Addis Ababa, ETHIOPIA P. O. Box 3243 Telephone: 011-551 7700 Fax : 011-551 7844
website: www.au.int

FAQS (FREQUENTLY ASKED QUESTIONS) ABOUT FINANCING 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 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

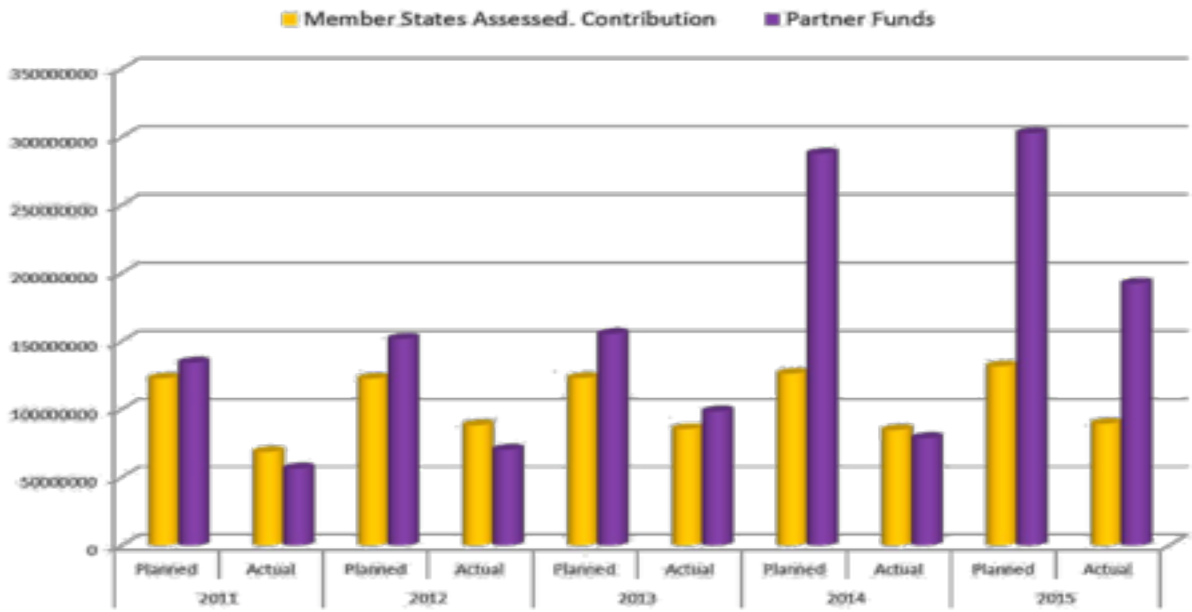
IV. To relieve the pressure on national treasuries with respect to meeting national obligations for payment of assessed contributions of the Union

The decision will enter into operations for each Member States from January 2017.

WHY INTRODUCE A LEVY?

The continued and successful implementation of the Union's programmes require adequate and predictable, sustainable funding. However under previous arrangements, the Union's budget was underfunded by both the Member States and Development Partners.
On average, 67 percent of assessed contribution was collected annually from Member States. About 30 Member States defaulted either partially or completely on average, annually. This created a significant funding Gap between planned budget and actual funding, which hindered 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 Partners between 2011 and 2015.



THE UTILIZATION OF THE LEVY

The levy is 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 taxable base of the AU import levy is 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

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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 to contribute to the **Peace Fund**.

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.

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.

WHAT QUALIFIES A MEMBER STATE TO BE IMPLEMENTING THE DECISION?

As of the 31st December 2018, there were 25 countries, representing about 45% of AU membership that were at various stages of domesticating the Kigali Decision on Financing the Union. A criteria made up of four elements was developed to classify a Member State as having commenced implementation of the Kigali decision:

I. A Member State that has indicated its intention to implement the Kigali Decision on financing the Union in whole or in part;

II. A Member State that is implementing the 0.2 percent Levy on all eligible imported goods into the Continent
III. A Member State that has chosen from a non-exhaustive, non-binding basket of options of alternative sources of funding in line with national imperatives, laws, regulations and constitutional provisions (Assembly/AU/Dec.578(XXV));
IV. Instances where amounts collected from the Levy have automatically being paid by the national administration, into an account opened for the African Union with the Central Banks of each Member State, for transmission to the African Union in accordance with each Member State's assessed contribution.

MEMBER STATES COLLECTING THE LEVY.

As of the 31st December 2018, there were 16 countries collecting the levy on eligible imports. These are:

Mali	Gabon	Cameroun	Congo Brazzaville	Sierra Leone
Rwanda	Chad	Cote d'Ivoire	Benin	Ghana
Djibouti	Guinea	Sudan	Kenya	Gambia
Togo				

Collectively, these countries are assessed US$ 60,281,625 for regular budget and US $12,311,000 as contribution to Peace Fund. They also had arrears from previous budgets of US$30,514,636 (US$23,570,538 for regular budget and US$ 6,944,098 for Peace Fund).

As of December 31st, 2018, an amount of US$40,082,193 was received from these Member States (US$36,042,508, US$4,039,685 as contribution to regular budget and Peace Fund, respectively). This represented 60% and 33% of amount expected. Another US$1,079,369 was received from Cote d'Ivoire and Mali as advance contribution to the 2019 budget.

The above Member States, with the exception of Chad and the Gambia, paid their 2018 contributions to the AU using the new financing mechanism.

FLEXIBILITY BUILT INTO IMPLEMENTING THE DECISION.

There is flexibility built into the implementation of the 0.2% levy that allows Member States 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.

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 three operational activities; Mediation and Preventive Diplomacy; Institutional Capacity; and Peace Support Operations.

Since its revitalization in 2016, there has been an unprecedented momentum around the Peace Fund. Against a target of US$130 million (US$65 million each for 2017 and 2018), Member States, as of February 4th, 2019, contributed about US$89 million, representing 68% of the funds expected. Member States will contribute to the Peace Fund gradually increasing to US$400 million by 2020. The instrument relating to the enhanced governance and management structure of the Peace Fund was adopted by the Assembly through Decision **Assembly/AU/Dec.687(XXX)** in January 2018.

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. The funds therein are then remitted to a designated bank account of the Union in accordance with each Member State’s assessed contribution.

According to the General Convention on Privileges and Immunities of the OAU, the property, funds, assets and transactions of the organization are immune from every form of legal process and therefore, all revenues collected as AU import levy are immune from requisition, confiscation, expropriation or any other form of interference, whether by executive, administrative, juridical or legislative action.

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. 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.

From the Decision on Financing the Union, the Commission was tasked with establishing a Committee of Ministers of Finance from the Member States, to be involved in the preparation, monitoring and evaluation of the annual budget of the Union.

In January 2018, the Assembly endorsed the Committee of Fifteen Ministers of Finance (F15) budget oversight function that will assist in ensuring that the AU is held to the highest standards of finance and budget management, and a credible budget based on capacity to spend and proper revenue forecasts is developed. In addition, through its Committee of Experts, the F15 participated fully in the statutory budget process by sitting jointly, with the Sub-Committees of Programs and Conferences (CPC) and of General Supervision and Co-ordination on Budgetary, Financial and Administrative Matters (GSCBFAM) of the PRC, to examine the budget priorities and proposals between May and October 2018.

THE COMMITTEE OF TEN MINISTERS OF FINANCE.

Since its establishment, the Committee of Fifteen Ministers of Finance has held 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 endorse and propose to Assembly their oversight mechanism on AU budget;

d) To agree on new budget preparation and review process;

e) To make recommendations of the 2019 budget to the Executive Council;

f) To agree and propose to Assembly the 'Golden Rules'.

WHAT ARE THE GOLDEN RULES?

The 'Golden Rules' for the proper management of the AU's finances were considered and adopted by the AU Assembly in January 2018. These rules are meant to ensure financial discipline within the Union to enable us decisively address issues of low execution rates, identify undetected wastages and instances of over-budgeting by departments or organs, as well as ensure full compliance with the African Union financial rules and regulations. In the preparation of the 2019 AU approved Budget, the application of the Rules were vital in the reduction of the budget by 12%, compared to 2018 budget.

Eight of the nine 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

The Golden Rules are currently being translated into AU policy and procedures and are being reflected in the AU's updated Financial Rules and Procedures.

WHAT DETERMINES A MEMBER STATE'S SHARE OF CONTRIBUTION TO AU?

An African Union scale of assessment is applied to guide the amount each member state pays to the budget of the Union and the Peace Fund. A review of the scale of assessment is undertaken every three years to provide a scale that improves the burden sharing of the budget appropriations; guided by the principles of the ability to pay; solidarity; and equitable burden-sharing among members to avoid risk concentration. The Scale of Assessment for the period 2020-2022 has since been reformulated 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. The reformulated scale was adopted by the Assembly in February 2019.

The revised scale of assessment stipulates the percentage of member states contribution to the Union's budget, according to their respective "Tier classification";

i) Tier 1 is assessed at 45.151% percent of the Union's assessed budget;

ii) Tier 2 is assessed at 32.749% of the Union's assessed budget; and

iii) Tier 3 is assessed at 22.100% of the Union's assessed budget.

Each member state shall not pay less than USD350,000 or more than USD35,000,000 as a contribution for the regular budget and peace fund combined. The Union is also reviewing the 2020 regular budget to reduce it by USD32 million.

THE AFRICAN UNION SANCTIONS REGIME.

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.

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. It also has provided relief to Member States who default due to circumstances that make them temporarily unable to pay their assessed contributions.

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.

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.