

AFRICAN UNION
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STATUS AND PROGRESS REPORT ON FINANCING OF THE UNION



FINANCING THE UNION

TOWARDS THE FINANCIAL AUTONOMY OF THE AFRICAN UNION



DRAFT STATUS REPORT

Version Two

December 28, 2018

Page 1 of 13

A. Background.....	3
B. The Kigali Decision on financing of the Union.....	3
i. Implementation of the 0.2 percent import levy	3
ii. Member States Collecting the Levy	4
iii. Flexibility built into the Kigali Decision on Financing the Union.....	5
iv. Other Member States Commenced the Process to Implement the Kigali Decision.....	7
v. All Other Member States not yet implementing the Kigali Decision.....	8
C. Budgetary, Financial and Administrative Matters	10
a. Golden rules for financial and budget management	10
b. Enhanced oversight by Ministers of Finance	11
D. The Scale of Assessment.....	12
E. Strengthening the sanctions regime for non-payment of contributions.....	12

A. Background

1. The AU needs adequate, reliable and predictable resources to implement its programmes so as to achieve its development and integration goals. Successive Summits of the AU have since 2015 taken financing reform decisions to ensure there is sound and predictable finances to address challenges the African Union has always faced namely;
 - a) Unpredictability and volatility of its revenues;
 - b) Dependence on external partners;
 - c) Reliance on a few Member States;
 - d) The need to demonstrate the value for money and probity, and
 - e) The growing budget.
2. The financing reform decisions taken were, therefore, intended to achieve the following key objectives:
 - Timely, adequate, reliable and predictable payment of all Member State assessed contributions and Partner contributions to the African Union;
 - Financial autonomy and reduced dependence on external sources;
 - Equitable burden-sharing of the Union's budget and reduced dependence on a few countries;
 - Improved budget and financial oversight and governance to achieve high fiduciary standards, value for money and probity.
 - Predictable and sustainable financing of the AU's peace operations through the revitalization of the AU Peace Fund and the pursuit of strategic partnerships.
3. This report provides an update on progress made so far on all the objectives above, in line with Executive Council and the Assembly Decisions on financing of the Union quoted in this report.

B. The Kigali Decision on financing of the Union

i. Implementation of the 0.2 percent import levy

4. Since the adoption of the Kigali Decision (**Assembly/AU/Dec.605 (XXVII)**) in July 2016, there has been unprecedented momentum gathered around its implementation. By December 20, 2018, there were 25 countries, representing about 45% of AU membership that were at various stages of domesticating the Kigali Decision on Financing the Union. A criteria made up of four elements was drawn to help classify a Member State as having commenced implementation of the Kigali decision:

- a) A Member State that has indicated its intention to implement the Kigali Decision on financing the Union in whole or in part;
- b) Implement a 0.2 percent Levy on all eligible imported goods into the Continent
- c) Choose from a non-exhaustive, non-binding basket of options of alternative sources of funding in line with national imperatives, laws, regulations and constitutional provisions (**Assembly/AU/Dec.578(XXV)**);
- d) Amounts collected from the Levy automatically paid by the national administration, into an account opened for the African Union with the Central Banks of each Member State for transmission to the African Union in accordance with each Member State's assessed contribution;

ii. Member States Collecting the Levy

5. Of the 25 Member States stated above, there are 15 countries that are known to be collecting the levy on eligible imports. The following are the Member States:

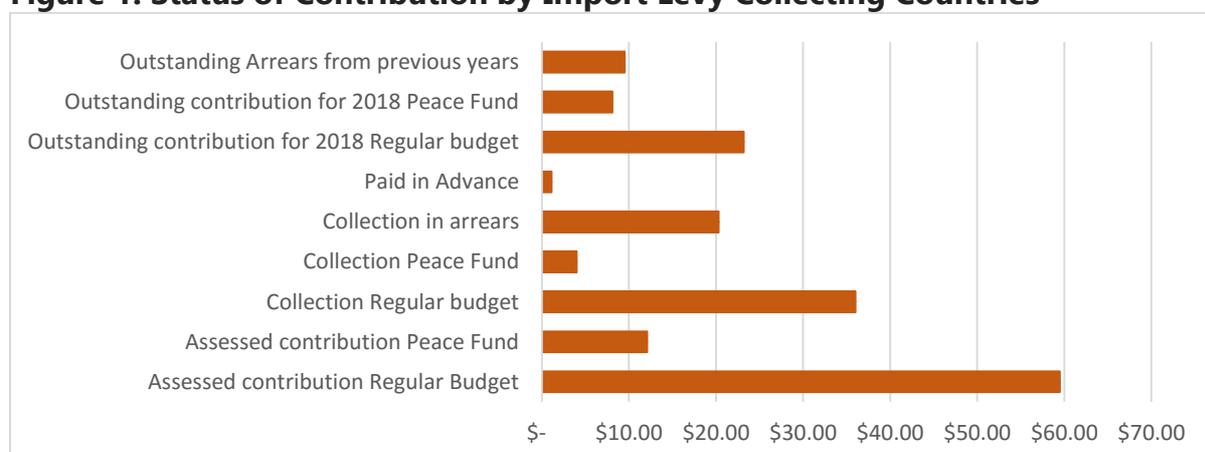
- | | |
|----------------------|-------------------|
| 1) Kenya | 9) Gabon |
| 2) Congo Brazzaville | 10) Cameroun |
| 3) Rwanda | 11) Sierra Leone |
| 4) Chad | 12) Cote d'Ivoire |
| 5) Djibouti | 13) Benin |
| 6) Guinea | 14) Ghana |
| 7) Sudan | 15) Mali |
| 8) Gambia | |

6. Collectively, these countries are assessed US\$59,495,481 for regular budget and US\$12,150,450 as contribution to Peace Fund. They also had arrears from previous budgets of US\$29,847,266 (US\$23,063,719 for regular budget and US\$6,783,548 for Peace Fund).
7. As of December 31st, 2018, an amount of US\$61,438,497 was received from these Member States (US\$35,989,757, US\$4,039,685 as contribution to regular budget and Peace Fund, respectively, representing 60% and 33% of amount expected). Another US\$1,079,369 was received as advance contribution to the 2019 budget, which came from Cote d'Ivoire and Mali.
8. All the above Member States, except Chad and the Gambia paid their 2018 contributions to the AU using the new system.
9. None of these countries, except Sudan and Chad are in arrears of funds from previous budgets. Understandably so for Sudan due to the economic embargo imposed on them which makes them unable to remit the funds to AU.

Table 1: Status of Contribution by Import Levy Collecting Countries

	In US\$ million
Assessed contribution Regular Budget	\$ 59.50
Assessed contribution Peace Fund	\$ 12.10
Collection Regular budget	\$ 36.00
Collection Peace Fund	\$ 4.00
Collection in arrears	\$ 20.30
Paid in Advance	\$ 1.10
Outstanding contribution for 2018 Regular budget	\$ 23.20
Outstanding contribution for 2018 Peace Fund	\$ 8.10
Outstanding Arrears from previous years	\$ 9.50

Figure 1: Status of Contribution by Import Levy Collecting Countries



iii. Flexibility built into the Kigali Decision on Financing the Union

10. The message about flexibility built into the implementation of the 0.2% levy appears to have been embraced by many Member States. This is an arrangement where Member States have the ability to determine the appropriate form and the means they will use to implement the Kigali decision on financing the Union in line with their national and international obligations as long as the principles of predictability and compliance are adhered to.

11. In line with this, there are 4 countries that are known to have expressed commitment to implement the Decision on a modified approach. Two of them: Mauritius and Seychelles have indicated full commitment to principles of financing the union. However, due to national, economic and legal constraints and international commitments they are unable to implement the 0.2% levy. Instead, they will continue to meet their financial obligations using the existing mechanism and have committed to adhere to principles of predictability and compliance. Equally, Malawi will continue to pay its contribution through the existing

mechanism but the transfer of funds is now effected directly from the national Treasury. Algeria, on the other hand, while committed to abide by the elements of predictability and compliance, have indicated that they may not implement the 0.2% levy. They have, however, requested for further studies on how the Decision can be implemented to fit its setting.

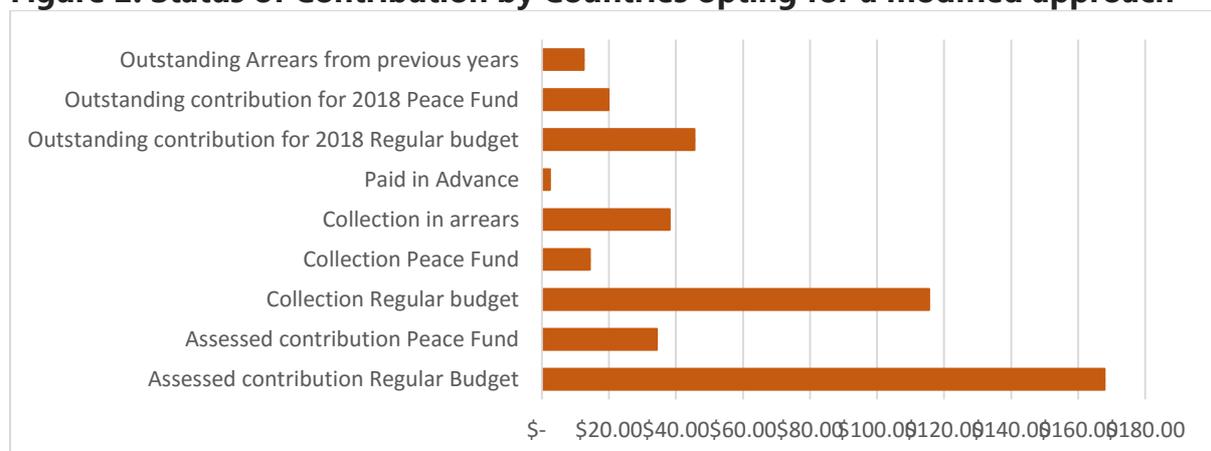
12. Together, these countries were assessed US\$33,657,771 and US\$6,873,750 for regular budget and Peace Fund, respectively. They also had arrears from previous budgets of US\$441,350.

13. As at December 31, 2018, all countries in this category have paid all that was due to them in 2018 with the exception of Algeria who have not contributed to the Peace Fund for reasons provided in Section C of this report. There was also collection in advance coming from Mauritius of an amount of US\$1,901,511. None of these Member States is in arrears from previous budgets.

Table 2: Status of Contribution by Countries opting for a modified approach

	In US\$ million
Assessed contribution Regular Budget	\$ 33.70
Assessed contribution Peace Fund	\$ 6.90
Collection Regular budget	\$ 33.70
Collection Peace Fund	\$ 0.60
Collection in arrears	\$ 0.40
Paid in Advance	\$ 1.90
Outstanding contribution for 2018 Regular budget	\$ -
Outstanding contribution for 2018 Peace Fund	\$ 6.20
Outstanding Arrears from previous years	\$ -

Figure 2: Status of Contribution by Countries opting for a modified approach



iv. Other Member States Commenced the Process to Implement the Kigali Decision

14. There are a further 6 Member States that are on record to have started the process of domesticating the Kigali Decision. Their current status on whether they are collecting the levy is not yet known. The following is the list of countries:

- | | |
|---------------|-------------|
| 1) Nigeria | 4) Comoros |
| 2) Mauritania | 5) Ethiopia |
| 3) Senegal | 6) Libya |

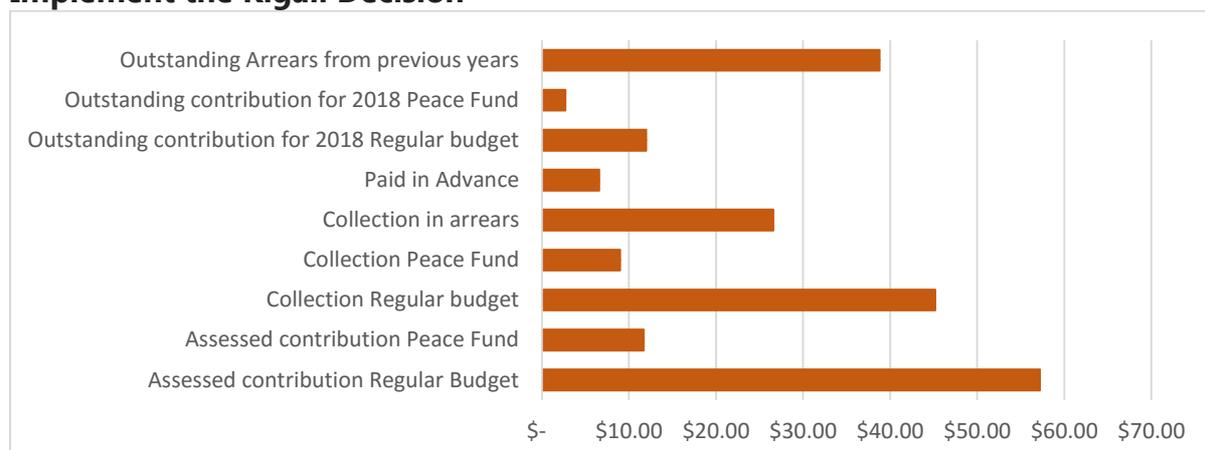
15. In 2018, these countries were collectively assessed US\$57,213,437 and US\$11,684,400 for regular budget and as contribution to the Peace Fund, respectively. They were also in arrears from previous budgets of an amount of US\$65,376,770 (US\$58,595,904 and US\$ 6,780,866, respectively, for regular budget and contribution to Peace Fund)

16. As of December 31, 2018, US\$45,171,515 and US\$8,994,672, was respectively received as contribution to the regular budget and Peace Fund, representing 79% and 77% of the funds expected. There was also an amount of US\$26,606,212 that was received in arrears from previous budget with 97% of it coming from Nigeria. An amount of US\$6,780,837 was received as advanced payment to the 2019 budget mostly coming Nigeria. Only Libya has not yet honored its contribution obligations for 2018 and is also in arrears from previous budget of an amount of US\$40,889,530.

Table 3: Status of Contribution by Countries commenced the Process to Implement the Kigali Decision

	In US\$ million
Assessed contribution Regular Budget	\$ 57.20
Assessed contribution Peace Fund	\$ 11.70
Collection Regular budget	\$ 45.20
Collection Peace Fund	\$ 9.00
Collection in arrears	\$ 26.60
Paid in Advance	\$ 6.60
Outstanding contribution for 2018 Regular budget	\$ 12.00
Outstanding contribution for 2018 Peace Fund	\$ 2.70
Outstanding Arrears from previous years	\$ 38.80

Figure 3: Status of Contribution by Countries commenced the Process to Implement the Kigali Decision



v. All Other Member States not yet implementing the Kigali Decision

17. There are currently 30 Member States that are yet or not implementing the Kigali decision on financing the Union.

18. The following Member States fall under this category:

- | | |
|-----------------------|------------------------------|
| 1) South Africa | 16) Burkina Faso |
| 2) Egypt | 17) Madagascar |
| 3) Morocco | 18) Niger |
| 4) Angola | 19) Togo |
| 5) Tunisia | 20) E-Swatini |
| 6) Tanzania | 21) Eritrea |
| 7) Congo Kinshasa | 22) Burundi |
| 8) Zambia | 23) Lesotho |
| 9) Uganda | 24) Liberia |
| 10) Equatorial Guinea | 25) Cape Verde |
| 11) Mozambique | 26) Central African Republic |
| 12) Botswana | 27) Somalia |
| 13) South Sudan | 28) Guinea Bissau |
| 14) Zimbabwe | 29) Sahrawi Arab Republic |
| 15) Namibia | 30) Sao Tome and Principe |

19. Collectively, these countries were assessed US\$167,910,106 for regular budget and US\$34,291,400 was expected as contributions to the Peace Fund. These countries were also in arrears from previous budgets by an amount of US\$50,601,782 (US\$31,285,773 and US\$19,316,009 for regular budget and Peace Fund, respectively).

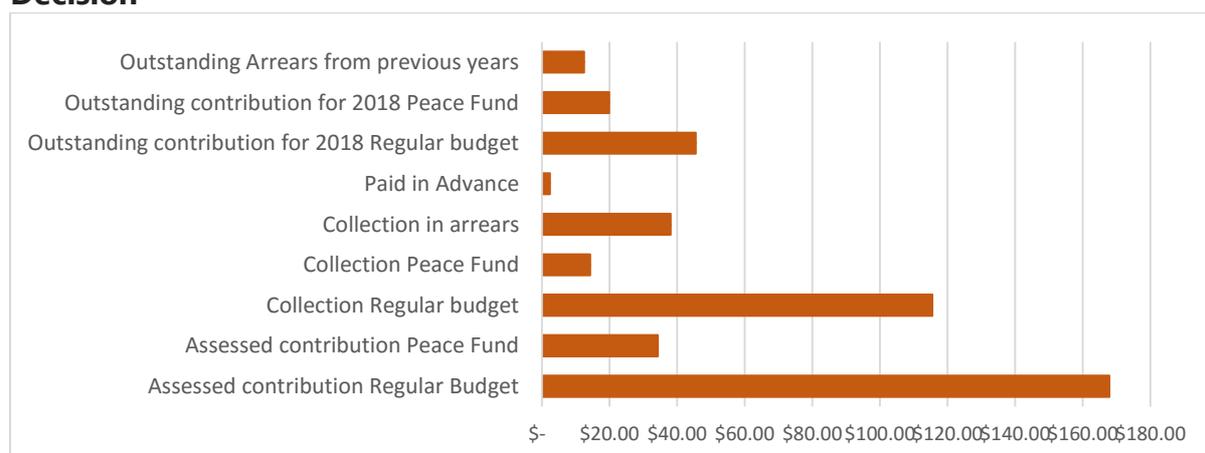
20. As at December 31, 2018, an amount of US\$115,467,925 and US\$14,313,095 was collected as contribution to the regular budget and Peace Fund, respectively, representing 69% and 42% of the expected amount. Further, there was collection of an amount of US\$28,403,483 and US\$9,725,659 in arrears from previous years for regular budget and Peace Fund, respectively. Also an amount of US\$2,406,827 was collected as advance payment to the 2019 budget, mostly coming from Namibia.

21. There is still US\$45,546,302 and US\$19,894,455 as outstanding payment to the regular budget and Peace Fund. Arrears from previous budgets stand at US\$12,472,640.

Table 4: Status of Contribution by Countries not yet implementing the Kigali Decision

	In US\$ million
Assessed contribution Regular Budget	\$ 167.90
Assessed contribution Peace Fund	\$ 34.30
Collection Regular budget	\$ 115.50
Collection Peace Fund	\$ 14.30
Collection in arrears	\$ 38.10
Paid in Advance	\$ 2.40
Outstanding contribution for 2018 Regular budget	\$ 45.50
Outstanding contribution for 2018 Peace Fund	\$ 19.90
Outstanding Arrears from previous years	\$ 12.50

Figure 4: Status of Contribution by Countries not yet implementing the Kigali Decision



C. The Peace Fund

22. Since its revitalization in 2016, there has been unprecedented momentum around the Peace Fund. Against a target of US\$130 million (US\$65 million each for 2017 and 2018), Member States have as at December 20, 2018 contributed about US\$79 million, representing 61% of the funds expected. This is in response to Assembly Decision **Assembly/AU/Dec.605(XXVII)** where it was decided that Member States contribute to the Peace Fund an amount of US\$325 million in 2017, rising to US\$400 million by 2020.
23. In line with the same decision in 22 above, the US\$400 million were to be raised from equal contributions from each of the five (5) AU Regions. This meant that each region would have to raise \$80 million. The decision, however, did not provide clarity on how this amount would be apportioned within regions. In the absence of guidance on this matter the Commission applied the general scale of assessment to assess Member State contributions. The approach did not go well with some Member States who decided to opt out until a proper mechanism for contributing to the Fund was agreed upon. The low rate of contribution to the Fund is, therefore, largely attributed to this stance.
24. Meanwhile, the instrument relating to the enhanced governance and management structure of the Peace Fund was adopted by the Assembly through Decision **Assembly/AU/Dec.687(XXX)** in January 2018.

D. Budgetary, Financial and Administrative Matters

a. *Golden rules for financial and budget management*

The 'golden rules' for the proper management of the AU's finances were considered and adopted by the AU Assembly in January 2018. Six of the 9 Rules are currently fully operational:

- i) Golden Rule One: Member States' contributions should cover a minimum threshold of the budget
- ii) Golden Rule Two: revenue must be predictable
- iii) Golden Rule Three: budgets must be credible
- iv) Golden Rule Four: expenditure ceilings should be set
- v) Golden Rule Five: all expenditure must be authorised
- vi) Golden Rule Six: resource flows and transactions must be reliable and efficient

The Golden Rules are currently being translated into AU policy and procedures and are being reflected in the AU's updated Financial Rules and Procedures. Application of the Rules when preparing the 2019 AU approved Budget helped to reduce it by 12% compared to 2018 budget.

b. *Enhanced oversight by Ministers of Finance*

25. In January 2018, the Assembly endorsed the F15 budget oversight function that will assist in ensuring that:

- a) The AU is held to the highest standards of finance and budget management, and
- b) A credible budget based on capacity to spend and proper revenue forecasts is developed.

26. Since its establishment, the Committee of Fifteen Finance Ministers (F15) has so far met five times to do the following:

- a) Adopt their Terms of Reference;
- b) Agree on best way to implement the Kigali Decision on financing the Union;
- c) Agree and propose to Assembly the 'Golden Rules';
- d) Endorse and propose to Assembly their oversight mechanism on AU budget;
- e) Agree on new budget preparation and review process;
- f) Made recommendations of the 2019 budget to the Executive Council.

27. In addition, through its Committee of Experts, the F15 participated fully in the statutory budget process by sitting jointly with the Sub-Committees of Programs and Conferences (CPC) and of General Supervision and Co-ordination on Budgetary, Financial and Administrative Matters (GSCBFAM) of the PRC to examine the budget priorities and proposals between May and October 2018. Throughout, the F15 were also instrumental in providing guidance in administrative and human resource matters that have financial implication, which included:

- a) Deliberations on the 2019 budget;
- b) 2018 Mid-Term Performance Report;
- c) African Union Staff Performance Management;
- d) AU Recruitment and Selection Processes;
- e) Short-Term Contract Analysis;
- f) Discussion on AU Salary Arrears;
- g) Determination and reclassification of the Reserve Fund;

- h) Consideration of 2018 Supplementary Budget;
- i) Verification of Long-Term Outstanding Balances proposed for Write-Off and Write Back;
- j) Treatment of preferential rate for AU offices in Geneva and Brussels.

E. The Scale of Assessment

28. The Scale of Assessment for period 2020-2022 has been reformulated. It has taken into account principles of ability to pay, solidarity, and equitable burden-sharing, to avoid risk concentration as demanded through Assembly Decision (**Assembly/AU/Dec.635 (XXVIII)**). It was developed on an understanding that it will improve the overall burden sharing of the budget to ensure that the Union is financed in a predictable, sustainable, equitable and accountable manner with the full ownership of its Member States. The reformulated scale was in July 2018 circulated to all Member States for comments and inputs. A meeting to deliberate on it was scheduled for January 2019 and later for its adoption by the Assembly in February 2019.

F. Strengthening the sanctions regime for non-payment of contributions.

29. AU Member States contributions are frequently not made on time or not made at all. Under the sanctions regime existed prior to November 2018, Member States non-payment were classified to be in default only if they were in arrears for two full years. This led to a trend where about 33% of the assessed contributions were regularly held in arrears.

30. The new Sanctions regime that was adopted in November 2018 by the Assembly through **Decision Ext/Assembly/AU/Dec.3(XI)** has sought to strengthen this regime by, among others, shortened the period within which a Member State will be considered to be in default to six (6) months from two (2) years. It has also placed emphasis on compliance by introducing a phased application of sanctions should a Member State be in default. It also has provided a relief to Member States who default due to circumstances making them temporarily unable to pay their assessed contributions.

G. Conclusion

While this report paints a picture of considerable progress on matters of budget oversight and Member States compliance with regards to their financial obligations of

the Union, challenges still remain. Whereas contributions are due as from 1st January of the financial year, the actual flow of funds from Member States has not been consistent with cash flow requirements of the Union. A great deal of funds are received during the second half of the year. The schedule for payment as to when funds should be transmitted to AU is not agreed.