

# Structured Solidarity and Sustainable Integration: Fiscal Equalisation, Regional Development Policy, and the Political Economy of AfCFTA

Raymond SANER, Lichia SANER YIU



RAYMOND SANER, Basel University, Switzerland

**Contact:** raymond.saner@unibas.ch



LICHIA SANER YIU, Centre for Socio-Eco-Nomic Development (CSEND), Switzerland

## Abstract

Economic integration generates asymmetric gains across participating economies. Without institutional mechanisms to manage resulting disparities, integration risks political backlash and fragmentation. This paper argues that the long-term sustainability of the African Continental Free Trade Area (AfCFTA) depends on embedding structured solidarity mechanisms comparable in principle—though not institutional form—to Switzerland’s National Fiscal Equalisation (NFA) system and its complementary New Regional Policy (NRP), as well as to cohesion and equalisation frameworks in Germany, Canada, Australia, and the European Union. Drawing on comparative fiscal federalism and supranational integration experience, the paper demonstrates that durable integration regimes combine competition with rule-based redistribution and structured development programming. Empirical evidence on intra-African trade trends underscores persistent structural asymmetries under AfCFTA. Building on these insights, the paper proposes the creation of an African Equalisation Facility (AEF) structured around a stabilisation window and a transformation window. The paper contributes by linking comparative equalisation systems to the institutional design of AfCFTA and proposing an operational framework for managing integration-induced asymmetries in Africa.

**Keywords:** African Continental Free Trade Area (AfCFTA); Fiscal Equalisation; Regional Integration; Structural Asymmetry; African Development.

**JEL Codes:** F15; H77; O55.



## 1. Introduction: Integration and the Management of Structural Asymmetry

Regional economic integration is widely promoted as a pathway to larger markets, productivity growth, and structural transformation. Yet the political economy of integration repeatedly demonstrates a central tension: liberalisation intensifies competition and reallocates production unevenly. Regions and economies with diversified productive structures, better infrastructure, and stronger institutions typically capture earlier and larger gains. Less diversified or structurally constrained regions face adjustment pressures, fiscal strain, and slower convergence. Asymmetry is therefore intrinsic to integration. It is not a policy failure but a structural feature of liberalised economic space.

Trade liberalisation alone does not guarantee shared prosperity. Integration intensifies competition and reallocates production toward regions and economies that are already better positioned to compete. While aggregate welfare may rise, distributional consequences are uneven. Regions with diversified industrial structures, developed infrastructure, and stronger institutions benefit disproportionately, while less developed territories may experience fiscal strain, sectoral displacement, and widening income gaps.

The African Continental Free Trade Area (AfCFTA) is among the most ambitious integration initiatives in the Global South. Its institutional promise—enhanced intra-African trade, strengthened regional value chains, and expanded industrial opportunity—rests on assumptions that member states can absorb adjustment costs and mobilise complementary reforms. However, African economies vary widely in fiscal capacity, infrastructure endowment, industrial depth, and export diversification and other institutional conditions for economic take-off. In many low-income and least developed countries, trade taxes remain an important revenue source, such that tariff reductions may create immediate fiscal compression before longer-term dynamic benefits materialise. The key question is thus not whether AfCFTA can generate aggregate gains, but whether it can remain politically sustainable when gains are distributed asymmetrically.

AfCFTA, launched in 2019, aspires to reshape the continent's economic landscape by reducing tariff and non-tariff barriers and stimulating intra-African trade. It represents one of the most ambitious integration projects in the Global South. However, African economies differ significantly in industrial capacity, fiscal resilience, export diversification, and infrastructure endowments. These disparities raise an important question: can AfCFTA remain politically sustainable if gains from integration are distributed asymmetrically and if poorer economies lack mechanisms to cushion adjustment costs?

This paper argues that sustainable integration requires institutionalised solidarity. Switzerland provides a particularly instructive case because it combines strong decentralisation and intense inter-cantonal competition with rule-based fiscal equalisation (NFA) and complementary regional development programming ((NRP). Although Switzerland differs from Africa in scale and context, it confronts a structurally similar dilemma: how to preserve strong inter-regional competition while preventing significant territorial divergence. The Swiss experience suggests that rule-based redistribution mechanisms can stabilise integration by transforming potential conflict into predictable fiscal adjustment and shared benefits.

The European Union, operating at supranational scale, similarly demonstrates that cohesion mechanisms are politically indispensable in asymmetric integration. Building on these experiences, the paper proposes an African Equalisation Facility (AEF) embedded within the

AfCFTA architecture. This paper contends that AfCFTA would benefit from embedding a comparable logic through the creation of an African Equalisation Facility (AEF).

## **2. Literature Review: Integration, Fiscal Federalism, and Structural Asymmetry**

The relationship between economic integration and regional inequality has been widely analysed in the literature on fiscal federalism and international political economy. Classical contributions (Oates, 1999) highlight the role of intergovernmental transfers in addressing fiscal disparities within decentralised systems. More recent work (Rodrik, 2011) emphasises the distributional tensions inherent in globalisation and trade liberalisation. In the context of regional integration, studies of the European Union's cohesion policy (Bachtler & Mendez, 2007) demonstrate the importance of compensatory mechanisms in sustaining political support. Comparative evidence from federal systems such as Switzerland, Germany, Canada, and Australia further suggests that rule-based equalisation mechanisms are a recurrent institutional response to structural asymmetries. This literature provides the analytical foundation for examining AfCFTA through the lens of structured solidarity. The AfCFTA literature has repeatedly highlighted the asymmetric effects of regional integration, particularly between coastal and landlocked economies, diversified and commodity-dependent countries, and countries with differing fiscal capacities. Venables' modelling work, discussed in de Melo and Tsikata (2015), demonstrated the structural divergence risks associated with uneven integration. Earlier discussions by Foroutan in de Melo and Panagariya (1993) similarly stressed the need for compensatory mechanisms during African integration processes. More recent contributions (de Melo, 2025) frame AfCFTA as facing a trilemma between special and differential treatment, breadth of integration, and depth of market integration.

## **3. Data and Empirical Context: Intra-African Trade Patterns**

This paper draws on secondary data sources, including reports from the United Nations Economic Commission for Africa (UNECA) and the World Bank, to illustrate baseline trade patterns and structural asymmetries within Africa. Table 1 presents approximate trends in intra-African trade over the past decade. While the data are indicative rather than econometrically modelled, they provide a descriptive empirical basis for assessing the scale and distribution of integration effects under AfCFTA. The analysis focuses on trade shares, sectoral distribution, and fiscal exposure to tariff liberalisation as key indicators of structural asymmetry. Additional empirical evidence on intra-African trade patterns and uneven sectoral participation is discussed by Böschmeier et al. (2022), who note continuing implementation constraints and differentiated participation capacities among African economies.

**Table 1. Intra-African Trade Trends (Approximate Estimates)**

Year	Intra-African Trade (US\$ bn)	Share of Total African Trade (%)
2012	~140	~12–13
2015	~150	~14
2018	~160	~15
2020	~140 (COVID contraction)	~14
2022	~180	~15–16
2023	~192	~15–16

*Source:* Table 1; compiled from UNECA, 2020; World Bank, 2020.

Even where trade expands, it tends to be unevenly distributed across sectors and countries. Economies with more diversified manufacturing bases are better positioned to exploit new market access. Commodity-dependent economies remain vulnerable to price volatility and import competition. Meanwhile, tariff revenue exposure can differ substantially: where trade taxes constitute a significant share of public revenue, tariff liberalisation can compress fiscal space quickly. These asymmetries, if unmanaged, can translate into political resistance, weakened compliance, and slower implementation. Such political resistance could also lead to erosion of joint commitment as often seen in the operationalization of many international agreements.

**4. Empirical Evidence and Discussion**

Africa remains the least internally integrated major region in the global economy. Intra-African trade is often estimated at roughly 14–16 percent of total African trade in goods—far below the internal trade intensity of Europe and Asia. While AfCFTA is expected to raise intra-African trade over time, the baseline starting point is structurally low. This matters because integration gains are likely to accrue unevenly when production structures and logistics capabilities diverge sharply across members.

**5. Switzerland’s National Fiscal Equalisation (NFA): Competition with Rule-Based Solidarity**

Switzerland is among the most decentralised countries in the world. Its 26 cantons retain substantial fiscal autonomy and engage in intense tax competition. Yet the Swiss system has long recognised that decentralisation and competition, if left unmanaged, can exacerbate territorial divergence and domestic tension. To preserve cohesion while maintaining competitive incentives, Switzerland implemented comprehensive fiscal equalisation reform in 2008, known as the National Fiscal Equalisation (NFA) programme.

Cantonal fiscal capacity is measured through a resource potential index, with the national average set to 100. Transfers are calculated automatically according to formula-based rules.

Weaker cantons are brought toward a defined minimum threshold relative to the national average. The key institutional innovation is predictability: transfers are not subject to annual political bargaining. Transparent publication of indices strengthens legitimacy and reduces conflict between donor and recipient cantons.

**Figure 1.** Swiss National Fiscal Equalisation (NFA): Net Payments by Canton (2026)

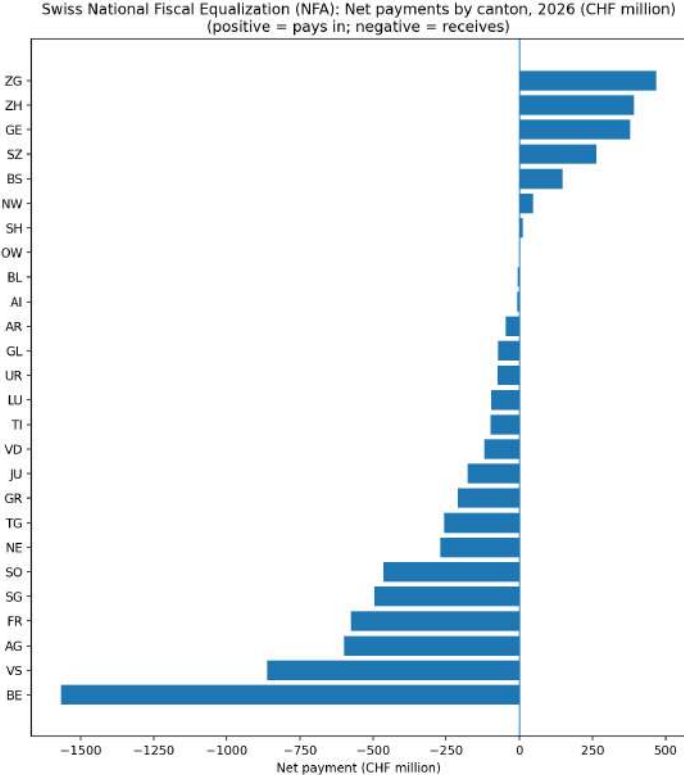


Figure 1 illustrates the distribution of net fiscal transfers across Swiss cantons under the National Fiscal Equalisation system, highlighting the scale and territorial distribution of equalisation flows. A fuller comparative assessment would also scale transfers relative to cantonal GDP and fiscal capacity. Such scaling demonstrates that equalisation transfers represent politically significant but fiscally manageable proportions of cantonal resources.

**6. Switzerland’s New Regional Policy (“NRP”): Negotiated Structural Transformation**

Fiscal equalisation alone does not guarantee long-term convergence. Switzerland therefore complements the NFA with the New Regional Policy (NRP), introduced in 2008 as a programme-based regional development instrument. Unlike the NFA’s largely non-earmarked transfers, the NRP operates through multi-year implementation programmes negotiated between cantons and the federal government. Cantons develop strategic regional development plans aligned with national competitiveness objectives. Programme agreements define financial

envelopes, co-financing ratios, performance indicators, and evaluation procedures. The NRP itself emerged from extensive federal-cantonal negotiations concerning co-financing obligations, project selection, and performance indicators. This negotiated dimension is relevant for AfCFTA because any continental equalisation mechanism would similarly need to balance supranational coordination with national ownership.

The NRP finances projects such as SME innovation support, digital transformation initiatives, tourism and value-chain upgrading, and cross-cantonal cluster development. Financing is co-financed, ensuring local ownership and strategic alignment. The coexistence of NFA (fiscal stabilisation) and NRP (structural upgrading) reflects a dual solidarity architecture: stabilisation protects fiscal viability under competitive pressure, while transformation enables structurally weaker regions to build competitiveness and productivity ecosystem over time.

## **7. Managing Incentive Tensions: Why Calibration Matters**

Redistribution mechanisms inevitably raise concerns about incentives. If recipient regions lose most additional revenues through equalisation clawbacks, their motivation to expand the tax base may weaken. Empirical research on the Swiss system indicates that marginal equalisation rates for recipient cantons can be high, sometimes exceeding 80%, and in certain corporate tax contexts may even surpass 100% (Brühlhart & Schmidheiny, 2014). Switzerland has responded through periodic recalibration of the equalisation formula, including adjustments to the weighting of corporate profits and revisions of fiscal capacity indicators.

This experience highlights an important institutional principle: equalisation mechanisms require continuous technical maintenance and political recalibration. Redistribution systems cannot remain static because economic structures, tax bases, demographic patterns, and competitive conditions evolve over time. Sustainable equalisation therefore depends not only on solidarity, but also on adaptive governance capable of preserving incentives for productivity growth, fiscal responsibility, and innovation.

The incentive dilemma is particularly relevant for AfCFTA. African integration takes place among economies characterised by wide asymmetries in industrial capacity, export diversification, infrastructure quality, and fiscal resilience. The literature on African regional integration has long recognised the risk that liberalisation may generate uneven gains between coastal and landlocked economies, diversified and commodity-dependent economies, and larger versus smaller markets. Venables' modelling work, discussed by de Melo and Tsikata (2015), demonstrated that integration may initially reinforce agglomeration effects, concentrating production and investment in already more competitive economies unless compensatory mechanisms are introduced.

Earlier discussions by Foroutan, reproduced in de Melo and Panagariya (1993), similarly warned that African regional integration could face political resistance if weaker economies perceived integration as structurally unequal. These concerns remain highly relevant under AfCFTA. Countries with stronger manufacturing capabilities, logistics infrastructure, and regional connectivity are likely to capture earlier gains from market integration, while more vulnerable economies may face tariff revenue losses, increased import competition, and slower industrial adjustment.

Economic integration therefore creates not only opportunities but also territorial tensions. Liberalisation intensifies competition among regions and countries. More competitive economies tend to attract investment, industrial production, transport infrastructure, and skilled labour more rapidly than structurally weaker regions. Over time, this can generate widening developmental gaps between “integration winners” and “integration laggards.” If these disparities become excessive, the economic consequences may gradually translate into political tensions.

This political dynamic is particularly important because integration projects ultimately depend on continued political legitimacy and public support. Regions or countries that perceive themselves as persistent losers from integration may increasingly resist implementation commitments, demand exemptions, slow down liberalisation, or reintroduce protectionist pressures. In such situations, integration ceases to be viewed as a shared continental opportunity and instead becomes perceived as a mechanism benefiting primarily stronger economies.

The experience of the European Union illustrates this dynamic clearly. European integration generated substantial aggregate gains, but these gains were unevenly distributed across regions and sectors. To reduce political backlash and preserve support for integration, the EU progressively expanded cohesion policies, structural funds, and regional development programmes designed to support weaker regions and cushion adjustment pressures. While such mechanisms did not eliminate tensions, they contributed to preserving the political viability of the European integration project.

Switzerland provides a similar lesson at a smaller scale. Swiss cantons compete intensely in taxation, business attraction, and innovation policy. Without fiscal equalisation, wealthier cantons could continuously strengthen their advantages while weaker cantons might experience cumulative decline. The National Fiscal Equalisation system therefore acts not as a replacement for competition, but as a political stabiliser of competition. By reducing excessive territorial divergence, it helps preserve social cohesion and political acceptance of decentralised competition.

This political economy tension is closely related to what de Melo (2025) describes as AfCFTA’s “integration trilemma”: the difficulty of simultaneously achieving broad continental participation, deep market integration, and extensive accommodation of weaker economies through special and differential treatment. Excessive redistribution may weaken reform incentives and provoke resistance from stronger economies, while insufficient compensation risks undermining political support among weaker member states.

The Swiss experience suggests that these tensions can be managed through transparent and formula-based mechanisms combined with periodic review and recalibration. Equalisation systems need not eliminate competition; rather, they can preserve the political legitimacy of competition by preventing integration from generating excessive territorial inequalities that undermine support for the integration project itself.

This calibration function is especially important in Africa because state capacities and statistical systems vary considerably across countries. Effective equalisation requires reliable fiscal data, transparent accounting systems, and institutional trust in the allocation formula. Without credible and regularly updated information, equalisation mechanisms risk becoming politicised bargaining instruments rather than rule-based stabilisation frameworks.

The broader lesson emerging from comparative experience is that structured solidarity and competition are not mutually exclusive. When embedded in transparent, adaptive, and technically credible frameworks, they can reinforce each other by sustaining the political legitimacy of integration over time.

## **8. Comparative Equalisation Systems: Broader Lessons for Africa**

The Swiss experience is not an isolated institutional curiosity. Fiscal equalisation mechanisms have emerged in several federal and quasi-federal systems as responses to structural territorial disparities. Without policy attention, this disparity could result in in-country inequality often seen in less performing institutional setups. A comparative perspective reinforces the central argument of this paper: integration and decentralisation require rule-based redistribution to remain politically sustainable.

Germany provides a frequently cited example of horizontal fiscal equalisation. The German *Länderfinanzausgleich* was designed to reduce fiscal disparities among *Länder*, particularly after reunification. Wealthier *Länder* contribute to a pool supporting fiscally weaker ones, supplemented by federal transfers. Unlike Switzerland, the German system has historically been more politically negotiated and subject to constitutional litigation, with donor states challenging the scale and structure of transfers. Reforms implemented in 2020 modified the system by increasing federal involvement and reducing purely horizontal redistribution. The German case illustrates that while equalisation can reduce disparities, political contestation may undermine perceived legitimacy if formulas are not broadly accepted by all stakeholders.

Canada offers another instructive model. Its equalisation program, enshrined in the Constitution Act of 1982, aims to ensure that provincial governments can provide reasonably comparable public services at reasonably comparable taxation levels (Smart, 2007). The program is federally financed and formula-based, relying on a representative tax system approach to measure provincial fiscal capacity. Canadian equalisation has been relatively stable, though debates over resource revenues periodically generate tensions. Canada demonstrates that federal financing can reduce horizontal conflict while preserving constitutional clarity.

Australia's model—administered by the Commonwealth Grants Commission—is often described as among the most comprehensive horizontal equalisation frameworks globally. It adjusts not only for revenue capacity but also for expenditure needs, funded from federal revenues and allocated through detailed assessments. The Australian case highlights the technical sophistication of equalisation mechanisms can achieve, alongside the administrative complexity required to sustain legitimacy and precision.

At the supranational level, the European Union's Cohesion Policy offers a distinct but related approach. Rather than direct fiscal equalisation between member states, the EU channels structural and cohesion funds toward regions with GDP per capita below defined thresholds relative to the EU average (Bachtler & Mendez, 2007). Cohesion spending expanded significantly since the 1980s and has been central to the political viability of enlargement. While convergence outcomes remain debated, the absence of cohesion mechanisms would likely have deepened territorial divergence and intensified Euroscepticism.

These comparative experiences reveal several common patterns. First, equalisation mechanisms are most durable when constitutionally or legally entrenched and rule-based. Second, transparency in fiscal capacity measurement enhances legitimacy. Third, excessive redistribution without incentive safeguards can generate political resistance from contributing regions. Fourth, periodic reform is necessary to maintain alignment between solidarity and economic dynamism. Lastly, an universal pre-condition for the success of NFA and NRP is the system integrity and trustworthiness of the accounts. For African policymakers, these lessons underscore that equalisation is not uniquely Swiss or European; it is a recurring institutional response to uneven development within integrated economic spaces.

## 9. Orders of Magnitude and Feasibility of Equalisation Transfers

One important question concerns the economic and political feasibility of equalisation systems. Comparative experience suggests that durable redistribution mechanisms generally operate within politically manageable ranges relative to GDP and public expenditure. Their objective is not to eliminate all regional inequalities, but rather to prevent excessive divergence capable of undermining the political sustainability of integration.

In Switzerland, the National Fiscal Equalisation (NFA) system currently redistributes approximately CHF 6–6.5 billion annually among cantons and between the Confederation and cantons. Relative to Swiss GDP, this corresponds to roughly 0.7–0.8 percent of GDP. While politically sensitive, these transfers remain fiscally manageable because they are rule-based, predictable, and embedded within a broader framework of cantonal fiscal autonomy and competition (Swiss Federal Finance Administration, 2024).

Germany's *Länderfinanzausgleich* and related federal equalisation mechanisms operate at larger scale, with annual redistribution estimated at approximately €15–20 billion, depending on calculation methods and supplementary federal transfers (Spahn & Werner, 2007). Canada's equalisation system typically fluctuates between CAD 20–25 billion annually, corresponding to roughly 0.8–1 percent of GDP (Smart, 2007). Australia's horizontal equalisation arrangements similarly redistribute substantial federal revenues among states according to fiscal capacity and expenditure needs.

At the supranational level, the European Union's Cohesion Policy for the 2021–2027 programming period amounts to approximately €392 billion over seven years, or roughly €55–60 billion annually. Although this represents less than 0.5 percent of EU GDP annually, it constitutes one of the world's largest supranational regional development mechanisms. Eligibility is strongly concentrated on regions whose GDP per capita falls below 75 percent of the EU average (European Commission, 2021). The EU experience demonstrates that even relatively modest transfers relative to aggregate GDP can play an important political stabilisation role within large integration projects.

The Southern African Customs Union (SACU) offers a particularly relevant African example. SACU already operates a rules-based revenue-sharing mechanism among Botswana, Eswatini, Lesotho, Namibia, and South Africa through a Common Revenue Pool. The SACU formula combines customs, excise, and development components. The development component is explicitly redistributive and is allocated inversely to GDP per capita in order to reduce

disparities among member states. Approximately 15 percent of excise revenues are allocated through this development component (SACU, 2020; Stern & Flatters, 2009).

The SACU experience is especially important because transfers can represent very significant shares of GDP for smaller economies. In some years, SACU transfers exceeded 10 percent of GDP in Lesotho and Eswatini, illustrating both the stabilising potential and the political sensitivity of redistribution mechanisms within African integration arrangements (IMF, 2017).

These comparative orders of magnitude suggest several implications for AfCFTA. First, effective solidarity mechanisms do not necessarily require massive continental redistribution comparable to national welfare states. Even transfers representing fractions of continental GDP may generate important stabilisation effects if targeted toward infrastructure bottlenecks, tariff adjustment pressures, and export diversification constraints.

Second, the political feasibility of redistribution depends heavily on institutional design. Formula-based allocation, transparency, periodic review, and partial rather than full compensation help maintain legitimacy among both contributing and recipient economies. Comparative experience suggests that redistribution becomes politically difficult when perceived as permanent, discretionary, or detached from development performance.

Third, the SACU example demonstrates that Africa already possesses institutional experience with rules-based regional redistribution. AfCFTA would therefore not be introducing an entirely foreign institutional logic, but rather extending and adapting existing regional practices to continental scale.

Finally, these comparisons also underscore the importance of realism. An African Equalisation Facility would likely need to begin modestly and evolve progressively alongside deeper integration, improved statistical systems, and stronger continental institutional capacity. Political feasibility is therefore closely linked to gradualism, transparency, and credible demonstration that solidarity mechanisms support integration rather than substitute for domestic reform efforts.

## **10. Lessons for AfCFTA: Integration Without an Embedded Solidarity Mechanism**

AfCFTA represents a different institutional context from Swiss federalism. It is a continental trade agreement among sovereign states rather than a constitutional federation. Nonetheless, the underlying integration dilemma is analogous. If liberalisation produces asymmetric gains, weaker economies may experience adjustment costs without offsetting benefits. Tariff revenue losses may strain fiscal capacity. Infrastructure deficits may prevent countries from exploiting new market access. Industrial upgrading requires investment and institutional capacity that vary widely across the continent. Important differences nevertheless remain between federal systems and supranational arrangements among sovereign states. The literature on Regional Public Goods (Byiers et al., 2021) highlights the governance and financing challenges associated with collective regional action in contexts characterised by uneven state capacity and limited supranational authority. Boysen (2024) demonstrates that tariff liberalisation under current AfCFTA tariff offers may generate uneven revenue losses depending on national tariff structures and negotiation positions. These asymmetries have been extensively documented in

the AfCFTA literature, particularly regarding differentiated impacts on industrialised, resource-dependent, landlocked, and smaller economies (de Melo, 2025).

The European Union's Cohesion Policy demonstrates that large-scale integration benefits from compensatory mechanisms (Bachtler & Mendez, 2007). Switzerland shows that such mechanisms can coexist with intense competition essential for continual improvements and innovation. AfCFTA currently lacks a fully developed, rule-based continental adjustment facility comparable in scale and institutionalisation to these models. While multilateral institutions and development partners provide project-based support, there is no automatic solidarity mechanism linked directly to integration-induced asymmetries.

## **11. Towards an African Equalisation Facility: From Principle to Institutional Design**

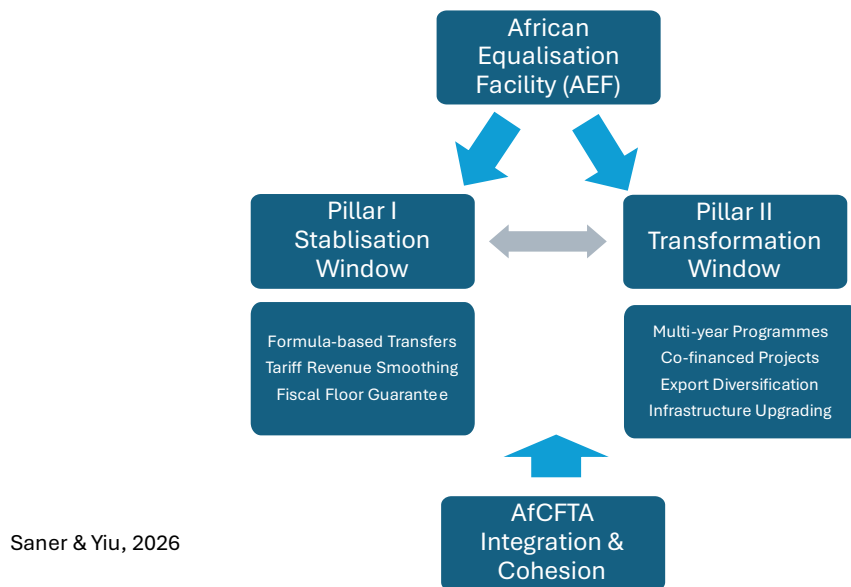
In light of these considerations, this paper proposes the establishment of an African Equalisation Facility (AEF) as a complementary pillar of AfCFTA. The purpose of the AEF would not be permanent redistribution among African states. Rather, it would function as an integration stabiliser. Its objectives would include compensating short-term tariff revenue losses, financing trade-related infrastructure in structurally weaker economies, and supporting export diversification and industrial upgrading in countries disproportionately affected by liberalisation.

The facility should operate according to objective and transparent criteria. Allocation formulas could incorporate indicators such as tariff revenue exposure, trade balance changes attributable to AfCFTA implementation, fiscal capacity per capita, and infrastructure deficits. A minimum trade-adjusted fiscal floor could be defined to ensure that integration does not reduce a country's effective fiscal space below a specified threshold. Funding mechanisms could combine scaled member-state contributions based on GDP or intra-African trade shares, modest levies on continental trade flows, and co-financing from the African Development Bank. Governance should involve independent oversight to enhance credibility and transparency. Crucially, the facility should be formula-based rather than discretionary, because predictability is essential to prevent redistribution from becoming politicised bargaining.

## 12. The AEF as a Dual-Pillar Architecture

Drawing on comparative experience, this paper proposes the establishment of an African Equalisation Facility structured around two complementary windows: a stabilisation window and a transformation window (See Figure 2).

**Figure 2.** Dual-Pillar Architecture of the African Equalisation Facility (AEF).



*Source:* Author's conceptual framework inspired by Swiss NFA and NRP models.

Figure 2 illustrates the proposed dual-pillar architecture of the AEF. The stabilisation window (Pillar I) operates as a rule-based fiscal adjustment mechanism designed to cushion integration-induced revenue asymmetries under AfCFTA. The transformation window (Pillar II) functions as a programme-based structural upgrading instrument supporting export diversification, infrastructure development, and competitiveness enhancement. The bidirectional arrows indicate institutional complementarity: fiscal stability enables structural upgrading, while structural upgrading reduces future dependence on stabilisation transfers. Together, both pillars support AfCFTA integration and continental cohesion in a predictable and dynamic manner.

**Pillar I: Stabilisation Window.** The stabilisation window would compensate short-term tariff revenue losses and preserve fiscal stability during integration adjustment. Allocation would rely on objective metrics including trade exposure, fiscal capacity per capita, and revenue vulnerability. Transfers would be formula-based, transparent, and partially compensatory to preserve incentives.

**Pillar II: Transformation Window.** The transformation window would operate through multi-year AfCFTA Integration Programmes. Member states would submit structured strategies focused on export diversification, trade facilitation infrastructure, SME competitiveness, and industrial upgrading. Financing would be co-financed and performance-monitored, drawing governance inspiration from Switzerland's NRP. Together, the two pillars separate fiscal stabilisation from structural transformation.

### 13. Operationalising the AEF: Design Framework

To move from principle to institutional design, Table 2 summarises the proposed architecture of the AEF, including objectives, allocation criteria, funding sources, governance arrangements, and incentive safeguards.

**Table 2.** Proposed Design Framework for an African Equalisation Facility (AEF)

<b>Design Component</b>	<b>Proposed Structure</b>	<b>Rationale and Expected Effect</b>
<b>Core Objective</b>	Stabilise integration by compensating asymmetric trade gains under AfCFTA	Enhances political sustainability of integration
<b>Primary Function</b>	Partial compensation for tariff revenue losses attributable to AfCFTA implementation	Prevents short-term fiscal shocks in vulnerable economies
<b>Secondary Function</b>	Financing trade-related infrastructure and export diversification programmes	Enables structurally weaker economies to exploit market access
<b>Eligibility Criteria</b>	Composite index including: trade exposure (tariff loss), fiscal capacity per capita, export diversification index, infrastructure deficit indicators	Ensures objective, transparent allocation
<b>Minimum Fiscal Floor Mechanism</b>	Guarantee that integration does not reduce effective fiscal space below defined threshold relative to continental average	Prevents destabilising divergence
<b>Funding Sources</b>	Scaled GDP-based member contributions; modest levy on intra-African trade flows; AfDB co-financing; transitional development partner support	Diversifies funding base and strengthens ownership
<b>Governance Structure</b>	Under AfCFTA Secretariat with independent technical oversight board; annual publication of fiscal capacity metrics; periodic formula review	Enhances transparency and credibility
<b>Incentive Safeguards</b>	Partial (not full) compensation; sunset clauses; performance-based components linked to diversification progress	Maintains reform incentives
<b>Review Mechanism</b>	Formal review every 3–5 years	Allows recalibration and prevents structural distortions

*Source:* Author’s own work.

### 14. Comparative Positioning: AEF in Context

To clarify structural similarities and differences, Table 3 summarises key characteristics of selected equalisation systems alongside the proposed African Equalisation Facility.

**Table 3.** Comparative Equalisation Systems and Proposed African Equalisation Facility

<b>Feature</b>	Switzerland (NFA)	Germany	Canada	EU Cohesion Policy	Proposed AEF
<b>Institutional Level</b>	Federal	Federal	Federal	Supranational	Supranational
<b>Annual Volume</b>	CHF 6–6.5 bn	€15–20 bn+	CAD 20–25 bn	€370 bn (2021–27 period total)	Scaled to AfCFTA needs
<b>Allocation Basis</b>	Fiscal capacity index	Fiscal capacity + federal supplements	Representative tax system	GDP per capita thresholds	Composite trade & fiscal exposure index
<b>Formula-Based</b>	Yes	Yes (with political reform)	Yes	Yes	Yes (proposed)
<b>Incentive Concerns</b>	High marginal clawbacks	Donor resistance	Resource revenue debates	Absorption capacity	To be calibrated
<b>Objective</b>	Equalise fiscal capacity	Reduce Länder disparities	Ensure comparable services	Promote convergence	Stabilise integration asymmetries
<b>Review Mechanism</b>	Periodic reform	Constitutional reform	Federal adjustment	Budget cycle reviews	3–5 year review

This comparison reveals that structured solidarity is not exceptional but characteristic of stable integration regimes. Variation lies in scale, governance complexity, and calibration—not in principle.

## 15. Integration as Institutional Design and Political Sustainability

The sustainability of AfCFTA depends not only on tariff schedules and customs procedures but also on political legitimacy and enforcement mechanism. Integration projects falter when perceived as structurally unfair. Redistribution mechanisms are therefore not peripheral additions; they are integral components of integration architecture. Switzerland’s NFA demonstrates that redistribution can be institutionalised in ways that reduce conflict rather than exacerbate it. By embedding solidarity within a predictable framework, it transforms what could be a zero-sum political struggle into a managed fiscal adjustment process. AfCFTA stands at an early stage of implementation. Embedding a structured solidarity mechanism at this stage could preempt future tensions.

The proposed AEF architecture draws directly from comparative experience. Like Switzerland’s NFA, it relies on objective fiscal capacity metrics and formula-based allocation. Like the European Union’s cohesion policy, it targets structural disadvantages rather than permanent redistribution. Unlike ad hoc development assistance, it would be embedded within AfCFTA’s institutional framework, creating predictability and strengthening continental ownership. Importantly, the AEF is conceived not as a permanent transfer system but as an integration adjustment instrument. By incorporating incentive safeguards and sunset provisions, the facility would preserve national reform incentives while mitigating destabilising short-term asymmetries.

## **16. Conclusion**

Economic integration generates uneven gains. The experience of Switzerland and the European Union suggests that structured solidarity mechanisms enhance the political sustainability of integration by preventing excessive divergence. AfCFTA's ambition to transform continental trade relations is historic. Yet without institutional mechanisms to support structurally weaker economies, integration may produce asymmetries that undermine political cohesion.

An African Equalisation Facility, designed as a rule-based and incentive-compatible adjustment mechanism, would not replicate Swiss federalism. Rather, it would apply a fundamental principle: sustainable integration requires institutionalised solidarity. By embedding structured solidarity within its architecture, AfCFTA can enhance both economic effectiveness and political durability.

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*“Sur quoi la fondera-t-il l'économie du monde qu'il veut gouverner ? Sera-ce sur le caprice de chaque particulier ? Quelle confusion ! Sera-ce sur la justice ? Il l'ignore.”*

**Pascal**

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 **Contact**

[www.ferdi.fr](http://www.ferdi.fr)

[contact@ferdi.fr](mailto:contact@ferdi.fr)

+33 (0)4 43 97 64 60