AFRICAN UNION

الاتحاد الأفريقي

UNION AFRICAINE

UNIÃO AFRICANA

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MEETING OF FINANCE MINISTERS ON IMPLEMENTATION OF THE KIGALI ASSEMBLY DECISION ON FINANCING THE AFRICAN UNION

15 & 16 September 2016, AU Headquarters, Addis Ababa

SUMMARY REPORT

September 22, 2016

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Introduction.

1. At the Retreat on Financing the Union held in Kigali in July 2016, Africa's Heads of State and Governments (HOGS) took a Decision to institute a of a 0.2% levy on eligible imports. As part of the Decision, the Heads of State also decided that a Committee of ten Ministers of Finance (F10) be constituted to participate in the preparation of the annual budget of the Union.
2. In line with the Decision above, the AU Commission convened a meeting of ministers of finance to discuss the implementation of the decision. The meeting was in two parts. On the 15th of September an inaugural meeting of the Committee of Ten Finance Ministers (F10) was held to precede the open ended meeting of finance ministers on the 16th of September.
3. This report is in two parts covering the two meetings and contains a summary of the highlights and considerations for the implementation of the Kigali decision.

Part 1. Inaugural meeting of the F10. 15/09/2016.

4. The inaugural meeting of the F10 was attended by the following Member States:
    a. Algeria, Egypt - northern region

    b. Kenya, Ethiopia- Eastern region

    c. South Africa, Botswana - Southern Region

    d. Chad, Congo (Br) - central region

    e. Ghana, Cote d'Ivoire - Western region

5. Also in attendance were Sudan, Cameroon and Liberia. The Central Bank Governor from Swaziland, representing the Bureau of the Association of African Central Bankers was also present as an observer.

6. The meeting was chaired by the H.E Henry Rotich Minister / Cabinet Secretary for the National Treasury of Kenya.

Opening and Welcome Remarks By Dr. Dlamini Zuma, Chairperson

7. H.E Dr. Dlamini Zuma, Chairperson of the African Union Commission, welcomed the ministers, and indicated that the purpose of the meeting was to share experiences and forge a strategy on how best to implement the Decision taken at Kigali AU Summit on the Financing the Union. She recalled that the quest for self-reliance of the Union began with the inception of the OAU and acknowledged that the path toward sustainable financing of the Union has been faced with a myriad of difficulties. This has resulted in the slow pace of the implementation of the continent's key developmental initiatives such as the Lagos Plan of Action, the Abuja Treaty and NEPAD programs among others.
8. Dr. Zuma pointed out that the time is now ripe for Africa to take the issue of financing the Union seriously and welcomed the decision to institute a 0.2% levy on eligible imports as a bold step by the Heads of State and governments in Kigali which would ultimately provide adequate funds that would go towards financing the continents development and integration agenda.

9. The AUC Chairperson also recalled that the objective of the decision was to ensure that the Union is able to provide adequate and reliable funding for 100% of its operational costs, 75% of program costs and 25% of peace support operations.

Opening remarks by H.E Henry Rotich, the Chairperson of the meeting

10. In his opening remarks, and Kenya's Cabinet Secretary for the National Treasury, emphasized that the meeting's main task was to ensure the implementation of the Kigali Decision. He informed the meeting that he was present at the Finance Retreat of HOSG in Kigali, and therefor witnessed the commitments of the Heads of States to tackle the challenges of funding the Union.
11. He further noted that the Kigali decision calls for the start of implementation by 2017, this meeting must therefore brainstorm on mechanisms to make this happen.
12. He informed the meeting that Kenya had already initiated steps to commence implementation and concluded by calling on the member Ministers to accelerate the implementation of the Decision so that AU programs such as Agenda 2063 and other flagship projects can be adequately resourced.

Presentation of Back ground Papers.

13. The meeting received three presentations:
    a. Ongoing AU Financial Reforms, Governance and Accountability Mechanism (*joint presentation by Mr. Amine Adoum, AUC Director for Administration and Human Resource Management & Mrs. Assietou Sylla Diouf, Director of Programming, Budgeting, Finance and Accounting (PBFA).)*

    b. Lessons from ECCAS and ECOWAS experiences, (*by Dr. Fareed Arthur, Advisor to the Deputy Chairperson of the AUC)*
    c. Draft Guidelines on the Implementation of the Kigali Decision on Financing the Union by H.E. Erastus Mwencha Deputy Chairperson of the AUC.
14. Also tabled for discussions By the Deputy Chairperson of the AUC was the ToR of the F10.

Presentation on AU Financial Reforms, Governance and Accountability.

Highlights

15. **Corporate governance:** with the view of improving its governance structure, the AU has undertaken a number of reforms including review and adoption of new performance management systems; revised procurement management system; reform of staff rules and regulations; adoption of a code of conduct and ethics, and the adoption of a standard operations' procedure across all offices in the AU and its organs.
16. **Streamlining services with new technology:** to improve delivery of its services and efficient use of resources, the AUC has since January 2016 adopted smart conferences; built data centers to upgrade e-enterprise systems; and linked all of the offices of the AU and its organs through V-SAT and VTC.
17. **Strengthening Staff capacity:** in January 2016, the AU Leadership Academy was launched for the purpose of building staff capacity on project and program management; engaging Member States for better understanding of AU processes; and offering scholarships to young African scholars as an investment towards developing the next generation of African leaders.

18. **Greater focus for planning and budgetin**g. Approved budgets are focused on the AUC Strategic Plan, Agenda 2063 and the 10-Year Implementation Plan. AU programs are made up of five pillars:

    a. Peace and Security;

    b. Social, Economic and Development;

    c. Integration, Cooperation and Partnerships;

    d. Shared Values and

    e. Institutional and Capacity building.

19. **Key financial management reforms.** These reforms centers around two pillars:

    a. ***Processes and Systems reforms*:** with a view of having real-time reporting and benefit from e-banking facilities, the AUC since 2009 continues to improve its IT platform and the enterprise resource planning system.

    b. ***Accounting and regulatory framework:*** To improve its accounting processes and the management of its finances, the AUC since 2014 adopted IPSAS, established a Board of External Auditors; published its financial statements; adopted Enterprise Risk Management and Fraud and Anti-corruption policies; and Standard Operations Procedures especially for peace operations. Furthermore, the PRC subcommittee on Budget provides further oversight functions. The involvement of F10 will further enhance the budgeting process of the Union.

    c. ***Challenges***. Key challenges faced by the AU with the budget implementation include: late or non-payment of MS contributions; ineffective sanctions regime; over dependence on declining partner financing and earmarking of program support.

Presentation on Lessons from ECOWAS and ECCAS

20. A working visit by a select team visited ECOWAS and ECCAS to learn from the experience of the two RECs who are currently implementing similar import levies for funding the respective organizations. The conclusions and observation from the visits to the two RECs are:

    a. Both ECCAS and ECOWAS have legal instruments backing the implementation of the community levy (CL),
    b. Both RECs underwent some period of transition before the scheme became fully implemented. This underscores the need for some transition period for the full compliance with the decision.
    c. One of the underlying justifications for the introduction of the levy within the context of international law was the existence of Free Trade Areas and Customs Union amongst them. The establishment of the Continental Free Trade Area CFTA with the progression towards a continental Custom Union also provided contextual justification for the AU import levy.

d. ECOWAS has established National Units within Member states and remit back 4.5% of the revenue raised from the import levy to MS for the support of the National units and implementation of national ECOWAS programs.
e. In both ECOWAS and ECCAS National Accounts are opened in all the members states and revenue from the levy are deposited directly by the customs authorities into the designated accounts.
f. The ECOWAS has a separate accounting division to manage the Community Levy at the institutional level this has proved very effective and may be considered.

20. The experiences helped the team to formulate some very important questions and Answers that is attached as Annex 1. FAQs

Presentation of Draft Guidelines

21. The context in which the guidelines were drafted is drawn from Article 9(1) (a) of the Constitutive Act and Rule 4 (1) (a) of the Rules of Procedure of the Assembly which establishes the powers of the Assembly to determine the common polices of the union, establish its priority and adopt annual programs.

22. Rule 33 (1) (b) of the Rules of Procedure of the Assembly which also establishes the binding effect of the directives of the Assembly on all Members States and the exercise of discretion by national authorities to determine the means to be used for the implementation of the directives.

23. Guidelines were presented with the intention and expectation that Member States will take appropriate measures to implement the Decision on financing of the Union in accordance with their respective domestic regulations.
24. The proposed guidelines taking into account the decision as follows;
    a) AU import levy is to be derived from 0.2 percent of the value of the eligible goods imported into a Member State from a non-Member State.
    b) The Revenue collected under the import levy shall be remitted in accordance with each Member State's approved assessed contribution including the Peace Fund.
    c) Any surplus collected by Member States after the fulfillment of obligations under the assessed contribution shall be retained by the State.
    d) Any deficits between the assessed contribution and revenues collected under AU import levy by a Member State shall be covered by the Member State
    e) Goods exempted from the levy will be determined in line with national development and policy imperatives

Plenary Discussions on the Presentations

25. The Chairperson of the Meeting thanked the presenters. He noted that the reforms undertaken by the AUC is transformative and gives assurances to the Finance Ministers on the prudent management of the funds of the Union. He then opened the floor for discussions.

26. To kick of the discussions he took the opportunity to share the experience of Kenya in implementing the Decision on the financing of the Union. In order not to adversely impact the economy of Kenya, he informed the meeting that Kenya implemented the

Decision by lowering an existing levy (import declaration fee) from 2.5 percent to 2 percent. The 0.2% of the AU levy is then derived from the import declaration fee, which is paid into an escrow account with the central bank of Kenya. The implementation of the decision in Kenya relies on existing legal frameworks so as to avoid the introduction of a new levy. A law being passed by the Kenyan Parliament on the AU levy will come into effect on 21 September, and the funds will be transferred to the Central Bank of Kenya on behalf of AUC thereafter.

Summary of issues and concerns.

27. Member states were generally supportive of the decision however some concerns were raised. These are summarized as follows

    a. **Practicality of the start of implementation in 2017.** Whiles the decision clearly directs that the decision should start in 2017, ministers noted that due to varying legal regimes and budget calendars this may not be possible for all member states.

    b. **Need for Transition arrangement.** In view of the above some ministers were of the opinion that transitional arrangements should be build into the draft guidelines to give flexibility to member states on implementation. Whiles this was generally agreed the meeting considered the directive to start in 2017 and proposed that the transition period should were feasible not go beyond the end of 2017.

    c. **Exempted Goods.** The discussion on goods eligible for tax led to serious discussions on which goods should be exempted. After a very animated session it was agreed that good all goods that are already exempted by national laws or international obligations shall continue to be exempted from the levy.

28. The Draft Guideline revised accordingly is attached as annex 2.

Discussions on Draft Terms of Reference of the F10

29. H.E Mr. Erastus Mwencha, Deputy Chairperson of the AUC, led the meeting to discuss the Draft terms of reference (ToR) of the F10. (Revised and attached as Annex 3). The main the outcome from the discussions on as follows:

    a. On the Duties of the F10

    i. Review and evaluate the annual budget of African Union before submission to the Assembly of Heads of State and Government of the African Union;

    ii. Propose implementation mechanisms of the current decision on financing the African Union (Import Levy) in particular:

    iii. Collection of the funds

    iv. Transfer of the funds collected;

    v. Peace Fund Management Arrangements;

vi. Define a roadmap for the implementation of the Decision;

vii. Periodically Review the Status of the implementation and compliance and adopt policies for enhancement;

viii. Propose various resources mobilisation strategies for the Union.

b. **Role distinction between the F10 from other Ministerial committees.** Members emphasized the need for clarification on the functions of the F10 and other Committees such as the Sub-Committee on the Scale of Assessment and the Specialized Technical Committee on Finance. It was clarified that the F10 will be involved in the preparatory processes of the AU budget and therefore the work of the F10 does not infringe on that of other Sub-Committees. Furthermore, the STCs on the other hand are primarily engaged with policies concerning finance and economic matters and not the oversight of the budget of the Union.

F10 meeting Conclusions

Summary conclusions of the F10 meeting.

30. The meeting welcomed the information provided by the AU Commission, including on financial reforms, adoption of best practices on financial management and accounting, and efforts to improve the effectiveness and capacity of the Union and its organs, so that they can respond to the implementation of Agenda 2063.

31. Participants noted the importance of implementing the Decision on Financing the Union, calling upon the Ministers of Finance to swiftly deal with the pertinent issue of sustainable funding of the African Union.

32. The meeting also Welcomed the lessons from the experiences of ECCAS and ECOWAS and the other country experiences shared and further indicated that the Guidelines on Implementation of the Decision be refined to address the challenges and concerns raised during the discussions

33. The meeting noted with Appreciation the initiatives already taken by some Member States following the Kigali decision to start national implementation and encouraged all Member states to do the same.

34. Participants also Noted the need for transitional arrangements to enable Member states to allow for the legal requirements of countries to be put in place to give effect to the AU levy and also the need for the transitional mechanisms to include provisions to ensure the member states continue to meet all obligations towards the Union during the transition period.

35. Finally the members of the F10 agreed to meet on the sidelines of the World Bank meeting in Washington to continue deliberations on the TOR and the guidelines.

Part 2. General Meeting of African Ministers of Finance on the implementation of the Kigali Decision. 16/09/16

Opening and Welcome Remarks

36. H.E Dr. Dlamini Zuma, Chairperson of the African Union Commission, welcomed the ministers, and indicated that the importance of this meeting for the African integration agenda. She encouraged the ministers to examine the issues before them and take bold decision. She emphasized the need for self-reliance as necessary condition for Africa's integration.
37. The meeting was chaired by H.E, Minister of Finance for Chad, Mr Mbogo Ngabo Seli. In his opening remarks the Minister noted the importance of Finance Ministers being involved with the implementation of the Kigali Decision. He reminded Ministers that this was a decision by Heads of State and governments and that it was their responsibility to ensure its successful implementation. He called on the Ministers to accelerate the implementation of the Decision so that AU programs such as Agenda 2063 and other flagship projects can be adequately resourced.

Presentations

38. Three presentations were made:
    (i.) Report of the Ministerial F10 by H.E. Minister of Finance, Republic of Kenya.
    (ii.) Presentation of Draft Guidelines by the H.E Deputy Chairperson of the African Union Commission.
    (iii.) Presentation of the ongoing AU Governance and Financial Reforms by the AUC.

Highlights of the Discussion

39. In the ensuing discussions, the meeting emphasized the importance of the Decision and the need for its swift implementation. The Ministers of Finance extensively discussed and sought clarification on the following:

    i. The need for transitional arrangements. Taking into consideration the different legal and policy frameworks of the member states it was reemphasized that there should be a transition period that takes into consideration the national priorities and legislative requirements.

    ii. The need for greater clarity on the criteria for determining goods for exemption from the levy. Ministers felt that the criteria for exemptions should be left to member states in line with their policy imperatives. And also agreed that all goods already exempted from taxation before the commencement of the implementation would remain exempt from the levy.

    iii. The need for clarity on the regional contributions to the Peace Fund. Participants wanted more information on the peace fund and how the proposal for equal regional contributions to the fund will work. They also were not very clear if the 0.2% levy would cover also the peace fund.

40. The meeting concluded on the following:

a. AU Commission should continue its financial, management and accounting reforms with a view of creating an environment of greater transparency and accountability.
b. That the accountability measures also approved by the assembly should be put in place along with the implementation process
c. That goods exempted from the AU import levy shall take into account goods already exempted by national laws and development policies.
d. In compliance with the Decision to start the implementation in 2017 and noting the variations in legislative requirements across member States, proposed a transitional period of implementation of the Decision no later than the end of 2017.
e. The meeting also commended initiatives already taken by some Member States following the Kigali Decision to start national implementation and encouraged all Member states to put in place concrete measures for implementing the Decision at the national levels.
f. Endorsed the Request by the F10 to meet on the margins of the IMF/World Banks in October 2016 to complete their work.

Attachments.

Annex 1: Draft Guidelines On The Implementation On The Decision On Financing The Union

INTRODUCTION

1. The search for a reliable effective and predictable financing mechanism for the Union has been going on over the last ten years. Over the period several important milestone decisions have been taken by the Assembly leading to the appointment of a high level panel headed by former President Obasanjo of Nigeria and subsequently to concrete recommendations by a working group of the Conference of African Ministers of Economy and Finance (CAMEF) held in Washington in 2014. These recommendations were endorsed in subsequent decisions of the assembly.

2. In July 2016 at a historic retreat on financing the union held in Kigali the HOSG adopted the decision to implement a 0.2% levy on eligible imports for all members states to finance the Union.

3. The purpose of the decision is

   I. To relieve the pressure on national treasuries with respect to meeting national obligations for payment of assessed contributions of the Union

   II. To provide an equitable and predictable source of financing for the Union

   III. To reduce over dependency on partner funds for implementation of continental development and integration programs.

   IV. To provide reliable and predictable funding for continental peace and security though the peace fund

Context.

1. Article 9(1) (a) of the Constitutive Act and Rule 4 (1) (a) of the Rules of Procedure of the Assembly establishes the power of the Assembly to determine the common polices of the union, establish its priority and adopt annual programs;

2. Rule 33 (1) (b) of the Rules of Procedure of the Assembly also establishes the binding effect of the directives of the Assembly on all members states and exercise of discretion by national authorities to determine the means to be used for the implementation of the directives;

3. In exercise of the above the Assembly adopted a decision (Assembly/AU/Dec.578 (XXV)) on the Financing of the African Union in Johannesburg, South Africa in June 2015. The assembly subsequently reaffirmed this decision in in January 2016 in Addis Ababa, Ethiopia.

4. The Assembly also requested a special retreat of HOSGs together with Ministers of Finance specifically on Financing the Union to be held before the July 2016 Summit in Kigali, Rwanda

5. On 26 September 2015 the 547th Meeting of the Peace and Security Council at the Level of Heads of State and Government requested the Chairperson of the Commission to appoint a High Representative on the Peace Fund

6. At the retreat on financing the Union held in Kigali on 16 July 2016 and attended by over 30 Heads of State and Government and Finance Ministers, other representatives of Member States, the High Representative on the Peace Fund, Dr. Donald Kaberuka presented comprehensive proposals on financing the Union including the Peace Fund.

7. Following the retreat on Financing the Union, the Assembly adopted a Decision Assembly/AU/Dec.605 (XXVII) on Financing the union and the peace Fund

8. In line with the above decision the following guidelines for implementation are provided for consideration and adoption.

DRAFT GUIDELINES FOR THE IMPLEMENTATION OF THE DECISION ON FINANCING THE UNION.

PART 1. GENERAL PROVISIONS

A) OBJECTIVE.

1. The objective of this guideline is to provide a framework for the implementation of the Assembly Directive on collection of the AU import levy to be instituted by all Member States, by the year 2017, to finance the Operations, Programs budgets and Peace Support Operations, as well as any other expenditure of the Union, as may be determined by the Assembly.

B) SCOPE

1. In accordance with the Decision The AU import levy shall be derived from 0.2 percent of the value of the eligible goods imported into a Member State from a non-Member State.

2. The Revenue collected under the import levy shall be remitted in accordance with each Member State's approved assessed contribution approved additional contributions to the Peace Fund

3. Any surplus recorded by a Member States on revenue collected, as AU import levy shall be retained by the State.

4. Any deficits between the assessed contribution and revenues collected under AU import levy by a Member State shall be covered by the Member State

5. The AU import levy maybe reviewed by a subsequent Directive of the Assembly.

C) APPLICATION

1. The taxable base of the AU import levy will be the value of eligible goods originating from a non-Member State imported into the territory of a Member State to be consumed in the Member State.

2. The AU import levy will apply to the CIF value at the port of disembarkation for imports arriving by sea and road; Customs value at the airport of disembarkation for goods arriving by air;

E) EXEMPTIONS

The following will be exempted from the AU import levy:

a) All Goods originating in a Member State;

b) Goods originating from outside the territory of a Member State for home consumption in a Member State and re-exported to another Member State;

c) Goods received as Aid, gifts and non-repayable grants by a State or by legal entities constituted under public law and destined for charitable works recognized as being for the common good;

d) Goods originating from non-Member States, imported as part of financing agreements with foreign partners, subject to a clause expressly exempting the said goods from any fiscal or Para-fiscal levy;

e) Goods imported by enterprises before the entry into operations of this Guidelines;

f) Goods on which the AU import levy has been previously paid.

PART 2. COLLECTION, DEPOSIT AND ALLOCATION

A) COLLECTION

Customs authorities or other appropriate institutions designated by member states will be responsible for assessment and collection of the AU import levy.

B) DEPOSIT AND REMITTANCE

1. Revenue collected as AU import levy will be deposited into an account to be opened in name of the 'African Union' with the Central, National or Reserve Bank of each Member State.

2. The funds in the 'African Union' account with the Central, National or Reserve Bank of each Member State will be remitted periodically to a designated bank account of the Union in accordance with each Member State's assessed contribution.

3. All funds remitted to the designated bank account of the Union will be in compliance with the Constitutive Act and AU Financial Rules and Regulations and other applicable control instruments of the Union.

C) REVENUE DISTRIBUTION

1. In accordance with the decisions of the Assembly, revenues received as assessed contributions from collection of the AU import levy or from other sources from member states shall be allocated progressively over 5 years to Union's Budget starting from 2017 as follows:

    a. 100% of the Operational Budget;

    b. 75% of the Program Budget;

    c. 25% of the Peace Support Operations Budget.

    d. The Peace Fund as determined annually

2. Any other expenditure as The Assembly may determine.

D) THE PEACE FUND

1. The Peace Fund is established under Art 21 of the protocol establishing the Peace and Security Council of the AU to finance the AU's peace and security operations.

2. The Peace fund covers operational activities in three (3) areas as follows:

    a. Mediation and Preventive Diplomacy;

    b. Institutional Capacity; and

    c. 25% Peace Support Operations.

3. Under the Kigali Decision the Peace fund has been allocated three hundred and twenty five million US dollars ($325,000,000) in 2017 expected to incrementally rise to Four Hundred Million US dollars ($400,000,000) in 2020,

4. The peace fund will also be funded from the AU import levy. However, in accordance with the Assembly decision the Peace Fund will be distributed equally among the five AU Regions based on a formula to be agreed on with the members of the respective regions.

5. The 25% of the cost of Peace Support Operations is a prerequisite to negotiate with the UN and other international partners for 75% for African Peace support operations

PART 3. ADMINISTRATION OF THE AU IMPORT LEVY

A) APPLICABILITY OF DOMESTIC LAW

Regulations governing the management Customs duties and other taxes in the Member States will apply to the AU import levy.

B) OVERSIGHT MECHANISMS

1. The Commission shall institute a strong accountability mechanism for ensuring the effective, transparent and prudent use of resources through stringent implementation of Executive Council and Assembly decisions in all its aspects on the establishment of external and internal controls

2. An enhanced governance structure and independent fund management body will be set up for the Peace Fund in compliance of the AU financial rules and regulations for transparency and accountability purposes, subject to the approval of the assembly.

3. In accordance with the Kigali Decision a Committee of Ministers of Finance will be established comprising ten (10) Member States, two (2) per region to participate in the preparation, monitoring and evaluation of the annual budget of the Union.

4. The Commission will report annually to the STC on Finance, Monetary Affairs, Economic Planning and Integration on the implementation of the decision and these guidelines.

PART 4. FINAL PROVISIONS

A) PRIVILEGES AND IMMUNITIES

1. The revenues collected as AU import levy shall enjoy, in all Member States, the privileges and immunities provided for in the Vienna Convention on Diplomatic Privileges and Immunities, and the Vienna Convention on the Law of Treaties and the Vienna Convention between States and International Organizations or between International Organizations, and the Headquarters Agreement.

B) ENTRY INTO OPERATIONS

1. In accordance with the Kigali decision the implementation of the decision will enter into operations for each Member States from January 2017.

C) TRANSITION ARRANGEMNTS

1. In recognition of the fact that Member States have different legal regimes and planning and budgetary cycles it is foreseen that a period of transition may be required to enable some countries to become fully compliant.
2. In line with the decision however it is strongly recommended that this period shall not go beyond end of 2017.
3. Member states who need to take advantage of the transition arrangements will however put in place measures to fulfill all financial obligations to the Union during this period

Annex 2. Draft Terms of reference for F10.

1. Background

I. The Twenty-Seventh Assembly of Heads of State and Government, the Assembly took the following decision on financing the Union: "To institute and implement a 0.2 percent Levy on all eligible imported goods into the Continent to finance the African Union Operational, Program and Peace Support Operations Budgets starting from the year 2017'' and requested the Commission to 'put in place strong oversight and accountability mechanisms for ensuring the effective and prudent use of the resources'.

II. In addition to this decision, the Assembly decided; 'To establish a Committee of Ministers of Finance comprising [ten] Member States, representing the five (5) regions [two per region] to participate in the preparation of the annual budget'.

2. Composition Of The Committee

I. The Committee shall comprise 10 Ministers in charge of Finance representing the five African regions (2 per region): East, Southern, West, North and Central.

II. The committee shall appoint one from amongst their members to Chair their proceedings. In his or her absence the senior most minister present shall act.

3. Tenure of the Committee.

I. The tenure of the committee shall be two years.

II. Ministers may be appointment to represent their regions successively.

4. Duties

I. The Committee shall perform the following duties:

II. Review and evaluate the annual budget of African Union before submission to the Assembly of Heads of State and Government of the African Union;

III. May constitute a technical committee of high technical experts from member state ministry of Finance to assist with its work

IV. Propose implementation mechanisms of the current decision on financing the African Union (Import Levy) in particular;

V. Collection of the funds

VI. Transfer of the funds collected;

VII. Peace Fund Management Arrangements;

VIII. Define a roadmap for the implementation of the Decision;

IX. Review the Status of the implementation and compliance and adopt policies for enhancement;

X. Propose various resource mobilization strategies for the Union.

XI. The committee may redefine its scope from time to time

XII. The committee will define its own rules of procedure

XIII. May also perform any other functions that the Assembly of Heads of State and Governments may assign.

5. Modus Operandi

I. The Committee shall meet at least twice yearly;

II. The Committee will be serviced by the African Union Commission through the PBFA;

III. Expenses related to the organization of meetings of the Committee shall be borne by the AUC and should be included under the PBFA;

IV. The Secretariat of this Committee will be the African Union Commission through PBFA.

Annex 3: Frequently Asked Questions

I. **Will all the funds raised under such a levy be remitted to the African Union?**

No**.** The AU can only receive levy funds that does not exceed the amount authorized under the AU budget. The Figure above clearly shows that the application of the Union levy by member States will generate more than their assessed contributions. In line with the decision however Member States shall keep the difference between the generated revenue and their assessed contribution for their own development needs. At some stage Member States may decide to (a) support larger budgets within the context of the wider AU budget reforms or (b) change the assessed contributions formula to reflect the levy in full or in part.

II. **Is such a levy in compliance with international norms?**

a) This levy is not new and indeed variations of such levy are being used by several regional organizations worldwide. In Africa, levies on imports are being used by ECOWAS, ECCAS and CEMAC. There is no evidence of non-compliance with international obligations.

b) Such levies are usually applied within the framework of customs unions and FTAs and do not conflict international norms. In the light of the introduction of the CFTA in 2017, which will in essence include an Africa wide customs union, such a levy is possible and fully justifiable.

III. **What Constitutes eligible goods and how will it be determined?**

a. For the purpose of implementation, the levy shall be applied to all non-exempt goods from non-African countries. The criteria for exemption are contained in the draft guidelines on AU import levy to be considered by the Ministers of Finance.

IV. **How will the levy be assessed and how will it be collected?**

a. The Union levy shall apply to the Cost, Insurance and Freight (CIF) value at the port of disembarkation for all eligible imports in each member state.

b. The national Customs Administrations of a Member State or any other agency designated by the MS shall be responsible for assessment and collection of the Union levy.

c. Amounts collected, as Union levy shall be paid automatically into an account opened in the name of the African Union Commission with the Central bank of each Member State.

V. When should levies collected be remitted to the Union?

a. It is expected that Funds collected under the levy will be paid automatically into an Account for the AU with member states central banks and shall be accessible to the AU as and when the funds are paid into the account.

b. The amount the AU can access shall however be limited to the assessed contributions for the financial year.

VI. What will the funds be used for?

a. In accordance with the assembly decision of June 2015 the fund will be used to cover the following:

- 100% of operational budget of the Union
- 75% of the Program budget of the Union
- 25% of the Peace support operations of the union.

b. These targets will be achieved progressively over 5 years starting 2017.

VII. Will the funds raised also cover the Peace fund?

a. The July 2016 Assembly decided that the Peace Fund would be endowed with $325m in 2017, rising to a total of $400m by 2020 from the 0.2% levy

b. The endowment represents a maximum amount that will be replenished annually as needed.

c. The Peace Fund covers more than just the peace support operations. This endowment will enable the AU to fully finance mediation and preventive diplomacy activities, institutional readiness and capacity, maintain a crisis reserve facility as well as meet its commitment to finance 25% of its peace operations budget.

d. The details of how the peace fund will be operationalized are contained in a separate report submitted by the AU high representative for the Peace Fund.

VIII. Will the proposed regional contributions to the Peace Fund create an unfair burden for some regions?

a. AU Heads of State and Government were to keen to emphasize the importance of the AU regions and the fact that Regional Economic Communities (RECs) and Regional Mechanisms (RMs) have often constituted the first line of response. To this end, the Peace Fund will also support regional responses to conflict and insecurity.

b. However, in recognition of the concerns raised by some Member States regarding burden-sharing, particularly in AU regions that have fewer Member States, the following 2017 transitional implementation approach is proposed:

- The $325 Peace Fund budget will be reflected in the AU's 2017 budget.
- Member State contributions to the 2017 AU budget will be made in line with the existing scale of assessed contributions.
- Member States will remit their annual contributions to the AU Accounts held within their Central Banks or equivalent institutions.
- Member States' annual contributions will be transmitted to the AU thereafter.

IX. When is this levy expected to start?

a. In accordance with the Kigali decision the levies are supposed to come into effect starting from 2017.

b. It is important to note that some countries have already initiated action to implement

c. Member states have varying budget cycles and legal regimes it is envisaged that there will be a transition period not exceeding 12 months to enable them to adjust and adapt so that all Member States are in compliance within the fiscal year 2017.

d. Transitional provisions will be included in the guidelines.

X. Governance and Accountability. How will member states ensure that the funds raised are effectively applied prudently?

a. The AU and its organs recognize the need to deepen and accelerate financial reforms. The accountability mechanism approved by Executive Council in January 2016[1] and subsequently at the Kigali retreat shall be strictly enforced. This clearly spells the structures and mechanisms that will be put in place by the member states to ensure proper usage, accountability and high fiduciary standards.

b. Further financial and budget reforms including stringent internal controls will be enforced to ensure proper transparency oversight and accountability in line with best practice.

XI. What should be the role of Ministers of Finance in the oversight and accountability?

a. The Assembly in recognition of the need for deeper financial and management reforms spelt out a clear role for finance ministers. In accordance with this decision a committee of 10 minister of finance (F10); two per region shall be constituted shall participate in the preparation, monitoring and evaluation of the annual budget. The terms of reference of the F10 are provided separately.

[1] Ex.Cl/948(Xxviii)