the Declaration and aimed at improving coordination include; (i) development of infrastructure and industrial projects; (ii) capacity building; (iii) trade; and (iv) finance. The European Commission (EC) is currently the lead donor in the Joint SADC-International Cooperating Partners (ICP) Task Force (JTF), whose primary objective is to improve coordination between donors and the SADC Secretariat. The European Investment Bank, the World Bank, USAID, the UK, the EC and the AfDB are the major supporters to SADC projects. Thus, the Bank will closely coordinate with other ICPs and specialized agencies when implementing its activities. The Bank is actively participating in various SADC thematic group meetings and activities.

1.3.2 In this context, donor support to sustainable financing of regional infrastructure and industrial projects is built on partnerships involving the SADC, development partners, SADC member countries and Multilateral Development Banks. Several donors are involved in this initiative and are coordinated under Trade Industry Finance and Investment (TIFI) Thematic Group.

1.3.3 During the project appraisal mission fielded in Botswana, the Bank informed the Development Partners (DPs) of the project activities and ensured that there would be the necessary synergies, complementarity and adherence of the other DPs to this operation. Furthermore, consultations were held on measures pertaining to technical assistance being offered by other Development Partners. For instance, the World Bank is envisaging providing technical assistance to the development of RVCs on agro-processing, while the European Union Commission and GIZ (Germany) are focusing their assistance on the preparation of regional infrastructure, pharmaceuticals and Agro-processing. Table 2 presents some of the support provided by some of the DPs in the preparation phase.

Table 2: Contribution of development partners to initial phase

Partners	Project and amount committed	Thematic priorities	Priority areas
European Union	Support towards industrialisation and productivity and productivity sectors in SADC region (Euro 18m)	Development of at 2 regional value chains and value additional strategies in two products in agro-processing and pharmaceuticals	Leather and pharmaceuticals
GIZ (German)	Cooperation for the Enhancement of SADC Regional Economic Integration (Euro 15m)	Support to: <ul style="list-style-type: none"> • negotiation for trade in Services Protocol; • identification and resolution of NTBs; • strengthening of new private sector mechanism; and • implementation of simplified Trade Regimes for intra-SADC trade 	Cross-cutting
World Bank	Supporting Trade, Jobs and Industrial Development in SADC Region (US\$ 0.5m)	Support the development of RVC Council in two priority agro-processing value chains	Agro-processing

II – PROJECT DESCRIPTION

2.1 Project Objectives and Components

2.1.1 The overall development objective of the project is to contribute to deeper regional integration of SADC through sustainable financing of regional infrastructure and industrial projects. The specific objectives include: (i) development of financial instruments for resource mobilization, (ii) capacity building for mobilisation of financial resources for regional infrastructure development, (iii) development of regional value chains in the mining sector, and (iv) capacity building in infrastructure and industrial project development. The project is expected to: (i) enhance resource mobilisation, (ii) increase the number of regional infrastructure and industrial projects financed, and (iii) enhance capacity for project development in SADC.

2.1.2 The project design is a result of extensive consultative process with the SADC Secretariat and is informed by the decisions of SADC Council of Ministers, the decision making body of the SADC institutions. The project is designed as a three year programme and will be financed from ADF Grant Resources. The project budget net of taxes and duties is UA1, 500,000.

2.1.3 The project has four components whose major activities are summarized below while the detailed description of project components and costs are presented in Technical Annexes B5.

2.1.3.1 Component 1: Operationalisation of the SADC Regional Development Fund and development of Financial Instruments

(A) Operationalisation of the SADC RDF

The main purpose of the SADC RDF is to create a financial mechanism to mobilise resources from member states, development partners and the private sector to support regional development and deepen regional integration, as foreseen in Article 26A of the SADC Treaty.

In line with SADC Council decision, this component of the project will focus on developing a plan to facilitate the operationalization of the RDF by providing the technical support to the SADC Secretariat and Member States. This will include dialogue on the implications of RDF operationalization taking into account policy and technical issues, identifying the needs of member States to enable implementation of the RDF as well as a mechanism to provide support to Member States. The main activities will include:

- Development of the Technical Note on SADC RDF, which will include a plan for operationalisation of SADC RDF;
- Facilitate signing and ratification of the fund agreement, and at least four (4) dialogue meetings;
- Development of a financing structure, including framework for equity participation of MDBs;
- Development of the migration plan for SADC-PPDF to SADC-RDF; and
- Assessment of other facilities (i.e. existing Funds that include Agriculture, Disaster, HIV, among others) and how they can be subsumed into the SADC-RDF.

(B) Development of financing instruments and framework

This sub-component will support the development of financial instruments and frameworks relevant to the SADC regional projects such as Infrastructure Bonds, Partial Risk Guarantees, Financial Insurance Guarantees and Partial Credit Guarantees. Key activities will include (i) assessment and mapping of financial instruments relevant to SADC, and (ii) a feasibility study on regional credit guarantee facility for SADC region.

2.1.3.2 Component 2: Development of regional value chains in selected mining sector:

This component will undertake mapping and development of Regional Value Chains in the mining sector, and will, in particular focus on two mining sub-sectors:

- a. **Copper processing;** and
- b. **Cobalt refining for battery use and energy storage, alloys, Catalysts, pigments and coloring** (Notwithstanding this, the Bank, will also participate in developing agro-processing and pharmaceuticals RVCs).

The development of value chains in these two subsectors will also include Mining inputs and services will take into consideration the following dimensions:

- Development of the regional infrastructure networks (roads, rail, research institutions, etc.) as shared responsibility.
- Development of regional value chains (RVCs) and industrial clusters as a joint responsibility for governments and the private sector, supported by national and regional banks.
- Prioritization of projects will be based on the national and/ or regional strategic importance (e.g. mineral beneficiation), regional interdependence (e.g. those based on inputs to the regional economy such as manufacturing, agriculture and construction), and value addition in resources such as copper, cobalt, diamond etc. and employment generation potential.
- The region also holds in the margin of every summit meeting the SADC Industrialization Week which is an annual regional public-private engagement platform aimed at fostering new opportunities for intra-regional trade and investment.

2.1.3.3 Component 3: Identification, categorization, and development of priority projects from SADC RIDMP

The component will assist SADC in building their capability for the selection, prioritization of regional infrastructure projects and in building a pipeline of regional projects for immediate, medium and long-term implementation through the development of a framework for filtering and selection of projects, preparation of project fiches, and proofing the concept for resource mobilisation. This component will include developing capacity to plan, design and finance sustainable (low-carbon and climate resilient) infrastructure, specifically climate –related and project finance capacity. This component will also assist SADC in developing a platform for monitoring of the implementation of the RIDMP including donor mapping. This component will be carried out through TA.

Table 3: Project Components: Detailed Description by Component

Component description	Costs (UA)
Component 1: Operationalisation of the SADC RDF and Financial Instruments	
<p>a. Operationalisation of SADC RDF</p> <ul style="list-style-type: none"> • Technical assistance, including the development of the Technical Note on SADC RDF; • Support to SADC Member States in signing and ratifying the agreement. Hold at least four (4) consensus meetings with MS. This task will be led by the SADC Secretariat; • Development of a financing structure, including framework for equity participation of MDBs and ; • Development of the migration plan for SADC-PPDF to SADC-RDF; and • Assessment of other facilities (i.e. existing Funds that include Agriculture, Disaster, HIV, among others) and how they can be subsumed into the SADC-RDF. <p>b. Development of Financial Instruments</p> <ul style="list-style-type: none"> • Identifying and development of instruments such as partial credit guarantees, partial risk guarantees and syndicated instruments etc. for viable and alternative options of resource mobilisation. 	428,571
Component 2: Development of regional value chains in selected mining sectors	
<ul style="list-style-type: none"> • Mapping of regional value chain at both SADC regional levels, MS level as well as global level (two sub-sectors selected which will include mining inputs and services are (i) copper processing, and (ii) cobalt refining for batteries. • Detailed value chain analysis of the two mining sub-sectors: <ul style="list-style-type: none"> ◦ Copper processing; and ◦ Cobalt refining for battery use and energy storage • Mining inputs and services which include upstream value chains i.e., (capital goods, consumables and services) • Identification of policy and regulatory bottlenecks • Identify a list of potential private sector projects on which brief pre-feasibility study will be conducted. 	535,714
Component 3: <u>Identification, categorization, and development of priority projects from SADC RIDMP.</u>	
<ul style="list-style-type: none"> • Development of a framework for prioritising and raking of regional infrastructure projects; • Development of an online database drawn from the priority list of infrastructure projects, which fosters transparency and provides orientation for a better monitoring of project implementation. • Development of a proof of concept for resource mobilisation based on identified financial instruments. • Development of a proof of concept for resource mobilisation for infrastructure projects and test. • Undertake an Audit Skills gap assessment in the area of project preparation conducted and capacity building of SADC Officials. 	500,000
Component 4: Project Management	
<ul style="list-style-type: none"> • Implementation, coordination and monitoring of the project • Financial and administrative management and reporting of the project • Preparation of the audit and activity reports as well as work plans • Technical management and reporting of the project 	738,546
Total	2,202,831

2.2 Technical solution retained and other alternatives explored

2.2.1 During project preparation and appraisal, a number of options were explored regarding areas of intervention, scope, focus, budget allocation among subcomponents, and implementation modalities. Based on these considerations, the recommendations from analytical work, as well as lessons from the Bank's and other partners' past support to the

SADC and similar bodies, it was agreed with the SADC Secretariat to provide a balanced intervention that has the potential to deliver tangible results and contribute immensely to the ongoing efforts to establishing a sustainable financing mechanism of regional projects. The possibility of channeling the resources through the SADC systems was considered. However, based on thorough analysis, the use of a mainstreamed rather than an independent approach type of stand-alone arrangement was found to be more appropriate. On this basis the Secretariat was informed that this arrangement will only be permissible if the team (project implementation team) will be able to carry out their day to day management project activities in accordance with their responsibilities duties without any form and or appearance of any interference from the internal management related activities emanating from SADC Secretariat.

2.2.2 Alternative focus areas for the project were also considered but narrowed down to the most impactful activities, while also supporting a few operational activities that form part of the SADC's core mandate. It takes a holistic approach to addressing the challenges of the SADC Secretariat (e.g. capacity) while at the same time ensuring maximum complementarity with other strategic partners. For example, while the EU, GIZ and World Bank are supporting SADC with preparation of infrastructure projects through SADC PPDF as well as development of regional value chains in agro processing and pharmaceuticals, the Bank's support will focus on establishment of a sustainable financing mechanism supporting development of regional infrastructure and industrial development. The project will also focus on value chains in mining sub-sectors of copper and cobalt to support the region's mineral beneficiation initiatives.

A summary of the technical considerations and project design options is presented in Table 4.

Table 4: Project Alternatives Considered and Reasons for Rejection

Alternative	Brief Description	Reason for Rejection
Target MS for sustainable financing of regional projects	Specific country needs will be identified and support for sustainable financing of regional projects will be channeled at country level	The approach departs from the regional approach of financing regional projects and also spreads resources too thinly.
Independent approach of using a Stand-alone PIU	Provide support through a stand-alone Project Implementation Unit with the unit manned by project staff.	The approach as demonstrated by projects implemented through stand-alone PIU by SADC Secretariat does not guarantee effective implementation of the project.
Funding modality	The approach would target each member country for resource mobilisation for regional project	This would have defeated the objective of building the spirit of togetherness and consensus in developing a common future for the SADC Member States. The approach adopted will ensure a common understanding amongst the countries as they will jointly agree financing mechanism of regional projects. Also, the approach adopted will facilitate buy-in alms.
Focus areas of the project	SADC Secretariat submitted a long list of activities requiring funding. Following thorough assessment by the team, it was decided to strictly apply the selectivity principle, by placing particular emphasis on activities that have the potential to make a significant impact on the SADC's efficiency, effectiveness and relevance, while ensuring complementarity with other strategic partner interventions and avoiding duplication	A significant share of resources would have been allocated to financing activities that are essentially operational in nature, with limited scope for transformation of the SADC.

2.3 Project Type

The project is a regional/multinational operation that meets the criteria of regional public goods (RPG). The Table 5 below indicates that the proposed project satisfies all seven criteria of regional public goods (RPG).

Table 5: Compliance with RPG requirements

Criteria	Evaluation
Non-rivalry	Participation by the third parties in developing regional infrastructure and industrial projects as well as developing financial instruments for resource mobilisation and risk mitigation including operationalisation of the RDF will not diminish the utility of such measures to the primary beneficiaries.
Non-exclusion	All outputs generated by SADC work, including outputs from this project, fall under the RPG. Thus, once the regional infrastructure and industrial project are developed and the financial instruments identified, developed and implemented, the benefits will accrue to all SADC Member countries.
Of public interest	All SADC Member countries have been consulted at all stages of project preparation and have agreed to work towards development of regional infrastructure and industrial projects as well as developing financial instruments for resource mobilisation. This will promote sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation, and ultimately its eradication. SADC has frontloaded industrialisation to drive regional economic integration and improve the lives of people of southern Africa and improving peace and security. Infrastructure has also been identified as an enabler for industrialisation. The expected outcome of enhanced industrial development in SADC region is to contribute to creation of jobs and reduce the high unemployment levels plaguing the region especially among the youth.
Multi-country involvement	The support to SADC on sustainable financing of regional infrastructure and industrial projects will be inclusive, building from national to regional level, to ensure ownership and further use of financial instruments and resources by member countries.
Strategic alignment with Bank work	The project is in line with the Bank's TYS (2013-2022) which seeks to support regional integration in Africa for sustainable and inclusive growth as well as integration with the global economy. It is also in line with the Bank's regional integration strategy framework 2018-2025 that places emphasis on i) Infrastructure connectivity; ii) Trade and Investment; and iii) Financial Integration.
Catalytic & upstream role	The Bank's support to the project will go beyond the time frame of this project, and play a catalytic role of establishing a regional financing mechanism that will assist in unlocking and dispersing of resources for regional projects.
Incremental Benefit in Cooperating	The successful implementation of this project will boost the execution of SADC regional projects. It will therefore contribute to enhancing physical and economic integration as well as industrialisation amongst SADC member countries and ultimately boost intra-regional trade. The project will contribute directly to enhancing cooperation among SADC countries and in line with the principles of establishment of the SADC Treaty.

2.4 Project Cost and Financing Arrangements

2.4.1 The estimated total cost of the project, net of taxes and duties is UA1.5 million. Counterpart contribution by the executing agency (SADC Secretariat) will include project coordinator financed fully by SADC Secretariat, Procurement Expert & Financial Management Specialist financed by 50% from the ADF project financing and 50% from SADC Secretariat. In addition SADC will also provide office space at its headquarters in Gaborone, Botswana, office supplies, internet connectivity and communication costs over the duration of the programme. The Secretariat estimates the following:

2.4.2 Overall, SADC's in-kind contribution to the Project is estimated at approximately US\$846,000 (UA603, 984), which translates to 28.7% of total project cost.

2.4.3 Table 6, 7 and 8 presents the estimated project costs by Category of Expenditure, sources of financing and projected expenditure respectively. Additional details of the project cost by component and expenditure category are presented in Technical Annex B5.

Table 6: Project Cost Estimates by Component (in US\$ and UA)

Component		US\$	UA
1	Operationalisation of the SADC Regional Development Fund and development of Financial Instruments	600,000	428,571
2	Development of regional value chains in selected mining sector	750,000	535,714
3	<u>Identification, categorization, and development of priority projects from SADC RIDMP</u>	700,000	500,000
4	Beneficiary's contribution	846,000	613,857
5	Contingency	173,760	124,688
Total		3,069,760	2,,020,831

Table 7: Sources of financing (in UA)

Sources of Financing (UA)	FE	%	LC	%	Total	%
ADF Grant	1,500,000	68.1	n/a	n/a	1,500,000	68.1
Beneficiary contribution	702,831	31.9	n/a	n/a	702,831	31.9
Total	2,202,831	100	n/a	n/a	2,202,831	100

Table 8: Project Expenditure Schedule

Components	2019 (UA)	2020 (UA)	2021 (UA)
Component 1: Operationalization of SADC RDF and development of financial instruments	150,000	200,000	149,000
Component 2: Development of Regional Value Chains in selected mining sector	200,000	300,000	72,643
Component31: Identification, categorization, and development of priority projects from SADC RIDMP.	150,000	200,000	78,357
Total base cost	500,000	700,000	300,000
Total	500,000	700,000	300,000

2.5 Project's Target Area and Population

2.5.1 The project main benefits include increase in: i) resources for developing regional infrastructure and industrial projects; ii) intra-regional trade; and iii) regional value chains.

The project's direct beneficiaries are the countries that are members of SADC and have ratified or acceded to the SADC Treaty (16 in all) and the SADC Secretariat, who will benefit from the establishment of sustainable financing mechanism for regional projects, increase in intra-regional trade as a result of development of regional value chains, increase in growth as a result of development of regional infrastructure projects and sharing of experiences and best practices. In addition, the project will contribute to the continental integration agenda by enhancing connectivity not all across SADC but also with other regions through support to programmes that are also under the programme for Infrastructure Development (PIDA). Private sector will also benefit indirectly from an improved business environment and participating in the implementation of various financial instruments including preparation and developing of regional projects.

2.6 Participatory Process for Project Identification, Design and Implementation

2.6.1 During project preparation and appraisal, the Bank mission held discussions with staff of the SADC Secretariat, strategic partners and other stakeholders, with a view to strengthening collaborative efforts to support SADC's agenda for establishing a sustainable financing mechanism for regional projects. Discussions focused on how the Bank can assist in addressing the numerous challenges highlighted in para 1.0.3, emanating from assessments carried out mainly by the Secretariat, and through technical discussions in which the Bank participated. For more details on this engagement and coordination arrangements of both internal and external stakeholders, see annex 6.

2.6.2 The project design is also informed by the following reports, which are products of consultative processes involving SADC Secretariat and other partners: SADC Treaty of 1992, SADC Agreement for Regional Development Fund, Revised SADC Regional Indicative Strategic Development Plan 2015-2020; SADC Industrialization Strategy and Roadmap, 2015-2063; SADC Regional Infrastructural Development Master Plan 2014-2027 and SADC Project Preparation and Development Facility, among others. Based on the information obtained from the strategies and issues raised by stakeholders, the Bank held discussions with staff of the SADC Secretariat during the appraisal mission and agreed through consensus to include some of the issues raised by stakeholder into the report PAR. For more details on how issues raised by stakeholders have been addressed and taken into consideration in designing this project see Annex 6.

2.6.3 A roadmap has been developed as a result of this approach and further consultations during the implementation phase, will be held with beneficiaries and development partners with a view to ensuring smooth project implementation and coordination.

2.7 Bank Group experience, lessons reflected in project design

2.7.1 The design of this project is guided by various analytical reports and the outcome of consultations during the project preparation and appraisal missions. Between 2006 and 2018, the Bank approved roughly UA 52 million for 5 multinational projects focusing on technical support to development of the Agreement for SADC RDF, control of Communicable Diseases; Capacity Building for Open Distance Learning; Strengthening Institutions for Risk Management of Transboundary Animal Disease; and SADC Shared Watercourses. The Bank also provided support to the preparation and development of regional infrastructure projects managed by the Secretariat, some of which include Nacala

corridor (linking Zambia-Malawi-Mozambique) and Kazungula Bridge (linking Botswana-Zambia over the Zambezi River). Review of the performance of regional projects indicate that generally, such projects tend to perform fairly better when designed as standalone projects. The complete list of the 7 multinational project designed and implemented by SADC between 2006 and 2018 include lessons learned and actions taken to integrate them in project design are presented in Table 9 below.

Table 9: Lessons learnt reflected in Project Design

Project Title	Lessons learned	Action taken to integrate lessons into the PAR
Nacala Phase 1 & 2 in Mozambique UA142.6 million and Zambia UA69.4 million. Status-Ongoing- (2009-2021)	<ul style="list-style-type: none"> • Need to carefully assess and choose the most appropriate procurement methods and simplify disbursement procedures. 	The project design will take into account implementation aspects especially with regard to procurement
Kazungula bridge project-Bank supporting Zambian side-UA51 million Status-Ongoing-(2014-2019)	<ul style="list-style-type: none"> • Need to closely supervise consulting firms to ensure relevance and quality of service delivery. 	Project will ensure that the Steering Committee to facilitate implementation of the project is put in place prior to the commencement of the project
SADC RDF-Technical Support to develop the Agreement for the Fund (2013-2018)	<ul style="list-style-type: none"> • Need to closely supervise consulting firms to ensure relevance and quality of service delivery 	Project will take into account lessons learnt in developing the Agreement for SADC RDF
Shared Water Courses Support Project- UA15.2 million. Status-Closed-(2007-2013)	<ul style="list-style-type: none"> • Need to ensure adequate capacity within the PMU to ensure effective implementation of the project. 	Project will ensure that the PMU is well resourced. The procurement methods for all categories of expenditure will be guided by Bank Procurement Procedures and have been carefully chosen in close consultation with the Executing Agency – the SADC Secretariat.

2.8 Key performance indicators

2.8.1 The key performance indicators identified, and the expected outcomes on project completion, are set out in the Logical Framework. Expected outcomes include operationalisation of SADC RDF, development of RVCs, development of a pipeline of bankable regional infrastructure projects and project prioritised & presented at the AIF, and improvement in the capacity to develop and implement regional projects. Expected outputs under component I include operationalisation of the SADC RDF through development of diagnostic notes on the modalities of operationalising the Fund, development of the implementation plan for SADC RDF, ratification of the Agreement by the two third of Member States ratified, and development of financial instruments for resource mobilisation. Expected outputs under Component II will include mapping of RCVs, identification, and preparation of RVCs in mining subsectors of copper and cobalt, and prefeasibility studies for potential RVCs. Expected outputs under Component III include development of a framework/tool for prioritising regional projects, single priority list of regional projects, proof of concept for mobilising sustainable financing for regional projects, and AIF-SADC project pipeline. Expected outputs under Component IV include capacity needs assessment in project development; capacity building in project development; and capacity building on how to access climate finance.

III – PROJECT FEASIBILITY

3.1 Economic and financial performance

3.1.1 This programme is an institutional support and technical assistance intervention. Therefore, traditional economic and financial analysis do not apply. However, it can be stated that the project will contribute to deepening of regional integration through increase

in intraregional trade. The resultant financing of RVCs and infrastructure development will also be conducive to more productive investments which is critical to the economic transformation of SADC and realisation of the SADC regional plans, Bank TYS, RISF and the High 5s.

3.2 Environmental and Social impacts

3.2.1 Environment and climate change: The project will not have a negative impact on the environment and is classified as Category 3. (Annex 3). With regards to climate change, the project is not directly vulnerable to climate risk but presents an opportunity to design and finance infrastructure systems that are low-carbon and climate resilient. Despite the region's low contribution to climate change (less than 2.8% of global greenhouse gas emissions), it is the most vulnerable region to climate change impacts, with serious consequences on communities, ecosystems, the economy (infrastructure, operations and provision of services) and broader human development.

3.2.2 According to the IPCC, average temperatures in the region have risen by over 0.5°C over the last 100 years and it is expected that going forward the region's climate will become more variable and extreme. Against this backdrop, the financing of regional infrastructure and industrial projects in SADC should aim, among others, to: prioritise the design and financing of projects that deliver better services while protecting the environment. The specific actions to implement in this regards include: developing capacity to plan, design and finance low carbon and climate resilient infrastructure; adequate coverage of climate change and green growth qualifying projects in the SADC regional portfolio supported by resources mobilised through the mechanism;. This intervention is expected to greatly contribute to helping SADC countries reach the climate change mitigation and adaptation goals laid out in their climate change strategies, Nationally Determined Contributions and National Adaptation Plans (NAPs) and others, as relevant.

3.2.3 Social: The project aims to achieve socio-economic development and poverty alleviation through improved sustainable financing of regional infrastructure and industrial projects. Ultimately, the project seeks to foster deeper regional integration of SADC through sustainable financing of regional projects. By establishing a sustainable financing mechanism for regional projects, the project will contribute to unlocking of resources from the private sector and institutional investors of which, if successfully implemented, can contribute to poverty reduction and socioeconomic development across the region. Against this backdrop, it is expected that the project will contribute to developing regional projects which will lead to economic growth and ultimately poverty reduction in the region. The social and poverty-reducing impact will be directly reflected in the number of jobs created, the number of business start-ups and their sustainable growth. In addition, the project will also draw in broader issues including those of youth and gender, which are critical to SADC's development Agenda.

3.2.4 Gender: The SADC Gender Policy is the underpinning framework guiding SADC's approach to gender equality. Gender is identified as one of the cross-cutting issues in SADC. According to SADC Protocol on Gender, participation of women in the infrastructure and minerals sectors has historically been low compared to that of men. Factors such as the lack of required skills and taboos have contributed to the low participation of women in these sectors. For instance, in mining on average, the SADC minerals sector draws about five per cent of its labour force from women. While commendable progress has been made on gender issues in the SADC industrial sector over the last decade. The project should contain empowerment dimensions to widen the scope and quality of women and youth's participation in the industrialization process, notably by improved access to finance, skills development and SME support programmes, and livelihood skills of women and youth, particularly in high value-adding industries in such areas as services, manufacturing, horticulture, transport, energy, agricultural and trade industries.

Similarly, infrastructure projects, are often gender insensitive because it is assumed that women and men will automatically equally benefit from new infrastructure, without due acknowledgement of the full range of social and economic impacts, whether positive or negative. Too often, the positive outcomes experienced by women through infrastructural projects are unintended and unplanned. Well-designed, appropriately located and affordably priced infrastructure can be a powerful tool in achieving gender neutral opportunities. Therefore, gender mainstreaming should not only be regarded as a factor requiring attention in infrastructure projects, but rather must be considered as a critical factor in the project's success and sustainability by ensuring that women do not become worse off both absolutely and in relation to men due to male-bias in infrastructure project design and management. The proposed project will enhance gender mainstreaming into SADC regional project development programme. In addition, the resulting regional infrastructure connectivity will facilitate cross-border trade, both formal and informal. Indeed, women are the major players in cross-border trade. Gender mainstreaming will be achieved by ensuring gender disaggregated statistics are provided and closely monitored.

3.3 Gender Mainstreaming

3.3.1 Gender will be mainstreamed in specific identified regional projects. Based on the gender categorization; the project has been categorized as a category IV. Gender analysis will be done on specific identified regional projects based on specific sectors. Category IV projects; assumes that the project has no gender elements of any kind, this Category allows minimal attention to gender, is predicated on the assumption that there are very few, if any, operations that provide no opportunity whatever to address gender concerns. Under this category, one or more of the project's activities may be gender focused, but these are not central to the achievement of project objectives. Targets related to these activity/ies are sex-disaggregated or, where sex-disaggregation of data is not possible, are considered to be gender-relevant, depending on the specific sector and the nature of the project. There will be no anticipated negative gender impacts or gender-based risks to the project implementation.

3.3.2 Involuntary resettlement: The project will not result in any population displacement.

IV – IMPLEMENTATION

4.1 Implementation arrangements

4.1.1 The SADC Secretariat will be the Executing Agency (EA) for the project. Implementation of the project will be done through the Project Implementation Unit (PIU). The PIU, headed by Project Manager and comprising a procurement expert, financial management expert and monitoring and evaluation expert, will be in charge of the day to day management of the project. The PIU, through the project manager, will report to the Project Management Committee (PMC), comprising the Executive Secretary and heads of directorates benefiting from the project. The Steering Committee, comprising Officials from the SADC, Bank and Donors as observers, will be the main oversight body for the project. The Secretariat will provide reports to the Bank and other Strategic Partners and will be accountable for all the resources disbursed. Capacity of the SADC Secretariat was assessed during appraisal, and appropriate mitigation measures have been put in place, including recruitment of a project coordinator (to serve for two years), one additional finance officer (to serve for three years) and a procurement specialist (to serve for one year). The Secretariat has made an undertaking to fill the positions of Monitoring and Evaluation Officer and Procurement Officer. This is designed to facilitate knowledge transfer and ensure that the procurement and monitoring and evaluation functions continue to operate smoothly in a sustainable manner both for the duration of the project and beyond. One of the Secretariat will also be assigned by SADC Secretariat to the Project Implementation Team.

4.2 Work Program

4.2.1 There will be a consolidated Work Plan and Procurement Plan to be managed by SADC Secretariat.

4.3 Project Governance and Implementation Structure

4.3.1 To ensure the implementation, supervision and evaluation of the project, the proposed governance framework is to be anchored on the Technical Group for strategic oversight. This is consistent with the wishes of the partner. The Technical group is made up of representatives from the AfDB, SADC Secretariat, SADC Development Finance Resource Centre, and other partners as observers.

4.3.2 Furthermore, in order to ensure that the project is well secured, SADC Secretariat will mainstream the project in the SADC PIM under the Directorate of Policy Planning and Resource Mobilisation.

4.4 Financial Management (FM)

4.4.1 The FM assessment carried out by the Bank (including a review of the budgeting, accounting, internal controls, flow of funds, financial reporting and auditing arrangements) concluded FM systems within SADC Secretariat satisfies the Bank's minimum requirements, to ensure project funds are used economically and efficiently and for the purpose intended. The Secretariat has implemented past Bank-funded projects, and overall FM performance for past projects were generally satisfactory. The assessment

however revealed the need to fill existing vacancies within the finance directorate (including Finance Officers Grants, Contracts and Projects, and Finance Officer Project Audit and Compliance); which the Management of SADC has already initiated the process to address no later than 31 December 2018. Overall FM risk is rated as Moderate.

4.4.2 All Bank funds to be disbursed under the project would be in accordance with rules and procedures as set out in the Bank's Disbursement Handbook (that can be accessed from the Bank's website) as applicable. The Bank will issue a Disbursement Letter of which the content will be discussed and agreed with SADC Secretariat during negotiations. Detailed FM and disbursement arrangements are also included in the PAR (Technical Annex B.4).

4.4.3 The Bank's General Conditions enjoins all Bank-funded projects to prepare and submit annual audited financial statement and a management letter no later than six (6) months after the each of each financial year or any other date that may be mutually agreed between the Bank and the Borrower. In accordance with the Bank's approved audit terms of reference, SADC Secretariat will be required to prepare and submit audited financial statements and management letter to the Bank not later than six (6) months after the end of each financial year throughout project implementation. Detailed auditing arrangements are included as part of the (Technical Annex B.4).

4.5 Implementation Risk and Mitigation

4.5.1 During appraisal, the Bank Mission Team established that the project risk is moderate for the following reasons: (a) Qualified and experienced staff are in place including a project accountant familiar with Bank procedures, (b) presence of reliable integrated information systems that will ensure completeness in the processing of the respective Grant transactions, (c) a strong oversight mechanism anchored in the internal audit department, (d) the financial rules and regulations of SADC for the purposes of maintaining books of accounts that are also in use by SADC secretariat. There is however certain risks associated with the implementation of the project that may affect its overall performance. These include: (i) processing of a high volume of transactions may overstretch the existing capacity in the finance unit, resulting in incomplete, untimely recording and delayed reporting, and (ii) funds flow may be affected by delayed accountability by SADC Secretariat, affecting the project's performance.

4.5.2 Appropriate mitigation measures have been incorporated into the design of the financial management arrangements which will eventually reduce the residual risks of the project. The proposed measures include: (a) SADC Secretariat making use of alternative disbursement methods prescribed in AfDB's disbursement handbook where applicable; (b) strengthening the capacity of the FM team for Bank funded projects through secondment of a qualified and experienced accountant to assist in processing the high volume of transactions; (c) configure the existing accounting software to enable complete recording and reporting of the programme's transactions; and (d) ensuring that the internal audit department undertake ex-post review of the programme's transactions, and (e) appointing of the external auditor for project resources as dated covenants.

4.6 Procurement Arrangements

4.6.1 Procurement of consulting services and non-consulting services financed by the Grant resources under the project, will be carried out in accordance with the "Procurement Policy for Bank

Group Funded Operations”, dated October 2015, using the relevant Bank Standard Bidding Documents. Details of the procurement is contained in Annex 5B. A Procurement Plan covering the first 18 months period of programme implementation is developed attached to the PAR (see Annex 5B). The EA shall update the Procurement Plan on an annual basis or more often as required always covering the next 18 months period of programme implementation. Any revisions proposed to the Procurement Plan shall be furnished to the Bank for its prior approval.

4.6.2 Procurement Risks and Capacity Assessment (PRCA): The assessment of procurement risks at Project level and of procurement capacity at the Executing Agency (EA), were undertaken for the project and the output has informed the decision on the procurement regime (Bank PMPs) being used for specific transactions or groups of similar transactions under the project. The appropriate risk mitigation measures have been included in the procurement PRCA action plan proposed in Technical Annex B5, B5.8.

4.6.3 A functional Procurement Unit exist within the SADC Secretariat which charged with the overall responsibility of coordination and implementation of the procurement processes for the SADC Secretariat, as well as provisions of support to various intervention projects. In order to effectively manage procurement activities under the project, a dedicated procurement specialist will be assigned to work with the project team.

4.7 Disbursement

4.7.1 Given the nature of activities to be financed under the project, it was agreed for the EA to make specific use of the Special Account (SA) and the Direct Payment methods of disbursement in accordance with Bank rules and procedures as laid out in the Disbursement handbook as applicable. The project would be allowed, upon request, to make use of other disbursement methods including; Reimbursement and Reimbursement Guarantee methods as contained in the Disbursement handbook. The Bank will issue a Disbursement Letter, the content of which will be discussed and agreed with Executing Agency during negotiations.

4.8 Monitoring and Evaluation

4.8.1 The Bank will undertake rigorous monitoring and supervision missions, at least, twice a year. As per the Bank’s standards for project implementation and result reporting, SADC Secretariat will submit quarterly and annual progress reports. The reports will review progress made against targets set out in the Project’s Results-Based Logical Framework and include a clear presentation of activities implemented at regular intervals. The reports will also analyze the extent to which the activities undertaken have contributed towards the realization of the anticipated project outputs, outcomes and objectives. The reports will offer recommendations to address implementation bottlenecks. The SADC Secretariat will be required to prepare and submit to the Bank, a Project Completion Report within three months of the final disbursement. The Report will draw lessons for follow up regional operations. RDGS and RDRI will play an active role in project monitoring and evaluation. Table 11 below presents the project implementation and monitoring schedule.

Table 10: Project Implementation Schedule

Task/Milestone	Responsible Party	Time Frame
Grant Approval	AfDB	<u>April</u> 2019
Grant Effectiveness	AfDB/SADC Secretariat	<u>May</u> 2019
Project Launching	AfDB/SADC Secretariat	May 2019
First Disbursement	AfDB	May 2019
Mid-term Review	AfDB	<u>June</u> 2020
Project Completion Report	AfDB/SADC Secretariat	<u>May</u> 2021

4.9 Governance

4.9.1 Robust governance arrangements have been put in place to manage the implementation, monitoring, review and audit of this project. The project will help to strengthen implementation of regional projects by SADC thereby further deepening regional integration and create space for citizen participation in regional integration through sustainable financing of regional projects. It will help strengthen SADC's role in implementing regional projects and raise the profile of good governance across SADC region. A stronger sustainable financing mechanism means improved implementation of regional projects as well as increase in ownership of regional integration by SADC member countries.

4.9.2 The risks to the project governance may arise in procurement decisions and selection of consultants to undertake implementation of activities of the project. Such risks will be mitigated through the preparation of a detailed procurement plan, robust follow-up of contractors and participant selections, and application of the relevant Bank's standard rules and guidelines. Further training will be provided to the Project Implementation Team to ensure that they fully understand the Bank's procurement and financial management requirements and regulations during the launching mission. An independent audit of project financial accounts and procurement reviews will be undertaken every year.

4.10 Sustainability

4.10.1 The sustainability of the proposed project is, among others, anchored on SADC establishing a sustainable financing mechanism in the context of a rapidly changing environment of financing regional projects to support regional integration. This requires establishment of financing mechanism of regional projects similar to the ones already existing in other Regional Economic Communities such as West African Development Bank, ECOWAS Bank for Investment and Development, East African Development Bank, and East African Infrastructure Development Fund. A key element of the project design is a strong institutional capacity of setting up a financing mechanism as well as capacity building dimension for developing regional projects. All consultancies to be financed by the project will have a built-in knowledge transfer aspect, thereby ensuring that SADC officials are capacitated on sustainable financing and developing of regional infrastructure and industrial projects, hence guaranteeing sustainability over time.

4.10.2 In addition, the proposed project will finance certain activities, such as the plan for operationalising the SADC RDF and tool for prioritising regional projects, which will guide and inform SADC in choosing regional projects on a consensus basis for preparation and development through sustainable financing mechanisms over time. The significant investment in the operationalisation of SADC RDF as a sustainable financing mechanism

for regional projects will help to position the SADC as a regional institution which can finance its projects, and in the long term, can make SADC less dependent on donor support, hence addressing the question of sustainability. Furthermore, the project takes cognizance of the evolving global development cooperation architecture as outlined in the Paris Declaration on Aid Effectiveness (2005); the Windhoek Declaration (2006), the Accra Agenda for Action (2008); and particularly the outcome of the Busan 4th High Level Forum on Aid Effectiveness (2011) that forms an integral part of a new and more inclusive development agenda, recognizing the inclusion of the private sector and other actors to participate on the basis of common goals, shared principles and differential commitments.

4.11 Risk management

4.11.1 The potential risks and mitigation measures for the project are summarized Table 12 below.

Table 11: Risk and mitigation measures

	Risks	Probability/Impact	Mitigation Measures
1	Weak implementation capacity by the Executing Agency.	High probability/moderate impact	Project will adopting a stand PIU dedicated to implement the project activities and build capacity in preparing and implementing similar projects in the future
2	Low utilization of the budget	High probability/moderate impact	Procurement processes will be streamlined to ensure early effectiveness
3	Delay in project start-up and procurements	Low probability/High impact	Authorize SADC to undertake advance contracting

4.12 Knowledge building

4.12.1 The Project will contribute to knowledge building through skills and knowledge transfer among SADC member countries. The focus on the production of capacity building material, plans for operationalisation of the SADC RDF and tools to aid selection and prioritisation of regional projects for financing will play a critical role in knowledge generation and dissemination in the area of sustainable financing of regional projects. Amongst others, the project will support the development of financial instruments for resource mobilisation. The project will also support the mapping of regional value chains in mining sub-sector of copper and cobalt which will contribute to industrialisation in SADC as well intraregional trade. The Bank will capture and disseminate knowledge and experience through sharing the findings of supervision missions, progress reports, and the Project Completion Report. Lessons learned and experience gained will help to inform the design of future operations.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal instrument

5.1.1 The legal instrument for the Fund’s financing will be a Protocol of Agreement with SADC Secretariat as the Recipient.

5.2 Conditions associated with Bank’s intervention

5.2.1 Conditions Precedent to Entry into Force: The Protocol of Agreement shall enter into force on the date of its signature by the Recipient and the Fund.

5.2.2 Conditions precedent to first disbursement: The obligation for the Fund to make the first disbursement of the Grant shall be conditional upon the entry into force of the Protocol of Agreement.

5.3 Compliance with Bank Policies

5.3.1 This project complies with all applicable Bank Group policies.

VI – RECOMMENDATION

6.1 Management recommends that the Board of Directors approves a grant of UA 1,500,000 (One Million Five Hundred Thousand Units of Account) from the ADF Regional Public Goods window, to finance the Project under the terms and conditions stipulated in this report.