FAQS (FREQUENTLY ASKED QUESTIONS) ABOUT FINACING OF THE UNION

WHAT IS FINANCING OF THE UNION

Financing of the Union is a historic decision adopted by Heads of State and Government (HOSG) in a "Retreat on Financing of the Union" during the 27th African Union Summit held in Kigali, Rwanda in July 2016. The Decision directs all African Union Member States to implement a 0.2% levy on eligible imports for to finance the African Union.

The Retreat was attended by over 30 Heads of State and Government, Ministers of Foreign Affairs, Ministers of Finance and 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.

The purpose of the decision is:

I. To provide reliable and predictable funding for continental peace and security though the Peace Fund;

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

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

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

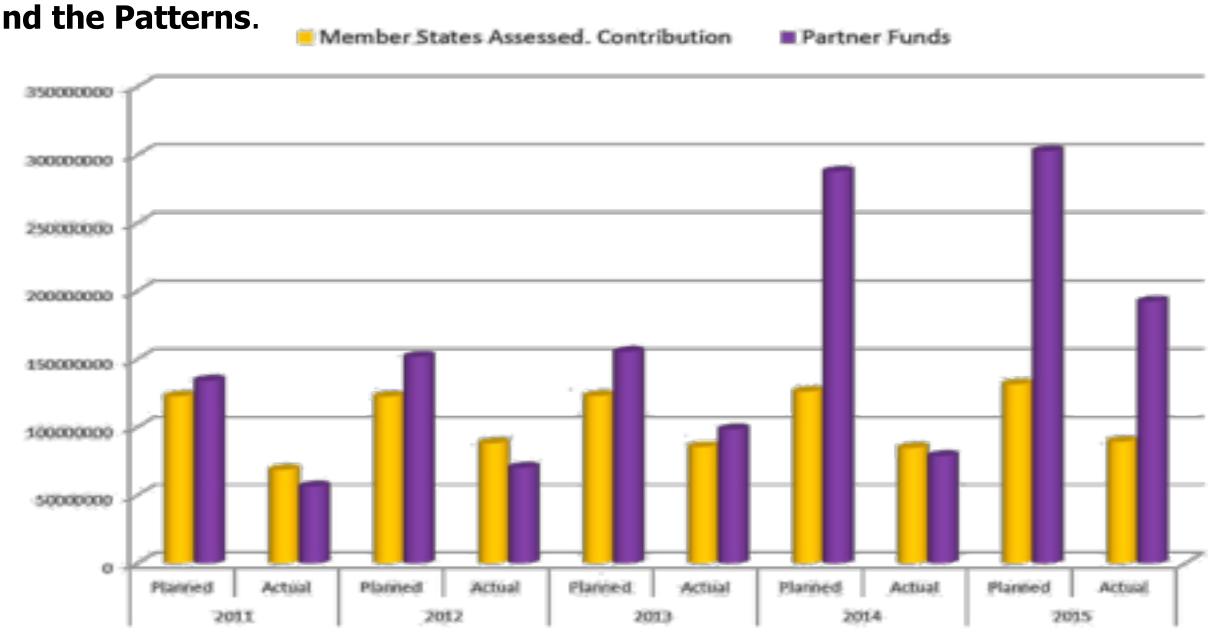
The decision will enter into operations for each Member States from January 2017. The above notwithstanding it is important to note that some countries have already initiated action to implement. These include Kenya, Rwanda, Chad and Ethiopia and Republic of Congo.

WHY INTRODUCE A LEVY?

The continued and successful implementation of the Union's programmes require adequate and predictable, sustainable funding. However under existing arrangements, the Union's budget continues to be underfunded by both the Member States and Development Partners.

On average, 67 percent of assessed contribution is collected annually from Member States. About 30 Member States default either partially or completely on average, annually. This creates a significant funding Gap between planned budget and actual funding, which hinders effective delivery of the African Union's agenda.

The figure below reflects the trend of the Gap between the planned Commission budget and actual budget that is funded by both member States and the Patterns.



HOW WAS THE 0.2% ON IMPORTS ARRIVED AT?

In the search for a viable, equitable, sustainable and predictable source of financing the union, the AUC working in close collaboration with the UNECA undertook several simulations with different sources of funding in line with the original proposal from President Obasanjo. Several options were considered. These include surcharge on SMS, hospitality levy for hotels stays, levy on all air tickets to and from Africa and a basket of others including the levy on imports.

After a careful evaluation of the potential of all the options, the 0.2% came out as the most viable in the sense that it was doable, equitable in the sense that the rate was the same across all the countries, sustainable in the sense that it would be available over the short medium to long term, predictable in the sense that one could assess the expected inflows from existing national data and also the AU could expect to receive funding on time once the scheme sets in.

THE UTILIZATION OF THE LEVY

With the immediate implementation of the AU import levy, the 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 (therein stated as from outside the continent).

The levy is applicable and is to be instituted in 2017 to finance 100% Operational Budget, 75% Program Budget and 25% Budget of the Peace Support Operations of the African Union as well as any other expenditure of the Union that may be determined by the Assembly.

THE RATIONALE OF EACH BUDGET

1. **Operational Budget**

The Operational Budget is mainly to Finance the cost of running the Union, its organs Specialized Technical Agencies, its representational offices and agencies across the world including NEPAD and APRM. Expenditures cover administrative, utility costs, service delivery costs, investment and maintenance costs and statutory payments for all AU organs. Operational Costs amounts to around 110 million USD on average annually for the last five years and is financed exclusively by member states.

2. **The Program budget.**

The programme budget of the Union covers the execution of programmes approved by the Assembly and can be broadly grouped as follows:

a. Programmes of cross continental importance. These include the AU role in projects such as the Continental Free Trade Area other flagship projects

b. Implementation of directives and decisions from summits as a mandatory prerogative and which quiet often requires financial resources

c. Maintaining continental response readiness for emergencies either political (for instance the Mali, Burundi and CAR situation), or social aspects such as the outbreak of Ebola and other unforeseen emergencies.

d. Coordinating common positions on the international arena on matters sensitive to the development and social stability of the continent, such as Climate change, migration and intercontinental partnerships.

3. **The Peace Fund**

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.

The Peace fund covers operational activities: Mediation and Preventive Diplomacy, Institutional Capacity and Peace Support Operations.

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

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.

WILL THE PROPOSED REGIONAL CONTRIBUTIONS TO THE PEACE FUND CREATE AN UNFAIR BURDEN FOR SOME REGIONS?

AU Heads of State and Government were keen to emphasise 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.

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 Million dollars 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.

THE APPLICATION OF THE LEVY

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. The Revenue collected under the import levy is then remitted in accordance with each Member State's approved assessed contribution including the Peace Fund.

Any surplus collected by Member States after the fulfillment of obligations under the assessed contribution are to be retained by the State while any deficits between the assessed contribution and revenues collected under AU import levy by a Member State shall be covered by the Member State

The Revenue collected under the import levy is then remitted in accordance with each Member State's approved assessed contribution including the Peace Fund.

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. The Peace Fund will be distributed equally among the five AU Regions as defined in the relevant instruments

Here is an illustration of how the 0.2% levy works: for instance

Take Country X assessed contribution per year as 1$.

From the 0.2% levy, Country X collects 5$ per year.

It's from the 5$ that the country deducts the 1$ and remits to the African Union.

Also, from the 5$, the country is also obligated to deduct the amount levied on it, by the region, to contribute to the 65 Million dollars per region (annually) to the Peace Fund contribution.

A key aspect of the 0.2% levy is that any surplus collected by Member States after the fulfillment of obligations under the assessed contribution are to be retained by the State for their own development needs while any deficits between the assessed contribution and revenues collected under AU import levy by a Member State shall be covered by the Member State

WHAT CONSTITUTES ELIGIBLE GOODS?

The AU import levy will apply to the Cost Insurance and Freight (CIF) value at the port of disembarkation for imports arriving by sea and road and the Customs value at the airport of disembarkation for goods arriving by air. The criteria for exemption are contained in the draft guidelines on AU import levy adopted by the committee of 10 finance ministers and sent to all member states. In essence, the eligible goods at this point shall be determined by member states in line with national priorities

And while the taxable base targets the value of eligible goods originating from a non-Member State imported into the territory of a Member State, a few exemptions are made to the following:

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

b) 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;

c) 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;

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

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

HOW DOES THE AFRICAN UNION ACCESS ITS DUES FROM MEMBER STATES?

Each country will select the appropriate financial institution(s) or Customs authority responsible for assessment and collection of the AU import levy.

Once the Revenue is collected as AU import levy, it is then deposited into an account opened in name of the 'African Union' with the Central, National or Reserve Bank of each Member State. Once the fiscal authorities give the authorization such accounts will be opened. The funds therein are then remitted to a designated bank account of the Union in accordance with each Member State's assessed contribution.

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

DOES THE 0.2% LEVY CONTRADICT INTERNATIONAL NORMS

The 0.2% levy is not in contradiction of others international agreements. Infact, the levy is not new and indeed variations of such levy are already being used by several regional organizations globally. In Africa, levies on imports are being used by ECOWAS, ECCAS and CEMAC and has proven reasonably effective.

Such levies are ordinarily applied within the framework of customs unions and Free Trade Areas and do not conflict international norms. With the intended introduction of the Continental Free Trade Area in 2017, which will in essence include an Africa-wide customs union, such a levy therefore becomes possible and fully justifiable.

ACCOUNTABILITY OF THE AFRICAN UNION COMMISSION

For purposes of oversight, and in accordance with the AU Financial Rules and Regulations, the Commission is tasked with ensuring strong accountability mechanism for 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

From the Decision, the Commission was tasked with establishing a Committee of Ministers of Finance from the Member States, two per each of the five regions to will be involved in the preparation, monitoring and evaluation of the annual budget of the Union.

Further, the Commission is expected to report annually to the Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration on the progress of the implementation of the decision.

THE COMMITTEE OF TEN MINISTERS OF FINANCE

The Committee of Ten Ministers of Finance, otherwise referred as the F10, was first convened in September 2016 in Addis Ababa, Ethiopia. The Minister of Finance for Chad H.E Mr. Mbogo Ngabo Seli, is the Chair of the Committee of Ten.
The members are:

- Algeria and Egypt – representing the Northern Region
- Kenya and Ethiopia- representing the Eastern Region
- Chad and Congo Brazzaville - representing the Central Region
- Ghana and Cote d'Ivoire - representing the Western Region
- South Africa +1 - representing the Southern Region

(At the time of this publication, The Second member from the south was yet to be communicated by the Botswana Ambassador who is the Dean of the region)

The F10 have since adopted their Terms of Reference and the Guidelines for the implementation of the levy. The leadership of the Committee shall be rotational among regions after two years with region leading taking turns in chairing the F10 for one year. The ministers have since established a technical Committee of experts, drawing one representative from the ministries of Finance to assist the F10 with the technical aspects.

The duties of the F10 are to:

1. Review and evaluate the annual budget of African Union before submission to the Assembly of Heads of State and Government of the African Union;
2. Propose implementation mechanisms of the current decision on financing the African Union (Import Levy) in particular;
3. Define a roadmap for the implementation of the Decision;
4. Review the Status of the implementation and compliance and adopt policies for enhancement;
5. Propose various resource mobilization strategies for the Union.

WHAT IS THE STATUS OF IMPLEMENTATION SO FAR?

Since the Kigali summit several activities have taken place to facilitate implementation.

	Timeline	Activity
	August 2016	Study visit to ECCOWAS and ECCAS
	15th September 2016	Inauguration of the F10
	15th September	Received information that Kenya had started implementation
	16th of September	Consultative meeting with African finance ministers
	October	Meeting of the F10 on the sidelines of the IMF/ World Bank meeting in Washington: • ToR adopted • Guidelines for implementation adopted
	November	Briefing to the STC on Finance subcommittee of African customs Director General in Harare
	January 2017	F10 consultative meeting with Association of African Central Bankers

THE BACKGROUND OF THE DECISION

Self-reliance was the core of Pan-African values of the Organization of African Unity (OAU). Following the transition to the AU, at the turn of the millennium, several milestones have been achieved towards attaining a reliable effective and predictable financing mechanism for the Union. Over the period, several decisions have been taken by the Assembly leading to the appointment of a High Level Panel on Alternative Sources of Financing headed by former President Obasanjo of Nigeria. The work of this Panel informed the development of 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.

In June 2015, the Assembly adopted a decision on Financing of the African Union in Johannesburg, South Africa. Later in September 2015 the 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. Dr. Donald Kaberuka was appointed a High Representative on the Peace Fund.

In January 2016, the 26th Ordinary Session of the Assembly of Heads of State and Government in Addis Ababa, once again deliberated on the issue of financing, and in its decision on 'The Scale of Assessment and Implementation of Alternative Sources of Financing the African Union and further requested that:

1. The Executive Council through its Committee on Contributions and Scale of Assessment to continue to develop modalities for the implementation of the Alternative Sources of Financing the African Union and report on progress to the next Ordinary Session of the Assembly in July 2016.
2. The AU Commission to convene a Retreat of Heads of State and Government, Ministers of Foreign Affairs and Ministers of Finance, to examine the financing of the Union before the July 2016 Summit.

Finally, in July 2016 the Assembly of Heads of State and Government adopted the Decision directing all African Union Member States to implement a 0.2% levy on eligible imports for to finance the African Union.