

FINANCING THE UNION |

Towards the financial autonomy of the African Union

CONTENTS

| | |
|----|--|
| 4 | BACKGROUND |
| 4 | The Kigali Decision of Financing the Union |
| | Implementation of the 0.2 percent import levy |
| 5 | Member States Collecting the Levy |
| 8 | Flexibility built into the Kigali Decision on Financing the Union |
| 10 | Other Member States Commenced the Process to Implement the Kigali Decision |
| 12 | All Other Member States not yet implementing the Kigali Decision |
| 15 | BUDGETARY, FINANCIAL AND ADMINISTRATIVE MATTERS |
| | Golden rules for financial and budget management |
| | Enhanced oversight by Ministers of Finance |
| 18 | THE SCALE OF ASSESSMENT |
| | Strengthening the sanctions regime for non-payment of contributions |

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
 - Financial autonomy and reduced dependency on external sources
 - Equitable burden-sharing of AU budget amongst countries
 - Improved budget and financial oversight and governance
 - Predictable and sustainable financing
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.

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 20th of December 2018, there were 25 countries¹, 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;
1. Kenya, Gambia, Congo Brazzaville, Gabon, Rwanda, Cameroun, Chad, Sierra Leone, Djibouti, Cote d’Ivoire, Guinea, Benin, Sudan, Ghana, Mauritius, Seychelles, Malawi, Nigeria, Comoros, Mauritania, Ethiopia, Senegal, Mali and Libya.

(next spread)

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- 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;

ii. Member States Collecting the Levy

- 5. Of the 25 Member States, 16 countries are collecting the levy on eligible imports.
- 6. 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).
- 7. 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 represents 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.
- 8. The above Member States, with the exception of Chad and the Gambia, paid their 2018 contributions to the AU using the new financing mechanism.
- 9. Apart from Sudan and Chad, none of the other countries are in arrears of funds from previous budgets. The economic embargo imposed on Sudan has hindered them from remitting funds to AU.

| | | | |
|---|--------------------------|----|----------------------|
| 1 | <i>Kenya</i> | 9 | <i>Gabon</i> |
| 2 | <i>Congo Brazzaville</i> | 10 | <i>Cameroun</i> |
| 3 | <i>Rwanda</i> | 11 | <i>Sierra Leone</i> |
| 4 | <i>Chad</i> | 12 | <i>Cote d'Ivoire</i> |
| 5 | <i>Djibouti</i> | 13 | <i>Benin</i> |
| 6 | <i>Guinea</i> | 14 | <i>Ghana</i> |
| 7 | <i>Sudan</i> | 15 | <i>Mali</i> |
| 8 | <i>Gambia</i> | 16 | <i>Togo</i> |

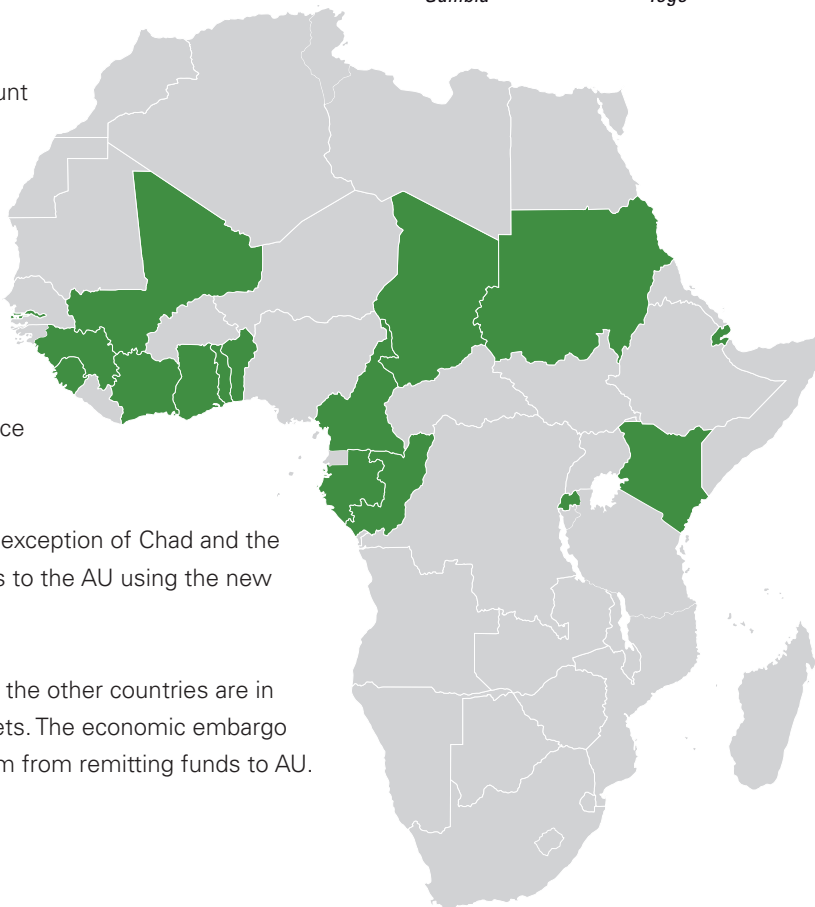
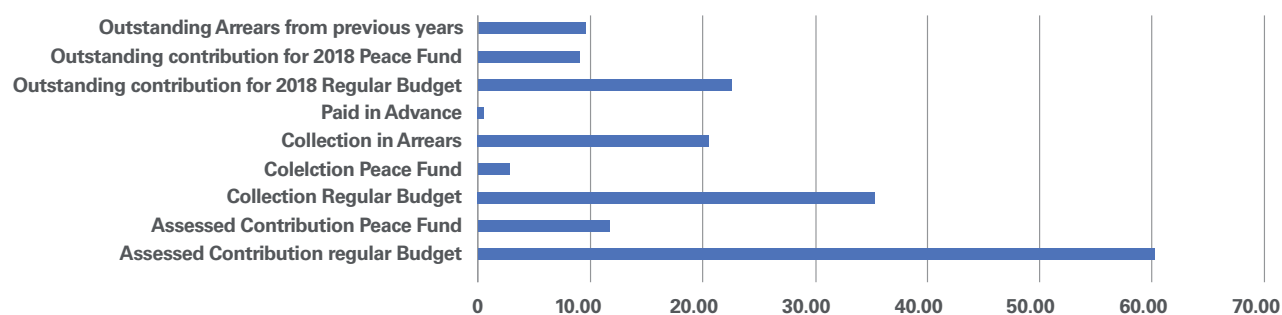




Table 1: Status of Contribution by Import Levy Collecting Countries

| | (US\$ million) |
|--|----------------|
| Assessed contribution Regular Budget | 60.30 |
| Assessed contribution Peace Fund | 12.30 |
| Collection Regular budget | 36.00 |
| Collection Peace Fund | 4.00 |
| Collection in arrears | 21.00 |
| Paid in Advance | 0.30 |
| Outstanding contribution for 2018 Regular budget | 23.90 |
| Outstanding contribution for 2018 Peace Fund | 8.10 |
| Outstanding Arrears from previous years | 9.50 |

Figure 1: Status of Contribution by Import Levy Collecting Countries



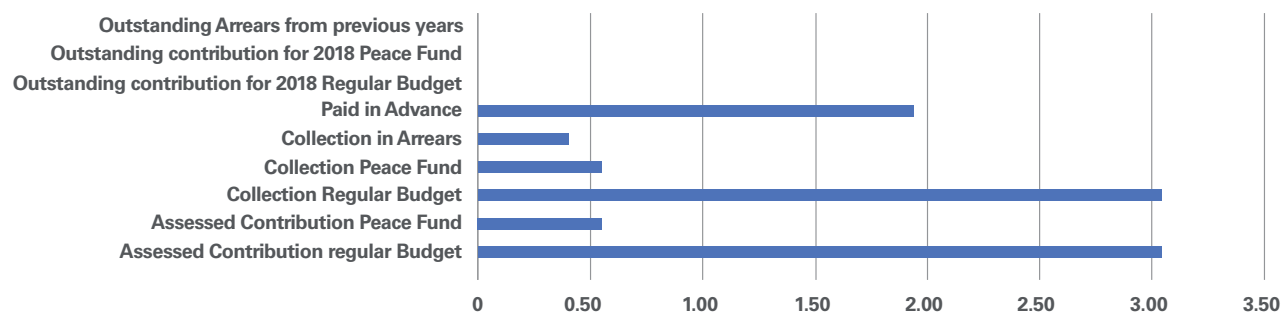
iii. Flexibility built into the Kigali Decision on Financing the Union

10. Flexible arrangements on 0.2% levy means countries can implement the Kigali decision in line with their national and international obligations as long as the principles of predictability and compliance are adhered to.
11. Four countries have expressed commitment to implement the Decision on a modified approach. Two of them: Mauritius and Seychelles have indicated full commitment to principles of financing the union. However, due to national, economic and legal constraints as well as international commitments, the two countries are not able to implement the 0.2% levy. They will, however, continue to meet their financial obligations using the existing mechanism and have committed to adhere to principles of predictability and compliance. Equally, Malawi will continue to pay its contribution through the existing mechanism but the transfer of funds is now effected directly from the national Treasury.
12. Together, these countries were assessed.
13. As at December 31, 2018, all countries in this category paid their assessed contribution for 2018. There was also collection in advance from Mauritius of an amount of US\$1,901,511. None of these Member States is in arrears from previous budgets.

**Table 2: Status of Contribution by Countries
opting for a modified approach**

| | (US\$ million) |
|--|----------------|
| Assessed contribution Regular Budget | 3.10 |
| Assessed contribution Peace Fund | 0.60 |
| Collection Regular budget | 3.10 |
| Collection Peace Fund | 0.60 |
| Collection in arrears | 0.40 |
| Paid in Advance | 1.90 |
| Outstanding contribution for 2018 Regular budget | - |
| Outstanding contribution for 2018 Peace Fund | - |
| Outstanding Arrears from previous years | - |

**Figure 2: Status of Contribution by Countries opting for a
modified approach**



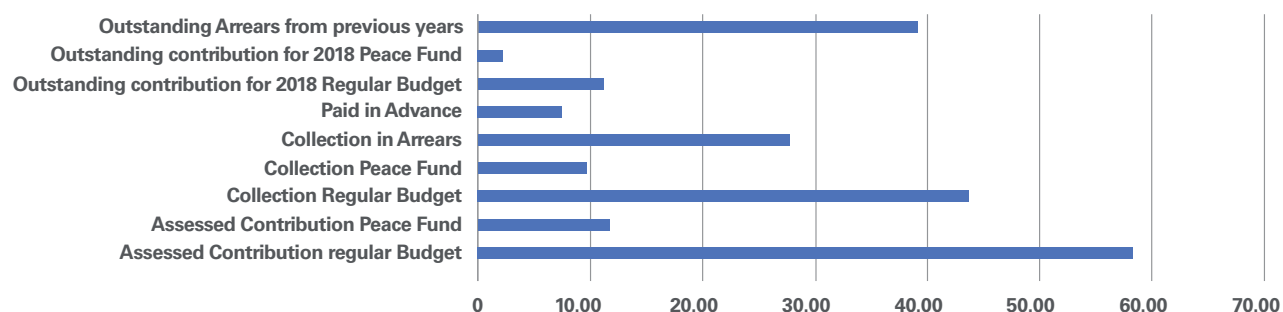
iv. Member States that have commenced the process to implement the Kigali Decision

14. There are a further 6 Member States that have begun the process of domesticating the Kigali Decision. Their current status on whether they are collecting the levy is yet to be established. These countries are;
- | | |
|---------------|-------------|
| 1) Nigeria | 4) Comoros |
| 2) Mauritania | 5) Ethiopia |
| 3) Senegal | 6) Libya |
15. In 2018, these countries were collectively assessed **US\$ 57,213,437** and **US\$ 11,684,400** for regular budget and as contribution to the Peace Fund, respectively. They were also in arrears from previous budgets of an amount of **US\$ 65,376,770** (US\$58,595,904 and US\$ 6,780,866, respectively, for regular budget and contribution to Peace Fund)
16. As of December 31, 2018, US\$ 45,171,515 and US\$ 8,994,672, was respectively received as contribution to the regular budget and Peace Fund, representing 79% and 77% of the funds expected. An amount of US\$ 26,606,212 was received in arrears from previous budget; 97% of it coming from Nigeria. further, US\$6,780,837 was received as advanced payment to the 2019 budget largely from Nigeria. Libya is yet to honor its contribution obligations for 2018 and is also in arrears from previous budget of an amount of US\$ 40,889,530.

**Table 3: Status of Contribution by Countries
commenced the Process to Implement the Kigali
Decision**

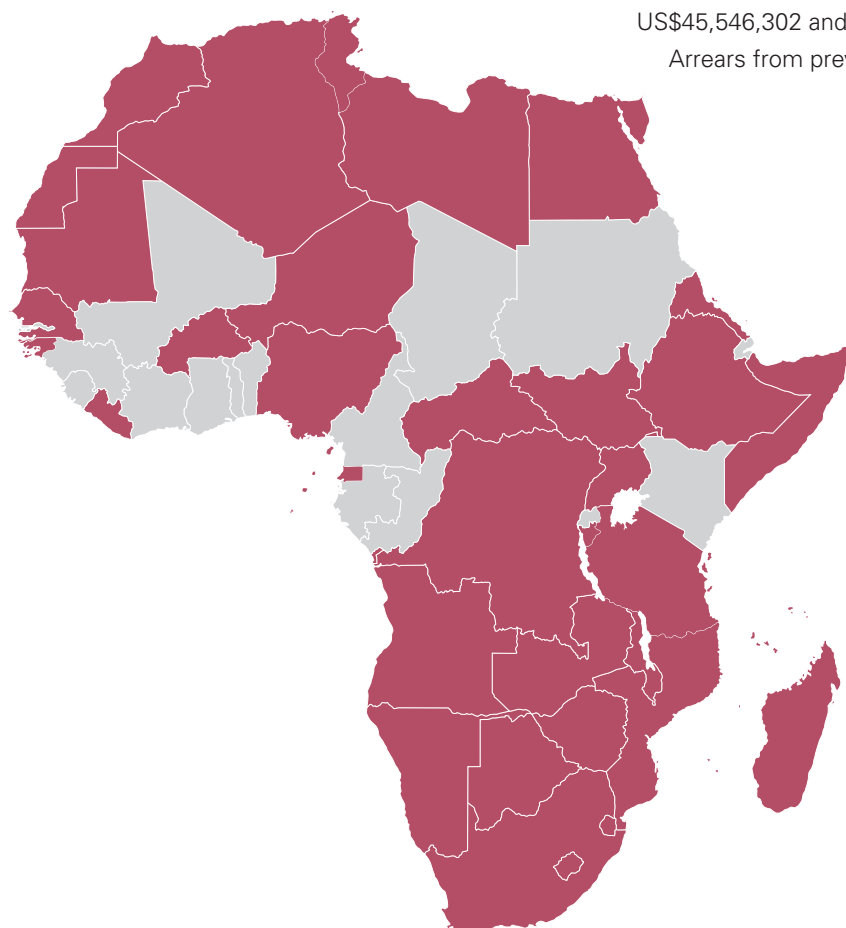
| | (US\$ million) |
|--|----------------|
| Assessed contribution Regular Budget | 57.20 |
| Assessed contribution Peace Fund | 11.70 |
| Collection Regular budget | 45.20 |
| Collection Peace Fund | 9.00 |
| Collection in arrears | 26.60 |
| Paid in Advance | 6.60 |
| Outstanding contribution for 2018 Regular budget | 12.00 |
| Outstanding contribution for 2018 Peace Fund | 2.70 |
| Outstanding Arrears from previous years | 38.80 |

**Figure 3: Status of Contribution by Countries opting for a
modified approach**



v. Member States yet to implement the Kigali Decision

17. 30 Member States not yet implementing the Kigali decision on Financing the Union = US\$167Million for regular budget and US\$34Million for Peace Fund
18. Collectively, these countries were assessed US\$167,910,106 for regular budget and US\$34,291,400 was expected as contributions to the Peace Fund. These countries were also in arrears from previous budgets by an amount of US\$50,601,782 (US\$31,285,773 and US\$19,316,009 for regular budget and Peace Fund, respectively).
19. As at December 31, 2018, an amount of US\$115,467,925 and US\$14,313,095 was collected as contribution to the regular budget and Peace Fund, respectively. This accounts for 69% and 42% of the expected amount. Further, an amount of US\$28,403,483 and US\$9,725,659 in arrears from previous years for regular budget and Peace Fund, respectively was collected. An amount of US\$2,406,827 was collected as advance payment to the 2019 budget, largely from Namibia.
20. Currently, payment to the regular budget and Peace Fund of US\$45,546,302 and US\$19,894,455 respectively, is outstanding. Arrears from previous budgets stand at US\$12,472,640.

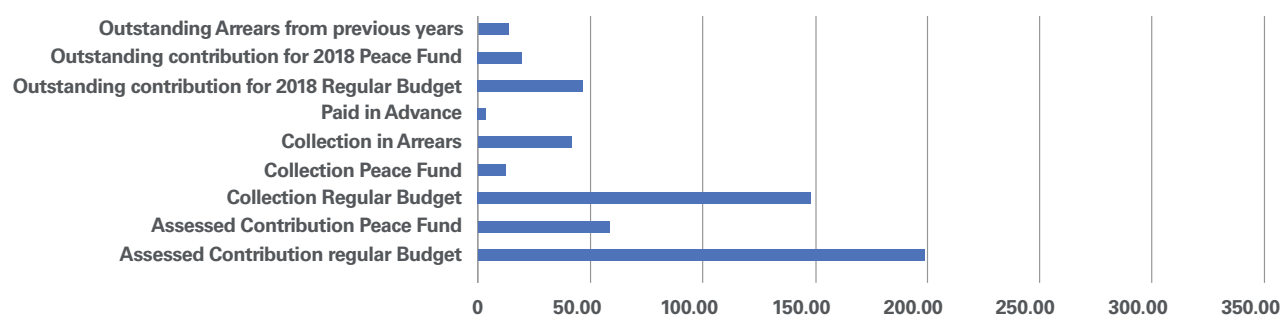


- | | |
|----------------------|-----------------------------|
| 1 South Africa | 16 Burkina Faso |
| 2 Morocco | 17 Niger |
| 3 Angola | 18 E-Swatini |
| 4 Egypt | 19 Eritrea |
| 5 Tunisia | 20 Burundi |
| 6 Tanzania | 21 Lesotho |
| 7 Congo Kinshasa | 22 Liberia |
| 8 Zambia | 23 Madagascar |
| 9 Uganda | 24 Cape Verde |
| 10 Equatorial Guinea | 25 Central African Republic |
| 11 Mozambique | 26 Somalia |
| 12 Botswana | 27 Guinea Bissau |
| 13 South Sudan | 28 Sao Tome & Principe |
| 14 Zimbabwe | 29 Sahrawi Arab Republic |
| 15 Namibia | 30 Ageria |

**Table 4: Status of Contribution by Import Levy
Collecting Countries**

| | (US\$ million) |
|--|----------------|
| Assessed contribution Regular Budget | 167.90 |
| Assessed contribution Peace Fund | 34.90 |
| Collection Regular budget | 115.50 |
| Collection Peace Fund | 14.30 |
| Collection in arrears | 38.10 |
| Paid in Advance | 2.40 |
| Outstanding contribution for 2018 Regular budget | 45.50 |
| Outstanding contribution for 2018 Peace Fund | 19.90 |
| Outstanding Arrears from previous years | 12.50- |

**Figure 4: Status of Contribution by Countries opting for a
modified approach**



THE PEACE FUND

21. 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 have as of February 4, 2019 contributed about US\$89 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.
22. In line with the above decision, 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. The low rate of contribution to the Fund is, therefore, largely attributed to this stance.
23. Meanwhile, 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.

BUDGETARY, FINANCIAL AND ADMINISTRATIVE MATTERS.

A. GOLDEN RULES FOR FINANCIAL AND BUDGET MANAGEMENT.

24. The 'Golden Rules' for the proper management of the AU's finances were considered and adopted by the AU Assembly in January 2018. Six of the 8 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 Eight:** Reporting should be an integral part of the financial management process.
- viii) Golden Rule Nine:** There should be a centralized process for engaging partners.

25. 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. 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.

B. ENHANCED OVERSIGHT BY MINISTERS OF FINANCE.

26. 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.



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.00
5.00
4.00
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9.00
74.00
56.00
209.00

Expenses

| | |
|----|------------------|
| \$ | 2,564.00 |
| \$ | 1,556.00 |
| \$ | 2,564.00 |
| \$ | 14,898.00 |
| \$ | 3,668.00 |
| \$ | 5,787.00 |
| \$ | 14,978.00 |
| \$ | 21,365.00 |
| \$ | 67,380.00 |

Other

| | |
|----|-----------------|
| \$ | 154.00 |
| \$ | 342.00 |
| \$ | 256.00 |
| \$ | 1,256.00 |
| \$ | 1,478.00 |
| \$ | 254.00 |
| \$ | 369.00 |
| \$ | 741.00 |
| | 4,850.00 |

Shares

Interest

Ex

27. 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 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 budget to the Executive Council.
28. 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. 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 budget;
 - b)** 2018 Mid-Term Performance Report;
 - 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.

THE SCALE OF ASSESSMENT.

29. The Scale of Assessment for the period 2020-2022 has been reformulated. It has taken 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)). It 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. The reformulated scale was in July 2018 circulated to all Member States for comments and inputs. A meeting to deliberate on it was scheduled for January 2019 and later for its adoption by the Assembly in February 2019.

STRENGTHENING THE SANCTIONS REGIME FOR NON-PAYMENT OF CONTRIBUTIONS.

30. 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.
31. 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,
- Shortened the period within which a Member State will be considered to be in default to 6 months (previously this was 2 years).
 - Places emphasis on compliance through phased application of sanctions in case of default.
 - Provides relief to Member States who default due to circumstances making them temporarily unable to pay their assessed contributions.

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 are 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.



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