FINANCING THE UNION

TOWARDS THE FINANCIAL AUTONOMY OF THE AFRICAN UNION

STATUS REPORT - AN UPDATE

Version Four

June 16, 2020

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 financial reform decisions, to ensure there is sound and predictable finances to address the historical challenges the African Union has faced. These are;

   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 adopted financial reform decisions 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, 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. As of the 16th of June 2020, there were 17 countries[1], representing about 31% of AU membership that were at various stages of domesticating the Kigali Decision on Financing the Union.

[1] Kenya, Gambia, Congo Brazzaville, Gabon, Rwanda, Cameroun, Chad, Sierra Leone, Djibouti, Cote d'Ivoire, Guinea, Benin, Sudan, Ghana, Nigeria, Mali and Togo.

5. Collectively, these countries are assessed US$73,761,008 for regular budget and US$15,307,159 as contribution to Peace Fund, representing 30%, respectively, of the total amount assessed to Member States to the Regular budget and Peace Fund. These countries owed the Union US$41,735,749 (US$30,761,020 for regular budget and US$10,974,729 for Peace Fund) for prior budgets and as much as US$33,359,115 (US$22,095,806 for regular budget and US$11,263,308 peace fund) for the 2019 budget.

6. As of June 16, 2020, an amount of US$7,419,039 was received from these Member States (US$6,417,102, US$1,001,938 as contribution to regular budget and Peace Fund, respectively). This represents 9% and 7% of amount expected. Another US$16,181,591 and US$7,039,343 was collection in arrears for Regular budget and Peace Fund, respectively.

7. All the 17 countries have remitted to AU either partially or in full for 2020 budget.

8. As at the date of report an amount of US$25,135,107 (US$12,767,675 and US$8,833,571 for regular budget and Peace Fund, respectively) was in arrears. All of it is attributable to Sudan who due to the economic embargo imposed on them and other considerations made it impossible to remit the funds to AU on time.

Table 1: Status of Contribution by Import Levy Collecting Countries

In US$ million

Assessed contribution Regular Budget	$	73.76
Assessed contribution Peace Fund	$	15.31
Collection Regular budget	$	6.42
Collection Peace Fund	$	1.00
Collection in arrears	$	23.22
Paid in Advance	$	0
Outstanding contribution for 2020 Regular budget	$	59.93
Outstanding contribution for 2020 Peace Fund	$	12.77
Outstanding Arrears from previous years	$	25.13

Figure 1: Status of Contribution by Import Levy Collecting Countries

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

9. The flexibility built into the implementation of the 0.2% levy appears to have been embraced by many Member States. This flexibility allows Member States 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 provided the principles of predictability and compliance are adhered to. This is on the back of a score of Member States expressing their intention to continue paying using the current arrangement.

iii. Advantages of the AU levy

10. Implementation of the AU levy has known advantages such as:

    a) The levy offers extra revenue to Member States. The excess collection over and above the amount assessed to a Member States is used to finance other purposes of importance to the Member State.
    b) The levy mechanism makes it easier for Member States to pay to the Union as it is not subjected to time consuming budgetary procedures and parliamentary approval.
    c) Sixteen (16) of the levy collecting countries cleared all arrears they had prior to starting implementing the levy.

iv. Challenges of the 0.2% import levy

11. Only 17 countries out of the 55 Member States are collecting from the levy.
12. Though funds are being collected but are not remitted in full by some Member States.
13. There is no enforcement mechanism to ensure that the money collected is actually transmitted.
14. Some countries, such as Seychelles and Mauritius have undertaken a zero tariff commitment at the WTO on almost 95% of their imports. Imposing the levy on the remaining goods would only yield less than is required to pay to AU. Similarly, doing so would be in breach of GATT Article II on schedules of commitments.
15. Similarly, a number of Small Island States have raised concerns that their economies are small and not diversified, depending mainly on tourism. These countries have indicated that an increase in the tariffs on the small quantity of imports could potentially weaken their economies.
16. Other Member States are constrained by legal implications under their obligations to the World Trade Organization (WTO), especially with the Most Favored Nation (MFN) principle. The MFN principle requires that WTO members apply the same tariffs on a like product imported from other WTO members.[2]
17. Some countries, such as Saharawi Arab Democratic Republic, do not have a tangible productive industry or the export sector. Their imports mostly for humanitarian purposes are for sustaining their refugee status.

[2] Article 1 of the Generalized Agreement on Tariffs and Trade, 1994.

C. The Peace Fund

18. Since its revitalization in 2016, there has been an unprecedented momentum around the Peace Fund. Against a target of US$260 million (US$65 million each for 2017, 2018, 2019 and 2020), Member States have as of June 16, 2020 contributed just over US$176 million, representing 68% 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, gradually increasing to US$400 million by 2020. The deadline for endowing the Fund has now been extended by 24 months **(EX.CL/Dec.1061(XXXV)).**

19. In line with the Decision 605 above, the US$400 million was to be raised from equal contributions from each of the five (5) AU Regions. Each region would raise US$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. Some Member States did not approve of this approach and requested a proper mechanism for contributing to the Fund be agreed upon.

20. Meanwhile, the High Representative on Financing the Union and Peace was requested to undertake and conclude regional consultations on the matter of assessing the Peace Fund and to report back to the February 2020 Session of the Assembly.

D. Budgetary, Financial and Administrative Matters.

a. *Golden rules for financial and budget management.*

21. The 'Golden Rules' for the proper management of the AU's finances were considered and adopted by the AU Assembly in January 2018. Eight 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.

vii) **Golden Rule 8**: Reporting should be an integral part of the financial management process.

viii) **Golden Rule 9**: There should be a centralized process for engaging partners

22. **Golden Rule 7** is partially implemented. Outstanding is the requirement to harmonise between the current SAP and AMERT systems, or agreement on the use of one system.

b. What has changed since adoption of Golden Rules?

23. Implementation of Golden Rules have brought forth positive changes and are on course to add value to budgetary and financial reforms. Among others, the following are the changes:

    a) The budgets are now reflecting the priorities of the Union. The budget guidelines issued by the AU Commission prior to the start of the budgeting cycle strictly supports spending units to prepare and submit for consideration budgets that reflect priorities of the Union
    b) Expenditure ceilings were introduced that have helped to begin to reduce the variance between budgets and expenditure outturn, as well as revenue forecast and income to acceptable levels.
    c) Forecasts for Member States contributions and development partner commitment expectations are proposed at the start of the budget process.
    d) There is now a standardized format for budgets for all AU organs.
    e) Mid-year review of budget has now been institutionalized starting with the 2019 budget.
    f) The ratio of Operational budget, including salaries to the total budget has begun to reduce towards the set 30% threshold.
    g) An enterprise risk management policy is currently being finalized to mitigate exposure to risks and enhance consequence management for non-compliance to financial rules and regulations.

24. The Golden Rules are currently being translated into AU policy and procedures and are being reflected in the revised AU Financial Rules and Regulations.

c. *Enhanced oversight by Ministers of Finance.*

25. In January 2018, the Assembly endorsed the Committee of Fifteen Ministers of Finance (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 Ministers of Finance has held at least five meetings on the following agenda:

a) To adopt their Terms of Reference;
b) To agree on best way to implement the Kigali Decision on financing the Union;
c) To agree and propose to Assembly the 'Golden Rules';
d) To endorse and propose to Assembly their oversight mechanism on AU budget;
e) To agree on new budget preparation and review process;
f) To make recommendations of the 2019 and 2020 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 for 2019 and 2020. 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 and 2020 budgets;
b) 2018 and 2019 Mid-Term Performance Reports;
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 the period 2020-2022 was adopted through Assembly Decision **Assembly/AU/Dec.734(XXXII)** for implementation starting 1st January

2020**.** It took 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))**. The new scale, which has introduced the 'Caps" and 'Minima', was developed on an understanding that it will improve the overall burden sharing of the budget to ensure the Union is financed in a predictable, sustainable, equitable and accountable manner with the full ownership of its Member States. During the implementation of the reformulated scale, no country will pay less than US$350,000 and not more than US$35 million in any give financial year.

29. So far, only Saharawi Arab Democratic Republic (SADR) and Seychelles have expressed reservations through a Note Verbale addressed to the AU Commission that they may not fulfil its obligation to the Union with the introduced of minima of US$350,000. Political situation and size of the economies were cited as reasons for the inability to contribute as expected.

30. Meanwhile, the SADR and Seychelles have, however, expressed their willingness to continue paying to the Union using the current level of contributions of US$151,820, and at 50% the current amount assessed to them, inclusive of contribution to the Peace Fund, respectively.

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

31. AU Member States contributions are often not remitted on time and/or not paid at all. Under the previous sanctions regime, Member States non-payment were classified to be in default only if they were in arrears for two full years. This resulted to a trend where about 33% of the assessed contributions were regularly held in arrears.
32. A new Sanctions regime was adopted in November 2018 by the Assembly through **Decision Ext/Assembly/AU/Dec.3(XI).** This new sanction's regime seeks to, among others, shorten 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: Member States defaulting for six (6) months are subject to cautionary sanction; defaulting for 1 year are liable to intermediary sanctions and the comprehensive sanctions settle in when Member States default for two (2) years. The new regime also has provided relief to Member States who default due

to circumstances that make 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 is received during the second half of the year. The schedule for payment as to when funds should be transmitted to AU is yet to be agreed upon.