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Economic Affairs Department

Modalities of Implementation of the Two Options retained by the Assembly of Heads of State and Government of the African Union on Alternative Sources of Financing the African Union

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Contents

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
BCEAO	Banque centrale des Etats de l'Afrique de l'ouest (Central Bank of West African States)
CAADP	Comprehensive Africa Agriculture Development Programme
CIF	Cost Insurance Freight
CARMMA	Campaign for Accelerated Reduction of Maternal Mortality in Africa
ICC	Integration Community Contribution
ECOWAS	Economic Community of West African States
ECCAS	Economic Community of Central African States
RECs	Regional Economic Communities
US	United States
GAVI	Global Alliance for Vaccines and Immunization
IATA	International Air Transport Association
MIP	Minimum Integration Programme
NEPAD	New Partnership for Africa's Development
CL	Community Levy
SCL	Community Solidarity Levy
PIDA	Programme for Infrastructure Development in Africa
GNI	Gross National Income
TOR	Traditional Own Resources
VAT	Value Added Tax
AU	African Union
UEMOA	West African Economic and Monetary Union (WAEMU)
UNITAID	International Drugs Procurement Facility
HIV/AIDS	Human Immune Deficiency Virus/*Acquired Immune Deficiency Syndrome

SUMMARY

This document is being developed pursuant to implementation of African Union Assembly Decision- Assembly/AU/Dec.486 (XXI)- on Alternative Sources of Financing the African Union. It presents the mechanisms for operationalization of the two options retained by the High-Level Panel, approved in principle by the Assembly. After presenting the experience of the European Union Commission and that of certain Regional Economic Communities, on their respective funding mechanisms, the document goes on to describe innovative financing mechanism for development.

It emerges from this document that collection of the taxes (levy on air tickets and the tourism levy) will be carried out in close collaboration with Member States. Collection of the tax on airline tickets will be effected in collaboration with IATA and transport agencies in Member States, while the tourism tax will be collected in close collaboration with the Ministries in charge of Tourism in Member States. Accounts will be opened in Member States' Central Banks to receive the resources collected from the aforementioned two taxes. The document further presents modality for use of the resources and a compensation mechanism to alleviate the impact of the taxes on the economies of Member States.

The document offers a series of recommendations for speedy operationalization of the options adopted by the Assembly.

I. INTRODUCTION

The High-Level Panel on Alternative Sources of Funding the African Union led by the former President of the Federal Republic of Nigeria, His Excellency Olusegun Obasanjo and composed of His Excellency Edem Kodjo, former Secretary General of the Organization of African Unity, and Her Excellency Luisa Diogo, former Prime Minister and Minister of Finance of Mozambique, presented its report at the 21st Ordinary Session of the Assembly of the African Union, a session which also marked the fiftieth anniversary of the establishment of the Organization of African Unity/African Union. After consideration of the various proposals, the Assembly adopted the Report in principle as well as the two options proposed as alternative sources of financing the African Union (vide Decision in the Annex).

The options are:

a) US$2.00 hospitality levy per stay in a hotel; and

b) US$10.00 levy on flight tickets for flights originating from Africa or with destinations in Africa.

In that Decision, the Assembly also requested the Commission to submit the Report to the Extraordinary Conference of Ministers of Finance and Economic Planning for proposals on implementation of the different options on offer. The Assembly further requested that the possibility of increasing the statutory contributions be explored, and that Member States formulate new options together with their implementation modalities, so that a comprehensive report could be presented to it for final decision at its next ordinary session scheduled for January 2014.

For the purpose of implementing that Decision, the African Union Commission intends to describe in this document, the modalities of implementation of the aforementioned two options, after a brief overview of the experiences of the innovative financing mechanisms in certain Regional Economic Communities (RECs) and monetary unions. The first part of this document will present the innovative financing mechanism experiences of the Regional Economic Communities, as well as that of the European Union and certain countries. The second part will then dwell on the mechanisms for operationalization of the two options set forth in Obasanjo Report.

This document will be presented to the Extraordinary Session of the Conference of African Economic Planning and Finance Ministers due to take place in Addis Ababa, Ethiopia, in October 2013, for consideration and recommendations. Thereafter, a comprehensive report on the operationalization mechanisms will be presented to the 22nd Session of the Assembly of the African Union which will be held in Addis Ababa in January 2014, for a final decision.

II. ALREADY EXISTING MODELS

A. INNOVATIVE FINANCING MECHANISM FOR DEVELOPMENT

Innovative financing mechanism for development is a mechanism designed to generate funds for development. Such instruments are characterised by their complementarity with Official Development Assistance, by their predictability and by their stability. They are intrinsically tied to the idea of global public assets and are intended to correct the negative effects of globalization.

This tax for example made it possible for France to raise nearly 900 million Euros in the first 5 years in addition to the traditional aid. The predictability of the resources is particularly in tune with development assistance needs. It is justified by the funding of programmes for combating HIV/AIDS - a chronic disease the sufferers of which must take daily and uninterrupted treatment. The contributions collected at national level are then coordinated internationally, and a substantial proportion thereof allocated to UNITAID, the International Drugs Procurement Facility. The resources raised from this tax are beefed up by those generated from the kerosene tax applicable in Norway which yields slightly over 20 million dollars a year.

Launched in September 2006, UNITAID (for increased access to drugs and diagnostics against HIV/AIDS, Tuberculosis and Malaria through intervention on the market) is an International Drugs Procurement Facility. Its aim is to combat the major pandemics affecting some developing countries by improving the people's access to quality treatment. UNITAID purchases the requisite medicines and diagnostic tools with the funds raised. This Facility has, in the first five years of its existence, committed over a billion dollars in 90 beneficiary countries, most of which are low income countries.

UNITAID has an annual budget of about 350 million dollars, funded mainly from two sources. The first is that donor countries and the Gates Foundation make budgetary contributions staggered over several years; and the second is that nearly a half of the available funds are derived from the resources generated through solidarity levies on air tickets.

Promotion of tax on air tickets has been a priority for the pilot group on innovative financing for development which launched, in Conakry, a task force for African countries with the aim to convince the great majority of the States of the Continent to implement this solidarity contribution in accordance with their specific characteristics.

The solidarity levy on air ticket is a mechanism anchored on a system of contributions obligatory for each airline passenger. The amount is deducted by Government during purchase of ticket. The funds so generated are allocated to UNITAID to replenish the Global Fund and GAVI (Global Alliance for Vaccines and Immunisation).

Several African countries apply this tax in favour of UNITAID and in this way contribute to its budget. The year in which the countries started to make the contributions and the amounts collected are in brackets: Cameroon (2011; 1.7 million US dollars), Congo (2011; 1.09 million US dollars), Madagascar (2009; 27,000 US dollars), Mauritius (2007; 7,032,000 US dollars), Mali (2010; 928,000 US dollars), and Niger (2007; 281,000 US dollars). The following African countries are at an advanced stage of negotiation to apply the air tickets levy and implement the global solidarity contribution: Benin, Burkina Faso, Guinea, Liberia and Senegal. Other countries are at discussion stage: Chad, Kenya, Mozambique and Nigeria. **(Vide list of the pilot group countries in the Annex).**

B. EUROPEAN UNION FINANCING MECHANISMS

1. Levies

The European Union budget is financed by the Union sourced resources and other types of revenue.

Union resources:

These comprise the Union's income and are of three types:

- ***traditional resources (RPT)*** made up mainly of the customs duties on imports of goods from countries outside the EU and "sugar" levies. Member States retain 25% of the amount collected to defray their cost of collection;

- ***value added tax (VAT) based resources:*** this is a uniform percentage rate applied to the harmonized VAT of each Member State. This VAT resource amounts to some 14 billion Euros.
  The VAT base applicable is limited to 50% of the Gross National Income (GNI) of each Member State. This rule is intended to ensure that the less rich Member States do not pay a disproportionate proportion in relation to their contribution capacity. As a matter of fact, consumption, and hence VAT, tend to represent a higher percentage of the national income of the less prosperous countries.

- ***Gross national income (GNI) based resources:*** this is a uniform percentage rate applied to each Member State's GNI. It serves to balance the budget incomes and expenditures, i.e, to finance the part of the budget not covered by other incomes. Though it is a balancing element, this resource has now become the most substantial source of income. It represents 92.7 billion Euros.

2. Other Incomes

The budget is also replenished by other types of income, such as:

- Tax on the earnings of the staff of European institutions;
- Third countries' contributions to certain European programmes;
- Fines imposed on businesses violating the rules of competition or other rules.

3. Inputs from statutory contributions (to be completed)

C. EXPERIENCE OF REGIONAL ECONOMIC COMMUNITIES

C.1. ECOWAS Financing Mechanism

ECOWAS budget is funded primarily by the resources collected through the community levy.

1. Community Levy

This tax is designed to finance ECOWAS activities. The community levy rate is set at 0.5% of the CIF value of the goods imported from third countries outside ECOWAS. This rate may however be modified, if the need arises, every three years by the Authority of Heads of State and Government on the advice of the Council.

The field of application of the community levy does not include: goods originating from ECOWAS (certified industrial goods, unprocessed produce and small-scale traditional goods); goods manufactured in Member States but do not meet ECOWAS origin conditions; and goods originating from third countries nationalized for consumption in a Member State and re-exported to another Member State. Also exempted from community levy are the following elements: aid, grants and non-refundable subventions destined for a State, public law entities and works of charity recognised to be of public utility; goods originating from third countries imported as part of funding accorded by foreign partners subject to an express clause exempting such goods from all fiscal and para-fiscal levies; merchandise imported by enterprises beneficiaries of tax system with stabilized rates as at the date of entry into force of this protocol; merchandise for which community levy had already been paid under any other previous regime.

The community levy bases are: port of disembarkation CIF value for imports arriving by sea; CIF value at point of entry into Community customs territory for imports by land; airport of landing customs value for imports arriving by air; and official (customs) value for goods on quoted price list.
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2. Modalities for Implementation of Community Levy

Collection is carried out by tax collectors or the heads of competent customs offices. To this end, an additional line is opened in their books of accounts in which the community levy monies collected are posted on daily basis. ECOWAS Commission opens an account in the books of the Central Banks of each Member State (for countries having their own Central Bank) and at BCEAO Agency for UEMOA countries. In reality, on the basis of the importable value of the goods imported, the customs services ask the importer (who is also of the private sector) to issue two cheques: one in favour of UEMOA (1%), and the second in favour of ECOWAS (0.5%). The customs services deposit the cheques received from the importers into UEMOA account and that of ECOWAS, held at the Central Bank of each State.

The proceeds from the community levy serve to replenish: the regular budgets of the Community and its institutions with the exception of the budget of the Cooperation, Compensation and Development Fund; the budget for compensation for losses incurred as a result of trade liberalization; funding of development activities; any other allocation decided by the Authority or the Council including increase of the capital of ECOWAS Fund. In ECOWAS, these budgets are set annually by the Council of Ministers on the advice of the Administration and Finance Commission.

Surpluses arising from community levy over and above the totality of the authorized expenditure (under a specific financial year) **are carried over in the books of the Commission.** Here, the deficits identified in the financing of authorized expenditures **are covered by the surpluses carried over from previous financial years.**

Where the amounts carried over are insufficient to finance or cover the deficits, such deficits are absorbed in the following manner: deferment of execution of certain actions realization of which could wait or which could be funded by other financing sources; a call for additional funds from Member States. The deficits are then distributed among the different budgets in accordance with their representative share of the overall expected budget. The additional contributions required of Member States are determined by applying the budgets distribution benchmarks of the Community.

Furthermore, when deficits or surpluses are observed over three consecutive financial years, each exceeding 25% of the total budget voted, the Council of Ministers steps in to make the necessary adjustments, either, in the case of deficit, by widening the field of application or by raising the rate of community levy and, in the case of surpluses, by reducing the rate of community levy.

In 2007, 2008 and 2009, proceeds of the community levy stood, respectively (in million dollars) at 230, 314 and 360. During the same period, the approved budgets of ECOWAS institutions amounted, respectively (in million dollars) to 160, 220 and 274, thus leaving a positive balance of 72.94 and 86 million dollars, respectively.

Clearly, ECOWAS in the three years realized accumulated positive balance of 252 dollars posted in its books **as amount carried forward**.

This positive balance constitutes a veritable “war chest” for ECOWAS, and affords it considerable room for manoeuvre in the implementation of its mandate.

C.2. ECCAS Financing Mechanism

1. Integration Community Contribution (ICC)

Goods originating from third countries imported by Member States for consumption purposes are subject to ICC. In ECCAS, taxable value is the customs value of goods, that is, the CIF value or the transaction value. Thus exempted from the field of taxation or application are goods originating from the Community and goods imported under suspense customs regimes. The budget is voted following classical procedure and distributed among the countries according to consensually agreed distribution benchmarks. The originality here is that each country transfers (through its Central Bank) to ECCAS Central Bank account opened at the Central Bank of the host country, only the amount representing its contribution as determined by the distribution benchmark.

The originality also lies in the fact that a given country can be in surplus (and this is generally the case observed by ECCAS authorities). In this case, the country concerned has in its favour a surplus which grows in crescendo and which it has the right and legitimacy to assign to its future contributions. The good news is that if the ICC is properly applied and all the countries have a surplus in ECCAS account held at their Central Bank, it is the entire region that is thereby strengthened.

This is because it affords the authorities the opportunity to effect an increase in the budget of the Community to address the challenges of growth and development, or to tackle other challenges such as combating diseases and pandemics, famine, natural disasters, etc.

2. Modalities of implementation of the community tax

The ICC is collected by national administrations, namely, the customs and the treasury. The amounts collected under the ICC are deposited in an account opened in the name of ECCAS in the Central Bank of each Member State. An ECCAS central account is similarly opened at the Central Bank of the country hosting the headquarters, precisely in Libreville, Gabon.

The revenue collected under the ICC is allocated as follows: operating budget of the General Secretariat; budget of COPAX (Central Africa Peace and Security Council) and the Compensation Fund budget.

The revenue also serves to provide subvention to FCD/FRAS capital; and to finance all other initiatives decided by the Assembly of Heads of State and Government.

C.3. UEMOA Financing Mechanism

1. Community Solidarity Levy

UEMOA applies very effectively the community solidarity levy system (CSL). The fact that this institution already operates a customs union facilitates application of this measure. The levy rate stands at 1%, which accounts for the 1.5% levy rate applied in UEMOA Member State, that is distributed in the following manner: 1% in favour of UEMOA; and 0.5% in favour of ECOWAS.

2. Modalities of Implementation of the Community Solidarity Levy

The modalities of implementation of the Community Solidarity Levy in UEMOA are identical with those applicable in ECOWAS. During collection of ECOWAS community levy at the customs corridor, UEMOA Member States' customs services also collect the Community Solidarity Levy.

III. MODALITIES OF IMPLEMENTATION OF THE TWO OPTIONS RETAINED BY THE ASSEMBLY

It is needful to recall the two options retained by the Assembly, namely:

a) US$2.00 hospitality levy per stay in a hotel; and

b) US$10.00 levy on flight tickets for flights originating from Africa or with destinations in Africa or for flights between African countries.

1. Proposed levy on air tickets

The Assembly of the African Union adopted in principle the US$10.00 levy on flight tickets for flights originating from Africa or with destinations in Africa, as an alternative source of financing the African Union. This levy which is also known as "solidarity tax" is already being applied in certain countries of the world particularly G8 and G20 countries as well as by Member States of the pilot group on innovative financing for development.

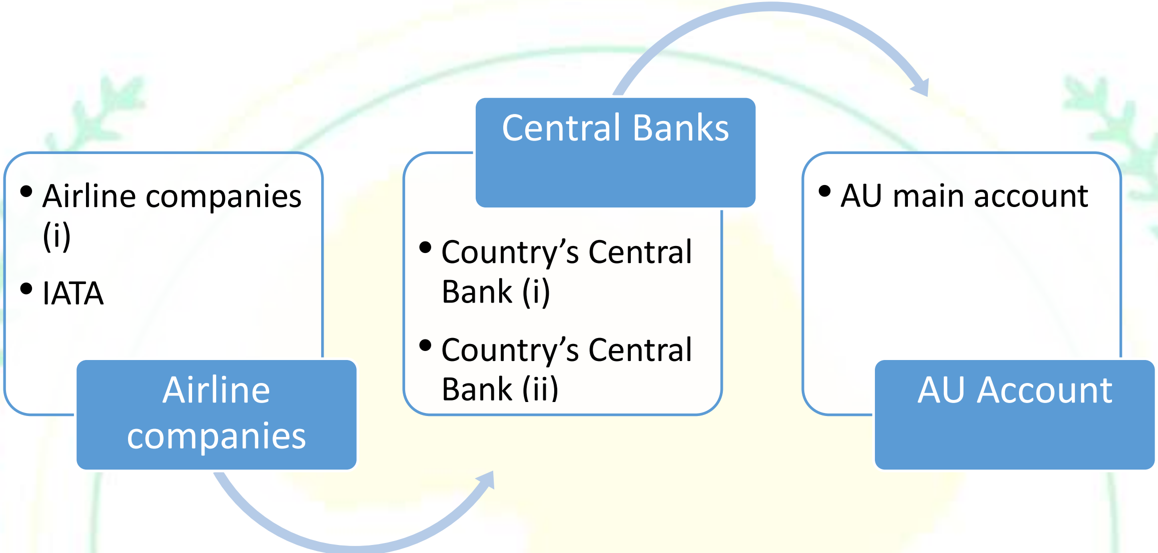
Several African countries similarly apply this levy within the framework of UNITAID. Here, however, we shall draw inspiration from the case of Senegal which applies a similar tax towards the financing of the construction of its new airport. Senegal applies this levy only to flights leaving the country's airports. Collection is effected through IATA (International Air Transport Association) for all airline companies affiliated to it. During its monthly compensation operation, IATA pays the proportion due to Senegal into a bank account (escrow account) opened at the *BNP*. This type of levy already enjoys the blessing of the African civil society. As for airline companies not affiliated to IATA, they are called upon to pay this tax to agents designated for this purpose after disembarkation of passengers.

The Commission will draw from Senegalese success stories in the implementation of the air ticket levy. However, the difference for the African Union is that the Commission envisages opening an account in each Member State's Central Bank. As regards the airline companies affiliated to IATA, this organization will be responsible for collection of the tax and during its monthly compensation operations will pay the proportion due to AU into AU account held in each Member State's Central Bank. The companies not affiliated to IATA will deposit the revenue collected into the accounts opened by AU in the various bank accounts of Member States.

All the proceeds of this tax collected either through IATA or by the airline companies themselves will be deposited in AU accounts in Member States. The Central Banks will then transfer the funds directly into AU main account opened for that purpose.

Collection of the air ticket levy in African countries will be placed under the direct supervision of the Transport Ministry. At AU, a team will be established comprising finance officers, Transport Ministry officers and statisticians to supervise collection at continental level. This team will ensure that the statistics provided by the countries and the amounts collected are correct. A report shall be presented every two years to the Conference of African Transport Ministers and that of African Economy and Finance Ministers as well as to the Assembly of Heads of State and Government for advice.

In each State, the Commission will authorize the Transport Ministry to deduct 10% of the total amount collected to meet the administrative cost of management of the personnel involved in the collection of this tax.



2. Hospitality levy or hotel stay tax

US$2 hospitality levy to be paid by tourists during their stay in hotels was also adopted by the Assembly of the Union.

To operationalize this levy in African countries, the Commission will draw a lot from existing practices of tourism tax collection in African countries. The chief player in tourism levy collection in African countries is the Tourism Ministry. The hotels collect the tourism tax from their clients. The first level of collection is the regional (or department) level: the decentralized offices of Tourism Ministries collect the taxes at hotels and then channel the said taxes to the national level. The Tourism Ministry centralizes the tax and deposits the total amount in the public treasury which, in turn, deposits the money into the account opened by AU in the country's Central Bank.

The process will be the same for the Commission. The Tourism Ministry will be mandated by the Commission to pay the proceeds of this special tax directly into the Central Bank accounts. African countries' Central Banks will then transfer the funds directly into AU main account.

In the same vein as the air ticket levy, the Commission will authorise the Tourism Ministry to deduct 10% of the total amount collected to meet the administrative cost of management of the personnel engaged in the collection of this tax.

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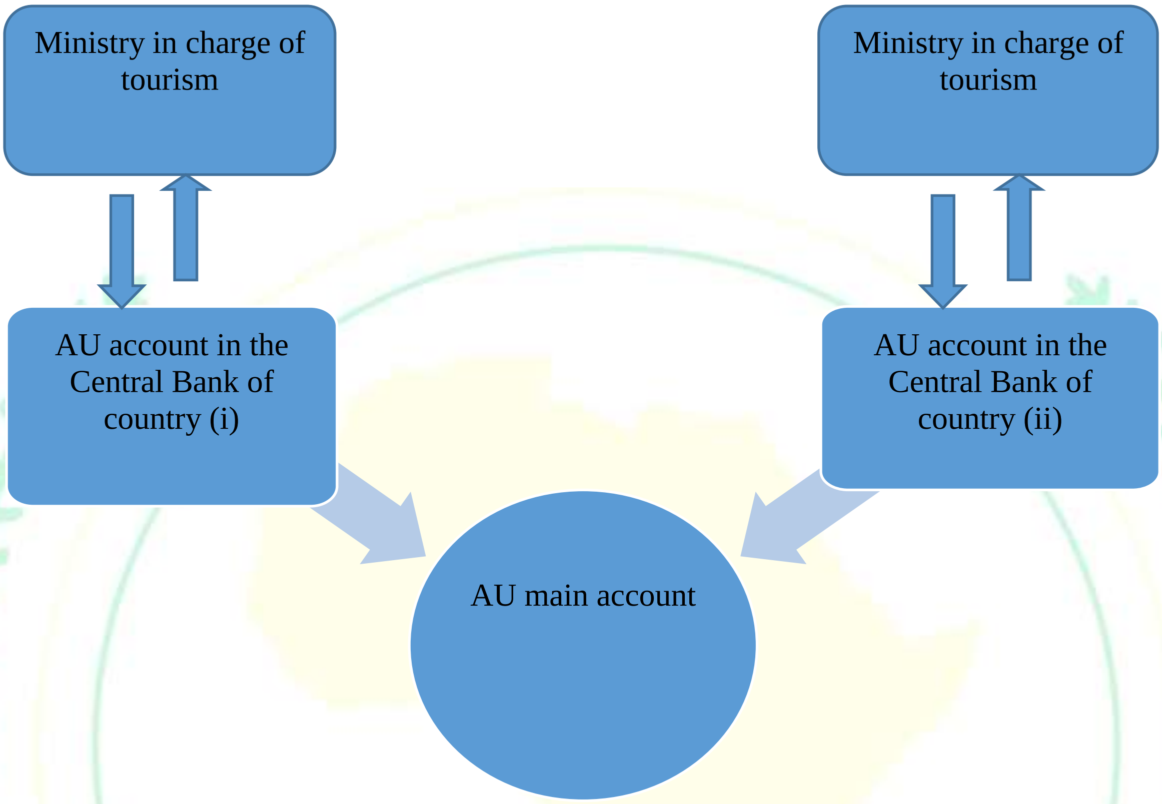
Ministry in charge of tourism
Ministry in charge of tourism
AU account in the Central Bank of country (i)
AU account in the Central Bank of country (ii)
AU main account

IV. USE OF THE RESOURCES COLLECTED

The resources collected will be used to finance the annual budget of the African Union. In addition to African Union annual budget, the resources will also serve to finance the flagship programmes of the African Union, namely: the Comprehensive Africa Agriculture Development Programme (CAADP), the Programme for Infrastructure Development in Africa (PIDA), the Campaign for Accelerated Reduction of Maternal Mortality in Africa (CARMMA), the New Partnership for Africa's Development (NEPAD), the African Solidarity Initiative, the African Standby Force, the Minimum Integration Programme (MIP) and others. Management of the resources will be placed under the direct supervision of the Heads of State and Government of the African Union.

Furthermore, 10% deduction from the funds generated from these proposals will be used to replenish the trust fund as a strategic reserve of AU. The use of the funds shall be determined on annual basis in the context of AU budget.

The resources will replace or complement African Union Member States' statutory contributions. In the first year of implementation of alternative sources of financing, Member States' statutory contributions will have to be maintained. The said contributions will be abrogated in the second year of implementation.

V. CONTROL AND SURVEILLANCE MECHANISM

A team will be put in place under the oversight of the finance and budget directorate, comprising officers of transport, tourism and economic affairs departments as well as statisticians. This team will be tasked with the control and verification of the implementation of the options in Member States. To this end, the team will undertake control and oversight missions to the countries on regular basis to ensure that the resources have been properly collected by gathering and verifying the relevant statistics and all the necessary documents.

On this score, the African Union Statistics Division has to keep reliable and updated statistics on air tickets and tourism in respect of all African countries. A data base on air tickets and tourism statistics has to be established and systematically updated. A mechanism will have to be established to enable all countries to automatically transmit the statistical information on air tickets and tourism in the data base after verification by statistics experts. The division has to work closely with National Institutes of Statistics, as well as with Transport and Tourism Ministries to agree on concepts and methodologies with a view to ensuring regular and reliable collection of statistical data.

VI. COMPENSATION MECHANISM

The compensation mechanism is intended to alleviate the effects of this levy on national economies. In this regard, where the amounts of the two taxes (air tickets and tourism taxes) in a country exceed 1.23% of the Gross National Income, the surplus will be reversed to the country.

The total amount of annual credit for the commitments set forth in African Union budget must not exceed 1.29% of the sum of the Gross National Income of all Member States of the African Union.

VII. CONCLUSION AND RECOMMENDATIONS

Implementation of the two options retained by the Assembly will allow for gradual suppression of Member States' statutory contributions and ensure AU's autonomy in terms of its own resources in its drive to achieve integration in the Continent; this is because the said statutory contributions are not paid in time and are fraught with huge arrears on the part of certain Member States. It is also important to emphasize that the statutory contributions are not enough to adequately finance the programme budget of the African Union and the Continent's special programmes. For example, in 2013, the programme budget of the African Union was financed to the tune of over 96% by development partners.

Alternative sources of financing will thus help alleviate the heavy burden on the five big contributors and obviate the problems the AU could face in the event that any or several of these countries fail to honour their commitment. The monies collected through the proposed two options should enable Africa to, by itself, take charge of the financing of its development and, in a responsible manner, carry through the integration process in which it has been engaged for decades.

A mechanism has to be put in place for rational use of the funds raised, by revamping the existing structures in charge of management of African Union funds thereby ensuring prudent and optimal use of the funds mobilized. Use of the funds has to be determined on annual basis in the context of AU budget.

The recommendations hereunder are formulated for speedy operationalization of the two options in line with the suggestions put forward by the High-Level Panel:

- 10% of the funds accruing from these proposals to be set aside to replenish a trust fund as AU's strategic reserve;

- Allow for a transition period of one year for Member States to adjust their legal, fiscal and other instruments to fast track the operationalization of the two options;

- The Commission and the International Air Transport Association to work closely (on the basis of an MoU to be signed by the two parties) for implementation of the air ticket option;

- Pending establishment of the African Investment Bank, AU Commission to open an account in AfDB for all monies accruing from the two options and the monies to enjoy the gains emanating from the Bank's portfolio management;

- The Commission to establish a mechanism for collection, on regular basis, of reliable statistics on air tickets and tourism in all African countries;

- The two financing options identified to enter into force in 2015 budget year.