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**EXECUTIVE COUNCIL**

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**PROGRESS REPORT ON THE ESTABLISHMENT OF  
THE AFRICAN UNION YOUTH FUND**

## 1.0 Background

1. Africa's youth population is rapidly growing and is expected to double to over 830 million people by 2050. If properly harnessed, this increase in the working age population could support increased productivity and stronger, more inclusive economic growth across the continent. However, there are many challenges to be addressed before this vision can become a reality. As Africa's youthful population continues to grow, uncertainty remains regarding the continent's readiness to channel its human resources in support of an economic growth agenda.

2. In this context, the African Union Assembly has taken a decision to establish an African Youth Fund as a resource base for youth empowerment and development (African Union, 2011). The guiding document behind the decision to establish the fund is Agenda 2063, a shared framework for inclusive growth and sustainable development for Africa to be realised in the next fifty years.

3. Aspiration 6 of Agenda 2063 speaks to an Africa "whose development is people-driven, relying on the potential of African people, especially its women and youth...". It envisions an Africa in which youth are fully engaged and empowered to play their rightful role in all spheres of life and aspects of development, including the social, economic, political and environmental (African Union, 2015).

4. While various youth development interventions are already being implemented across the African continent, often the challenge facing development partners is how to accelerate, scale-up and enhance effective initiatives. In this context, an African Youth Fund that leverages the unique convening power, continental reach, local knowledge, and policy influence of the African Union has a potentially catalytic role to play.

## 2.0 Youth Fund Strategy and Structure

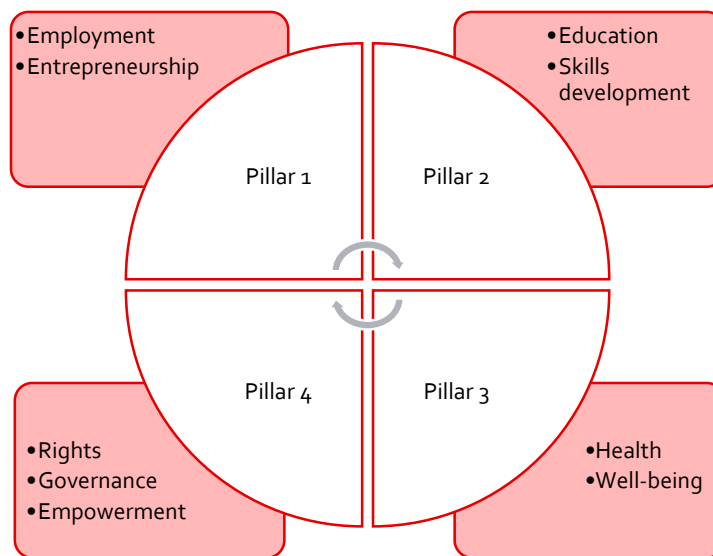
### 2.1 *Mission*

5. The mission of the African Youth Fund is to build a public private partnership between donors, international finance institutions, private investors and African stakeholders that provides catalytic capital, demonstrates effective models, and influences policy in support of replicable and/or scalable youth development initiatives and youth-led transformative action across the African continent.

#### 2.1.1 *Target Areas*

6. The African Youth Fund aims to address four key interconnected pillars (hereafter, the "Pillars") that are most critical to setting African countries on the path towards harnessing the demographic dividend; namely (1) employment and entrepreneurship, (2) education and skills development, (3) health and wellbeing, and (4) rights, governance and empowerment.

Figure 1: Target areas



### **2.1.2 Target Countries**

7. The African Youth Fund will support Partner Investees and projects established in member countries of the African Union, which comprises the following countries:

### **2.1.3 Target Beneficiaries**

8. The Youth Trust Fund will focus on the provision of investments and grants to youth led and/or owned small and medium enterprises (hereafter, “SME” or “SMEs”), financial intermediaries (hereafter, “FI” or “FIs”) and non-governmental organisations (hereafter, “NGO” or “NGOs”) focusing on Pillars 1, 2, 3 and 4 (as defined in Section 2.2). The vehicle will also provide funding to organisations with direct impact on youth..

### **2.1.4 Use of existing structures**

9. The African Union Development Agency (AUDA-NEPAD) coordinates and executes priority regional and continental development projects to promote regional integration towards the accelerated realisation of Agenda 2063 – Africa’s vision and action plan. As part of the AU, AUDA-NEPAD has experience in implementing grant funds so is well positioned to manage some of the operational elements of the fund.

## **2.2 Types of interventions**

10. While applicants to both the Investment Fund and Grant Fund will be required to adhere to the high-level principles outlined above, the fund will support specific programmes. These may be offered directly by the institution or the institution may play an intermediary role. The types of interventions eligible for funding per pillar are outlined below and are aligned to the Demographic Dividend Roadmap adopted by the AU Assembly.

### **2.2.1 Pillar 1 – Employment and Entrepreneurship**

- Support to establish SMEs that offer a service/product in sectors where there is likely to be growth and that can support employment for young people. (Preference will be shown for enterprises offering services/products supporting pillars 2, 3 and 4).
- Support to FIs that have financial products dedicated to established SMEs that offer a service/product in sectors where there is likely to be growth and that can support employment for young people.
- Support to intermediary institutions that offer entrepreneurial development support (such as coaching, systems development, education and training) and/or funding to youth-led commercial enterprises that are within target corporate supply chains and/or value chains that are being developed.
- Support to intermediary institutions that offer entrepreneurial development support and/or funding to youth-led social enterprises that address a social imperative and have income-generating potential (e.g. waste management projects).
- Programmes that enable young people to effectively transition from education to the labour market in a manner that takes into account the specific characteristics of the cohorts that are being targeted (e.g. network building, counselling, matching, close-the-gap education and training programmes, placement, referrals, etc.)
- Programmes that seek to grow an industry that has employment possibilities for youth and that can identify skills required for youth to enter these opportunities (e.g. action lab processes).

### **2.2.2 Pillar 2 – Education and Skills Development**

11. The interventions in this pillar follow the interventions in the existing Skills Initiative for Africa (SIFA). Examples are:

- Construction of facilities.
- Rehabilitation and/or extension of facilities.
- Equipment of workshops and classrooms.
- Provision of scholarships.
- Image campaigns.
- Regional/continental skills competitions.
- ICT based approaches to skills development.
- Entrepreneurship/mentorship programs

### **2.2.3 Pillar 3 – Health and Well-Being**

- Programmes or SMEs that utilize modern technology to enable young people to access health systems and providers.
- Programmes that use an integrated approach to addressing social and economic factors affecting health (e.g. interventions addressing substance abuse and involvement in risky behaviours that prevent young people from fully participating in society and the economy).

- Supporting initiatives that enable young people to access Sexual Reproductive Health interventions (this support could include direct funding, technical support, training of practitioners etc.)
- Programmes that engage youth groups in communities to support increased involvement of young people in community life (with a focus on vulnerable groups, women and girls).

#### **2.2.4 Pillar 4 – Rights, Governance and Youth Empowerment**

- Technological innovations that enable young people to have a voice on key issues within their countries and regions.
- Programmes that support young people to participate in structures/processes that provide experiences of democratic engagement (e.g. local youth councils / forum etc.)
- Programmes that build young people’s capacities in the context of democracy-supporting processes (e.g. electoral processes).
- Programmes that support youth in journalism, with a focus on monitoring government performance and promoting government transparency and accountability.

### **2.3 Funding Vehicles**

12. The African Youth Fund will be structured as a Trust Fund i.e. legal entity that holds and manages assets on behalf of the investors / donors. The Trust Fund will be the overarching fund that disburses funds to two sub-vehicles: (1) an Investment Fund and (2) a Grant Fund.

13. The Investment Fund will seek to invest in a balanced portfolio of:

- SMEs: small and medium enterprises that will hire (additional) youth, ideally also owned and managed by youth and employing youth;
- Financial Intermediaries: regulated and/or non-regulated microfinance institutions and/or local commercial banks and/or other financial institutions including funds, providing funding to micro, small and medium enterprises (hereafter, “MSMEs”) established by or employing youth.

14. (Each a “Partner Investee”). Preference will be given to SMEs and MSMEs offering products or services that directly or indirectly contribute to Pillars 2, 3, and 4. The Grant Fund will seek to support:

- Partner Investees: financial intermediaries supported through the investment fund may also apply for grant-funded capacity building or technical assistance.
  - Partner NGOs:1 established NGOs may apply for grant funding for the implementation and/or support of programmes aligned with the four Pillars (as outlined in Section 2.4). The NGOs can use this for ‘youth projects’ or ‘innovative youth solutions’. The idea to allow room for small grants to young people e.g. through a challenge fund mechanism.
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### 3.0 Decision-Making and Governance Framework

#### 3.1 Youth Fund Governance Committee

15. In line with the African Union Financial Rules and Responsibilities, the overall responsibility for the fund shall be with the Chairperson of the Commission as the Accounting Officer within the proceedings of the Union. Acting on the mandate of the Chairperson, a committee shall be constituted to direct the governance of the fund. Membership of the committee shall include the Director responsible for Youth Development at the AUC, Director responsible for Finance at the AUC as well as two external committee members appointed by the Chairperson of the Commission in line with the AU Financial Rules and Regulations. The respective officers for youth development at the AUC and AUDA-NEPAD shall be the secretariat of the Board. The Chairperson of the Commission shall chair the Board of the Fund or designate a representative (either the Commissioner responsible for Youth Development or the CEO of AUDA-NEPAD) in his stead.

16. Implementation of the fund through the passthrough mechanism will allow the consolidation of this project within AU processes in line with AU Financial Rules and Regulations. The expenditures for the functioning of the funds will be decided and approved through the AU budgetary process.

#### 3.2 Board of Trustees

17. The Board of Trustees shall be composed of 7 independent members, personalities with a proven knowledge of the African Youth context and an understanding of the various stakeholders of the Youth Fund. The Trustees will be nominated (but not employed) by the 3 types of stakeholders: (1) the youth, (2) the African Union and development partners, and (3) the private sector and investors.

18. A Chair who will preside over the meetings will be selected by the Chairperson of the Commission.

### 4.0 Operational Process

19. The key activities that comprise the investment and grant-making process are captured in the figure below.

Figure 2: Investment and grant-making process



Each of these steps is outlined in the sections that follow.

#### **4.1 Origination and Screening**

20. The purpose of the origination process is to ensure that a deep and sufficient pipeline of potential transactions exists for the Investment Fund and Grant Fund respectively. The creation of a pipeline is an integral part of the responsibility of the fund team. To this end, the Fund Team receives (annual) targets that are part of its KPIs and undertakes necessary acquisition activities to achieve these targets.

#### **4.2 Due Diligence**

21. Once the screening is approved internally by the Fund Team, the Investment / Grant Officer can start the Due Diligence process.

22. The Due Diligence process begins with Desktop Research about the project. The Investment / Grant Officer requests usually the most recent business plan, audited annual financial statements, recent financial statements (last three months), a possible rating by a rating agency and any other available information including performance indicators if available.

23. A Customer Due Diligence (CDD) is also performed: CDD information comprises the facts about a customer that should enable an organization to assess the extent to which the customer exposes it to a range of risks. Two types of CDD activities are undertaken: 1. Identification; know who our customers are, and 2. Verification; verify the identity of your customer. Based on the findings of the desk research, the Field Due Diligence will be performed.

24. The results of the Due Diligence will be presented in an Investment / Grant Proposal. An indicative Term Sheet establishing the key terms and conditions of the potential transaction can be shared with the potential investee. The indicative Term Sheet signed by the client will form an integral part of the Investment / Grant Proposal.

#### **4.3 Legal Documentation/Contracting**

25. The purpose of contracting is to ensure that all legal signed documents with Partner Investees / NGOs reflect all terms and conditions that have been agreed upon. The signed agreement, and, if applicable, the project proposal, will be stored digitally in the project file. Original signed documents will be stored in a vault and kept for audit purposes for the duration of the Fund. The Fund Team registers the Investment / Grant Committee's decision in the fund management information system and provides an updated management report reconciling the financial and social impact on the portfolio of the Investment or Grant. All disbursements and reporting schedules in the agreement are registered in the fund management information system.

#### **4.4 Monitoring**

26. The purpose of the monitoring process is to ensure adequate monitoring and inclusion of sufficient checks and balances. Non-compliance to terms and conditions

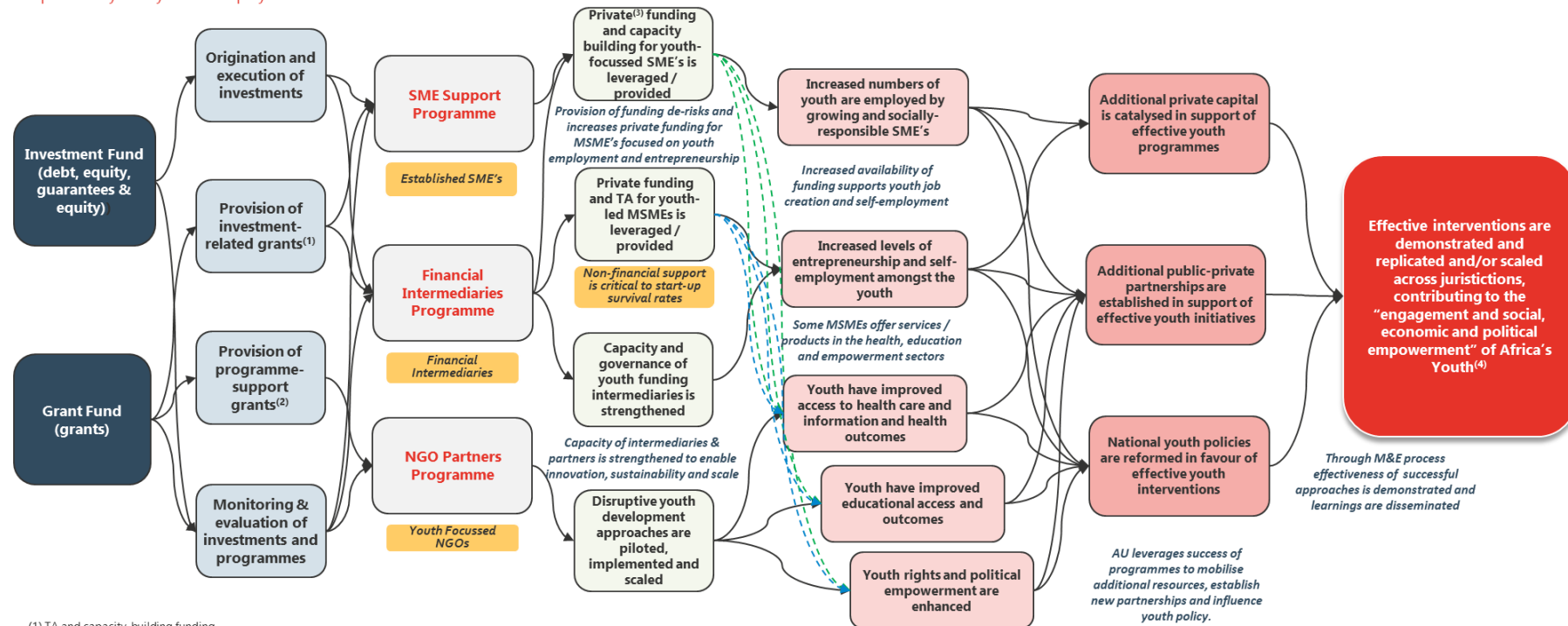
(i.e. early warning signals) need to be reported and managed in time. The Fund Manager is responsible for the monitoring of investments and grants.

27. The grantee will need to indicate how these numbers have been verified. It is anticipated that programmes will be required to submit quarterly monitoring reports.



Appendix A – Theory of Change

**Problem Statement:** Africa's youth population faces a myriad of challenges including high levels of unemployment, low levels of skills and education, poor health, and political disempowerment. While various youth development interventions are already being implemented across the African continent, often the challenge facing development partners is how to accelerate, scale-up and enhance effective initiatives. In this context, an African Youth Fund that leverages the unique convening power, continental reach, local knowledge, and policy influence of the African Union has a potentially catalytic role to play.



(1) TA and capacity-building funding  
 (2) Funding for the support and implementation of youth development programmes in the 4 Pillars  
 (3) Private includes the commercial private sector as well as non-governmental / developmental funders  
 (4) Agenda 2063



**DRAFT DECISION FOR THE AFRICAN UNION YOUTH FUND****The Executive Council,**

1. **RECALLS** Assembly Decision Assembly/AU/Dec.661(XXIX) that called for the establishment of the African Union Youth Fund to provide innovative financing for youth development on the continent;
2. **TAKES NOTE** of the progress report on the establishment of the African Union Youth Fund;
3. **DECIDES** to fully operationalize the Youth Fund, including the governance, financing and implementation mechanisms in line with the recommendations of the progress report;
4. **REQUESTS** the Commission to operationalize the Youth Fund in 2020 in accordance with African Union Financial Rules and Regulations; and to report on the progress by January 2021.

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2020-02-07

# Progress Report on the Establishment of the African Union Youth Fund

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