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REPORT OF THE RETREAT OF THE COMMITTEE OF FIFTEEN MINISTERS OF FINANCE (F15)

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RABAT, MOROCCO
June 13-14 2022

A. Introduction

1. The Retreat of the Committee of Fifteen Ministers of Finance (F15) took place in Rabat, Kingdom of Morocco, on the 13th – 14th June, 2022. It was presided by Hon. Ukur Yatani, Cabinet Secretary of the National Treasury of the Republic of Kenya, on behalf of Hon. Tahir Hamid Nguilin, Chairperson of the Committee of Fifteen Ministers of Finance and Minister of Finance and Budget of the Republic of Chad.

2. The Retreat was co-organised by the African Union Commission and the Government of the Kingdom of Morocco under the theme "Beyond COVID-19 pandemic and Russia-Ukraine Conflict: Enhancing the Resilience of African Economies and the Financial Sustainability of the African Union".

3. The following F15 Member States were represented at the meeting:

Central:	**Chad, Cameroon and Congo**
Eastern:	**Ethiopia, Rwanda, Kenya**
Northern:	**Algeria, Morocco and Egypt**
Southern:	**Botswana, Namibia and South Africa**
Western:	**Côte d'Ivoire, Nigeria and Ghana**

B. Opening

4. In his opening remarks, Amb. Ukur Yatani, Kenya's Cabinet Secretary, National Treasury and Planning, welcomed participants and recalled the historic Decisions on Financing the African Union that underline the need for enhanced sustainability and predictability of revenues from Member States while reducing dependence on external resources. He further recalled the Assembly Decisions to constitute the F15 with a mandate to support the AU finance and budget reforms towards greater accountability and transparency in the management of African Union resources. In light of that, he commended the efforts by the F15 to assist in the budget preparation process including the oversight role it continues to play which has resulted in the adoption of more credible annual budgets. He echoed the exigencies of entrenching new principles and a Union-wide culture necessary for efficient and effective budget preparation and implementation.

5. On her part, Mrs. Nadia Fettah, Minister of Economy and Finance of the Kingdom of Morocco underscored the need to intensify efforts to address the negative impacts of the pandemic that includes the reduced fiscal manoeuvre of Member States, further exacerbated by the Russia-Ukraine conflict, the latter of which has put considerable strain on the continent's food and energy security and resulted to new inflationary pressures. She stressed on the need for concerted and expedited efforts to arrest the current

setbacks, particularly in relation to poverty eradication, which has made populations more vulnerable to external shocks in a volatile global environment. She noted efforts by her government to provide facilitatory legal frameworks that enhance trade and investment flows into the country for rapid economic recovery.

6. In her opening remarks, the African Union Commission's Deputy Chairperson H.E Dr. Monique Nsanzabaganwa, while acknowledging the devastating effects of multiple global crises, underscored the urgency to also address the fundamental concerns of the financial sustainability of the African Union. She underlined the pertinence of channelling more resources to the organization to enable it to advance policies and implement programs which would directly address the concern to build resilient, inclusive and sustainable economies. To elucidate, the Deputy Chairperson underscored the importance and promise of the African Continental Free Trade Area to enhance value-chain systems in the critical sectors of agriculture, manufacturing, energy, and services, including its potential to drive the rapid development of infrastructure and digital technologies that are necessary for continental integration.

7. Further, she recalled that the 0.2 levy on eligible imports, adopted by the Heads of State and Government in Kigali in 2016 provides an avenue for Member States to sustainably mobilize the requisite financial resources required to implement the various AU development programs. Lastly, she underlined the importance of enhanced engagements and consultations with the Regional Economic Communities in the context of the division of labour between the AU, Member States and RECs, stressing on the need to align national development plans with regional and continental development frameworks including enhanced complementarities in the context of domestic resource mobilization.

C. Adoption of the agenda

8. The meeting adopted its agenda as highlighted below:

(i) Official Opening and Welcome Remarks
(ii) Session 1: African Union Financial Sustainability: Where are we now? What are the next steps?
(iii) Session 2: Beyond Covid-19 pandemic and the Russia-Ukraine Conflict: Strategies and Policy Considerations for Economic Recovery and Resilience.
(iv) Session 3: Consideration of the report of the F15 Committee of Experts
(v) Consideration and adoption of Communique
(vi) Closing

D. Session 1: African Union Financial Sustainability: Where are we now? What are the next steps?

9. This session was Chaired by Honourable Ukur Yatani, Cabinet Secretary of the National Treasury of the Republic of Kenya. The presenter was H.E. Dr. Monique Nsanzabaganwa, the Deputy Chairperson of the African Union Commission and the

discussants were Dr. Donald Kaberuka, the AU High Representative on Financing the Union and the Peace Fund and Ms. N'Sele Hassatou, Acting Vice President Finance and Chief Financial Officer of the African Development Bank Group.

10. In her presentation, H.E. the Deputy Chairperson recalled that the key objective of the on-going AU budget and finance reforms converged around the need to reduce dependency on external partner resources, reduce dependency on a few Member States through an equitable burden sharing formula to reduce risk concentration, and, ensuring accountability, transparency, probity and high fiduciary standards in the management of Union resources.

11. She outlined the various priority programmes of the African Union, and showed trends of the size of the AU budget since 2018 which revealed an overall reduction of thirty percent (30%). This was mainly driven by a decrease in the regular budget as a result of the rationalisation of the operational and programme budget requirements, while moderate increases were noted in the Peace Support Operations budget.

12. With regards to funding sources, she informed the meeting that Partner funds remain the dominant source of funding for AU programs, including funding to Peace Support Operations. Nevertheless, she noted that Partner funds have also begun to dwindle, with trends since 2020 showing partial and late disbursements that may be attributable to the COVID-19 pandemic among other factors. Similarly, the predictability of contributions from Member States remains a great challenge with most payments made in the periods leading to the Summit to avoid sanctions, while some are received late in the year, thus constraining the ability of organs and departments to implement the planned programs.

13. The DCP further outlined the estimated total budget requirements for the Union in the medium term (2023-2025) revealing an anticipated overall reduction of 18% from 2022 due to the scaling back on peace support operations in Somalia. Nevertheless, she noted that the Operational Budget is expected to increase as the Union moves to accelerate the implementation of new structures including the AUC departmental structure and the AfCFTA Secretariat, and also, a revert to in-person meetings, particularly Summits among other statutory meetings. The same goes for the Program Budget which is also expected to increase in the medium-term as the Union embarks on the implementation of additional programs under the new structures. On the whole, she underlined the imperative for the Union to improve its programme planning, implementation and delivery.

14. In that regard, she acknowledged the importance of the F15 in the ongoing budget and financial reforms, underscoring their oversight role over budget preparation and implementation, and informed the meeting that a myriad of internal control mechanisms have been instituted to ensure that the AU budget is rationalised, wastages minimised and accountability enhanced.

15. She further implored the Ministers to encourage Member States to implement the 0.2% import levy, or its variants, to avail adequate resources for the realization of the goals and aspirations of Agenda 2063, as the exploration for additional alternative sources of domestic funding continues. She concluded by encouraging F15 Ministers to champion for the Union's self-reliance.

16. In his intervention as the lead discussant, the AU High Representative on Financing the Union and Peace Fund lauded the chosen theme for 2022 F15 Annual Retreat as relevant and timely. To contextualize the discussions, he reflected on various global crises spanning five decades including: the devaluation of the United States Dollar in 1972 which ended the fixed exchange rate with major consequences in the global financial markets; and the first oil crisis emanating from the conflict in the Middle-East which resulted to an immediate three-fold surge in global fuel prices and subsequently causing long-term stagnation and inflation, including a debt crisis depicted by cycles of debt restructuring. As such, while acknowledging that some crises are unprecedented, he stressed on the important role of policy makers to build the capacities and resilience of African Economies to absorb the shocks and sustain a positive growth trajectory, dubbing it 'the art of economic policy'.

17. While highlighting the effects of the pandemic, including its impact on the commodity markets, he argued that markets will adjust in the short-term, stressing on the importance of focusing on long-term impacts including the acceleration of energy sector transitions at the backdrop of rapid advancements to multipolarity and re-adjustments in geo-economics. The major challenge for Africa, he stressed, is its strategic positioning within the context of the reshaping of geopolitics.

18. In relation to the ongoing budget and finance reforms, Dr. Kaberuka recalled the five key challenges that the Union contended which necessitated the budget and financial reforms: (i) heavy dependence on five countries to shoulder sixty percent (60%) of the assessed budget; (ii) over-reliance on International Partners to fund programs including Peace and Security activities; (iii) weak sanctions regime which led to the unpredictability of revenue flows into the AU; (iv) weak internal financial governance; and (v) the uncontrolled budget growth of the AU over the years.

19. Taking stock of the progress made on the reforms, the AU High-Representative lauded the Commission for its efforts to swiftly implement the relevant recommendations emanating from the Policy Organs, including the nine golden rules developed by the F15 that espouse good financial management and accountability principles. He further appreciated efforts by Member States to revitalize the Peace Fund by establishing a strong governance structure while also maintaining a steady course to attain the US$400 million endowment target for the Fund to finance peace and security activities on the continent. He recalled that attaining the US$400 million endowment is particularly important to the Union in view of its intended use as a seed capital to leverage negotiations with the United Nations, the latter of which carries the global mandate to address peace and security matters globally. He highlighted that the Peace Fund endowment could be used motivate the UN to allow its assessed contributions to be

deployed on peace and security activities on the continent, particularly in situations that may be deemed as falling beyond the scope of the UN's Peace and Security Doctrine.

20. In relation to the 0.2% import levy mechanism, he implored the F15 Ministers to support its implementation owing to its potential to sustainably and predictably finance Member States assessed contributions. He noted that the initial perceived challenges which may have hindered the implementation of the import levy, including compliance with multilateral trading obligations such as the Most Favoured Nation principle of the World Trade Organization (WTO) had since been resolved with the coming into effect of the AfCFTA. He informed that Article 24 of the World Trade Organization's General Agreements on Tariffs and Trade recognizes the legality of a Free Trade Area and as such, would allow State Parties of the AfCFTA to enjoy favourable trading amongst themselves while potentially discriminating against third parties.

21. Lastly, he underscored the importance and continued efforts to enhance coherence and clarity of mandates of the AUC and the RECs, stressing that complementarities would enhance burden sharing on finances and in effect manage the growth of the Union budget. He concluded his observations by calling for the strengthening of Africa's institutions, among which he singled out the Africa CDC, which demonstrated clarity of purpose and an orientation for results in the managing of the COVID-19 pandemic, and the AfCFTA, which holds immense potential to build the resilience of African economies against external shocks.

22. In her intervention, Ms N'Sele Hassatou, Acting Vice President Finance and Chief Financial Officer of the African Development Bank Group, underscored the importance of financial sustainability of the AU as a prerequisite to addressing persisting challenges on the continent stressing on the need for the existing political will of the Policy Organs to be backed by adequate financing. She expressed her concerns over the continued downward trend of the AU budget at a time when the continent is looking to the Organisation to provide solutions to emerging and persisting developmental challenges. Given the current global challenges, she urged the Organisation to leverage its partnerships, while also striving to demonstrate value for money at countries' level.

23. Further, she underscored the imperative for Africa to build its resilience against crises by prioritising domestic revenues which are potentially higher than the combined volume of Official Development Assistance, Foreign Direct Investments and Remittances. Further, she underlined that Africa should strengthen its domestic financial markets to enable the Member States to raise resources internally at affordable rates, which would also lessen exposure to exchange-rate risk that expose countries to debt sustainability issues.

24. On Special Drawing Rights (SDRs), Ms. Hassatou expressed concern that the recent largest issuance by the IMF amounting to US$650 billion, to build up global reserves and drive economic recovery from the Covid-19 pandemic, did not take due consideration Africa's peculiar needs and challenges given the modest US$33 billion (5%) share allocation to the continent. She advocated for an additional issuance of SDRs to

Africa which, if channelled through the Bank in its capacity as prescribed holder, could be leveraged to raise additional resources up to three times the seed amount. Such resources could directly support Member States to address the development financing gaps and also support the AU's development programs including its flagship projects which are aligned to the strategic objectives of the Bank and its High-5 priority areas.

E. Discussions

25. Delegations expressed appreciation to the African Union and the Kingdom of Morocco for co-organizing the 2022 Annual F15 Retreat, and extended gratitude to the latter for hosting the meeting.

26. Delegations also appreciated the progress on budget and financial reforms of the African Union and requested for periodic monitoring particularly on the need to ensure that the revenues and expenditures of the Union grow in tandem with the strategic objectives of the Union.

27. In view of the recurring nature of pandemics and their attendant socio-economic challenges, Ministers raised a concern over Africa's limited resilience to crises, underlining a need for building adequate institutional capacities that will ensure Africa's preparedness to respond to future crises.

28. The meeting expressed concern over the slow progress registered in achieving the financing targets set in Johannesburg in 2015 and underlined a need to renew the determination to achieve a financially sustainable and self-reliant African Union funded by its Member States. Of particular concern by the Ministers of Finance was the continued dominance of Partners in funding the programs of the Union stressing that the continent must urgently position itself beyond Aid.

29. However, the meeting also noted that the continued concern by Member States on the growing burden to finance the AU may be attributable to the level of influence of the AU on the continent. Ministers called upon the Commission and other Organs of the Union to exert a more influential role in providing policy direction to the continent.

30. A further concern was raised on the capping of Member States contributions to the budget amidst the expanding mandate of the Union with Ministers calling upon Member States to ensure that programs are adequately funded. However, it was underlined that the average execution rate which determines the annual budget ceilings should be the starting point in formulating the annual budget. In addition, the Union should place emphasis on improving efficiency rather than increasing allocations. Also, in view of the potential limitations identified on AMERT as an effective programming tool, it was observed that the AU may urgently require a better tool to monitor its financial and technical execution rates.

31. Three Member States, Ghana, Rwanda and Kenya shared their country experiences in implementing the 0.2% import levy, lauding it as an effective resource

mobilisation mechanism that eased the burden on their national treasuries, and enabled their timely and consistent payment of their annual assessed contributions.

32. However, some Delegations underscored the need to align the levy mechanism with multilateral and bilateral trading systems including regional trading systems. It was stressed that due consideration must be given to Assembly Decision 733 of February 2019 which stipulated that Member States must be accorded the flexibility to implement Decisions on financing the AU provided that the overarching principles of sustainability and predictability of revenues is maintained.

33. Nevertheless, Ministers welcomed the remarks by the AU-High Representative, and buttressed by the Secretary General of the AfCFTA Secretariat, assuring Member States that the free trade area under the auspices of the AfCFTA, provided legal protections for countries to implement the 0.2 import levy thus eliminating previous concerns of potential violations of global multilateral trading agreements such as the Most Favoured Nation Clause of the WTO.

F. Recommendations

34. Recalling the Decision on self-reliance adopted by the Assembly in June 2015 in Johannesburg, South Africa, which recognized that to achieve the goals set out in Agenda 2063, Member States must take practical and concrete measures to finance the budget of the African Union, F15 Ministers called upon Member States pay their assessed contributions in a timely and predictable manner.

35. The meeting called for a further strengthening of the sanctions' regime including the introduction of incentives as a form of motivation and encouragement to Member States that have demonstrated consistency in honouring their financial obligations to the Union.

36. Cognizant of the recurring nature of pandemics including other global events which result in various social and economic challenges, the AU should enhance its collaboration with Regional Economic Communities (RECs) and African Financial Institutions, to build on subsidiarity and leverage complementarities that could build the requisite resilience to respond to future crises. This would also include alignment of domestic resource mobilisation strategies with continental development frameworks to mitigate the challenge of dwindling resources made available to the Union to implement programs.

37. Ministers encouraged Member States to implement the 0.2% import levy, taking due consideration of the inbuilt flexibility that allows Member States to determine the forms and means of paying their assessed contributions in the context of their national laws while keeping to the principles of the sustainability and predictability of the revenues to the Union.

38. In addition, Ministers urged the African Union Commission to intensify technical and advisory support to Member States seeking to implement the levy, upon their request,

to address the pending concerns of the alignment of the 0.2% import levy mechanism with their national laws, including the various bilateral and multilateral trading systems.

G. Session 2: Beyond COVID-19 and the Russia-Ukraine Conflict. Strategies and Policy Considerations for Economic Recovery and Resilience.

39. This session was Chaired by Honourable Ukur Yatani, Cabinet Secretary of the National Treasury of the Republic of Kenya. The presenters were H.E. Dr. Vera Songwe, the Executive Secretary of United Nations Economic Commission for Africa (UNECA), H.E. Yacine Fal, acting Vice president for Regional Development, Integration and Business Delivery of the African Development Bank Group and H.E. Mr. Wamkele Mene, Secretary General of the AfCFTA Secretariat.

a) Innovative financing solutions for Post COVID-19 economic recovery.

40. In her presentation, Dr. Vera Songwe, reiterated the imperative of mobilizing domestic resources to finance the Union. While highlighting that Africa's annual financing gap is approximately US$400 billion, she noted that domestic public revenues remained lower than public spending due to falling tax revenues. The Covid-19 pandemic and the Russia-Ukraine conflict which necessitated countries to spend for recovery and adopt subsidies to mitigate inflationary pressures respectively, are key factors behind the widening fiscal deficit on the Continent.

41. She stressed on the need to strengthen tax systems towards increased revenues from VAT, excise taxes and property taxes, all of which hold immense potential to finance Africa's development needs including payment of multilateral subscriptions. UNECA is working in collaboration with several countries on the modalities for raising tax revenues, including widening the tax-base through expansion into the informal sector.

42. Dr. Vera Songwe highlighted that Africa's underdeveloped financial markets limit domestic resources mobilization. Only twenty-eight (28) countries across Africa have stock exchanges with market capitalization of over thirty percent (30%) of GDP. Strengthening the financial and capital markets, building pension funds and sovereign wealth funds, and the expeditious implementation of Africa's Financial Institutions including the improvement of the capacities of existing institutions would improve access to much needed resources by the public and private sector.

43. She cautioned that the looming debt crisis could hamper Africa's efforts to finance its own development, given that a significant portion of newly acquired debts are deployed to service existing debts. She advocated for increased domestic borrowing using local currencies, a shift that may require new instruments that would facilitate the provision of such liquidity at lower costs compared to external sources. On the issue of SDR's, she also advocated for their expedited reallocation in order to inject the much-needed liquidity into the African economies. Moreover, she highlighted the potential for Africa to gather more resources from carbon credits and related climate change financing modalities. She

concluded by emphasizing the importance of the AfCFTA for Africa's economic transformation.

b) Bridging Africa's development financing gap

44. Ms. Yacine Fal, acting Vice president - Regional Development, Integration and Business Delivery of the AfDB updated the meeting of the Bank's innovative approaches and solutions to help African countries build resilience in the face of both existing and new challenges. On food security, for example, the Bank approved a US$1.5 billion African Emergency Food Production Facility to address the food crisis and disruption of the supply of critical inputs for food production arising from global events such as the Russia-Ukraine conflict, climate change, and pests and diseases.

45. To accelerate recovery and resilience she highlighted that Africa should pursue inclusive and resilient development to simultaneously address the economic, social, and environmental dimensions of development. This will require African countries to deploy a policy mix to: (i) protect vulnerable segments of society, (ii) build a strong health defence system, (iii) address debt and climate vulnerabilities and (iv) stabilize macroeconomic fundamentals.

46. To address Africa's financing gap, she reiterated that there is a need to mobilize considerably more resources, in particular concessional financing. The continent's additional financing needs over the next three years are estimated in the hundreds of billions of dollars. An estimated US$7–US$15 billion a year is required to deal with climate change issues and another estimated US$68 to US$108 billion to plug infrastructure gaps, just to mention a few.

47. She recalled that the African Union Heads of State and Government, at their 35th Ordinary Session in February 2022, mandated the Bank to explore options to mobilize more resources for Africa's economic recovery. As part of its given mandate, the AU Assembly called on the Bank to accelerate the operationalization of several financial initiatives, including the creation of an African Financial Stability Mechanism (AFSM), replenishment of the 16th cycle of the African Development Fund (ADF) including the amendment of its charter to enable access to the financial markets, development of the Security-Indexed Investment Bonds (SIIBs), and, as a prescribed holder of SDRs, advocated for a portion of it to be reallocated through the Bank.

48. She informed the meeting that by reallocating SDRs through the Bank, the funds could be leveraged by three to four times their value and immediately offer affordable financing to support countries' development efforts. A portion of these SDRs could also be used to capitalize African Public Development Banks. The African Financial Stability Mechanism would also support countries experiencing temporary balance-of-payment misalignments, by offering financing on advantageous terms especially to illiquid countries that are at risk of debt distress. In relation to the African Development Fund (ADF), the Bank's concessional financing window, she informed the meeting that the AfDB is exploring options for leveraging the ADF's existing equity to mobilize more

resources from global capital markets and to make the 16th replenishment the largest and the boldest in the ADF's 50-year history. To this end, the Bank Group proposes a transformative target of $28 billion from the current level of $8 Billion.

49. On security-indexed investment bonds, she underlined that security issues must be factored into investments and development interventions. This instrument is envisioned to become an important tool to protect investments, secure livelihoods, and rehabilitate communities and infrastructure in regions impacted by insecurity.

50. She concluded by highlighting that the transformation of Africa's development agenda will require scaling up and acceleration. Therefore, opportunities such as AfCFTA should be seized to accelerate regional integration, boost industrialization, reinforce value chains and foster the development of a thriving private sector.

c) Building the Resilience of African Economies through AfCFTA

51. Mr. Wamkele Mene, Secretary General of the AfCFTA Secretariat highlighted two key lessons learned in the context of the COVID-19 pandemic and the Russia-Ukraine conflict. Firstly, Africa did not possess the adequate tools to fight the pandemic including, initially, lack of Personal Protective Equipment, and later, vaccines, the scarcities of which was due to export restrictions imposed by countries with the productive capacities. Moreover, the Russia-Ukraine conflict led to a global disruption of food supply chains causing inflationary pressures and exacerbating food insecurity on the continent. Secondly, these events laid bare the weaknesses and vulnerabilities of Africa and thus made a compelling case for the continent to strengthen its industries and enhance local trading, both of which could be accelerated through the implementation of AfCFTA.

52. He informed the meeting that forty-three (43) countries have ratified the agreement establishing AfCFTA, providing a legal anchor to liberalize African economies thus ensuring that the continent is competitive and resilient in the global arena. If well implemented, projections show that AfCFTA has the potential to lift approximately 100 million out of abject poverty and by 2035, increase intra-Africa trade by 80%, among several other benefits. In effect, this will reduce over-reliance on export markets including the reliance on primary commodities' export; contribute to a fundamental restructuring of Africa's economies by focusing largely on manufacturing as a job creator; and enhance private sector development including the Small and Medium Enterprises (SMEs) that would immediately benefit a significant population of women and the youth.

53. He underscored that, in the absence of stimulus packages similar to those provided by advanced economies to their populations which reignited dynamism and rapidly reversed the negative growth in their economies, Africa may need to leverage on intra-regional trade as an engine for economic recovery and sustained growth through the consolidating its market of an estimated 1.3 billion people. He stressed the importance of integrating regional value chains in and across sectors to improve industrial capacity and ensure job creation. To this end, he encouraged countries to focus on improving

productive capacity through commodity value-addition and to use AfCFTA as the legal anchor to foster trade within Africa.

54. However, he highlighted other challenges that potentially impede the rapid implementation of the AfCFTA, including the existence of forty-two (42) currencies in use across the continent and the harmonisation of cross-border payments which largely depend on foreign SWIFT systems that negatively impact trade affordability. He therefore underlined the need for the continent to develop and invest in tools such as the Pan-African Payment and Settlement System, a digital payment system that enables instantaneous transactions without using third-currencies, the AfCFTA Adjustment Facility to cushion against revenue losses which may occur due to adjustments when trading under the AfCFTA, and a Trade Financing Facility to mitigate challenges of access to trade finance in Africa with a primary focus on SMEs, women and youth.

55. Lastly, he underlined the need to invest in Trade Corridors to make them efficient and competitive in the transit of goods, including digitalization of customs systems and platforms to enable efficient customs procedures. He concluded by commending the efforts made by African Financial Institutions including AfDB and AFREXIMBANK for their investments in the various soft and hard trade-supporting infrastructures that would facilitate the expedited realization of the benefits of the AfCFTA.

H. Discussions and recommendations

56. The meeting highlighted a number of challenges that the AU Member States are faced with as a consequence of the Covid-19 pandemic and the Russia-Ukraine war including fiscal pressures, looming food insecurity and worsening debt burdens. In this regard, the meeting called for the accelerated implementation of the AU's development programs, including supporting Member States to reinforce macroeconomic fundamentals while also tackling persisting challenges such as climate change.

57. Ministers stressed the need to accelerate domestic resource mobilization efforts. To this end, the meeting stressed on the importance of in-country beneficiation of minerals to ensure maximum benefits that include increased revenues and creation of jobs. Equally important, was the need to curb illicit financial flows and foster transparency in the harmonisation of pricing of mineral and other other resources.

58. The meeting acknowledged the crucial role that Africa's financial institutions, such as the AfDB and Afreximbank continue to play in supporting Africa's development agenda, at both continental and national levels, including their collaborative efforts with AfCFTA in advancing Africa's economic transformation and integration agenda. To this end, Ministers called for the continued strengthening of Africa's institutions which are a cornerstone for the continent's development efforts. Ministers further called for the expeditious ratification of instruments related to the establishment of Africa's financial institutions such as the African Central Bank, African Monetary Fund and Africa Investment Fund.

59. In addition, Ministers raised a concern against the proliferation of new institutions that carry significant financial implications, thus putting a further strain on the Union's budget. In that regard, the meeting recommended that the existing institutions should be rationalised and new decisions of Policy Organs should, where possible, be implemented expanding the mandates of existing institutions.

60. On climate change, the meeting appreciated AfDB's assistance to Member States through innovative resource mobilisation initiatives for climate finance including an insurance facility to mitigate against climate related conflicts and risks on the continent.

61. Having observed that Ministers of Finance represent their Countries in various financial institutions both inside and outside the continent, the meeting underscored the need for Ministers to speak with one voice and ensure coherent and coordinated messaging in their respective spheres of influence, and advance common positions that champion for a better and fairer global economic outlook on Africa.

62. The Ministers underscored the importance of regional integration as a priority agenda to facilitate Africa's recovery and resilience. In this regard, the meeting acknowledged the progress made by the Secretariat of AfCFTA in implementing the Free Trade Agreement including its supporting tools such as the payments and settlement system, and the trade adjustment and financing facilities. In that regard, taking note of similar reforms at the country and regional levels, Ministers called for close collaboration between the AfCFTA and Member States to leverage on existing tools and related complementarities.

I. Observations by the Commission

63. On the issue of proliferation of institutions, the Commission took note of the observation made by Ministers, acknowledging the need for a systematic approach that considers the financial implications of new institutions and potential duplications. Accordingly, and in the context of ongoing reforms, the Commission called on the F15 to provide technical inputs on the upcoming restructuring and rationalisation of AU Organs and Offices outside the Headquarters in an exercise that is intended to achieve a Union that is better aligned, efficient and effective.

J. SESSION THREE: CONSIDERATION OF THE REPORT OF F15 COMMITTEE OF EXPERTS.

64. The Chair of the F15 Committee of Technical Experts, Mr. Pahimi Lipelba, of the Republic of Chad, presented the Report of the Experts Meeting held in Nairobi, Kenya, on the 6th, 7th and 10th of June, 2022, providing the following highlights to the Ministers:

(a) Participation of the F15 in the budget preparation and oversight responsibilities.

65. The Experts recalled that through its participation in the annual budget and performing its oversight responsibilities as outlined in Assembly Decision 687 and the Rule 94 of the Financial Rules, the F15 achieved the following:

a. In 2018, developed nine golden rules for financial management and accountability principles.
b. Revised the template of the AU Budget Framework Paper to reflect key elements of importance to the AU budget including an overview of Member States economic performance and related fiscal trends, AU budget performance, expenditure ceilings, plans and priorities.
c. Advocated for discontinuing the practice of adopting budgets with funding gaps.
d. Advocated for rationalization of the Union expenditure including the identification and elimination of duplication of activities and overlapping mandates. In 2019 the budget of the Union decreased by 12% compared to 2018.
e. Changed the budget performance reporting from two disjointed reports into one report covering both aspects of financial and technical performance.
f. In collaboration with the PRC Sub-Committees responsible for budget, discontinued the practice of having multiple supplementary budget requests spread out across one financial year. From 2022 onwards, the Union's Policy Organs decided to institute one supplementary budget in a year, to be submitted after the mid-year budget performance review in line with Rule 18 (3) of the FR.
g. Introduced the practice of setting expenditure ceilings based on a three-year average of the budget execution rate of each department, Office and Organ.
h. In collaboration with the Ministerial Committee on Scale of Assessment and Contributions, the F15 provides technical support in the periodic reformulation of the AU Scale of Assessment, the first of which was the 2020-2023 Scale that better reflected the principles of capacity to pay, equitable burden sharing, reduced risk concentration and solidarity. The F15 also supports the administration of Member States contributions through half-year reviews of the Commission's report on the status of Member States' contributions and recommends to the Policy Organs, sanctions for non-compliance. As a result, Member States contributions have increased from an average of 68% preceding 2018 to 90% in 2020.

i. Participates in several joint sittings with the relevant PRC Subcommittees to resolve a myriad of administrative, financial, and budget matters.

66. While taking note of the progress on budget and financial reforms, the meeting acknowledged the underlisted persisting challenges:

a. The Union has not yet fully implemented a programme, results-based budget.
b. Late commencement of the budget process and non-adherence to the budget calendar.
c. Lack of clarity of the working methods between the F15 Experts and the PRC Sub-Committees responsible for budget.

d. Limited engagement between the F15 Experts and the Commission along the budget preparation and implementation chain.
e. Limited and selective adoption, as well as the inadequate monitoring of the implementation of the recommendations of the F15 on the budget.

67. To address the challenges mentioned above and to enhance the effectiveness of the F15 in undertaking its budget and finance oversight responsibilities, Experts endeavoured to work in close collaboration with the Commission to implement the following recommendations:

a. Finalize the budget manual to guide the budget preparation process including setting a budget calendar with clear timelines and deliverables.
b. Implement a multi-year planning and budgeting framework in line with Executive Council Decisions 1031 and 1071.
c. Implement programme based and results-based budgeting backed by a matrix that assists the Union develop results-based budgets.
d. Develop an effective and robust cash management plan.
e. Organize at least four statutory in-person meetings annually between the F15 Experts and the Commission to enhance engagement and to review progress on all matters that concern the oversight responsibilities of F15.
f. Finalize the Committees Rules of Procedure to ensure clear and streamlined working methods and to provide a legal basis for engagement with other PRC-Sub-Committees responsible for the budget.
g. Develop a matrix that will monitor and track implementation of recommendations made by the F15 in the context of the on-going budget and financial reforms of the Union.
h. Strengthening the Secretariat Support by accelerating recruitment against the approved structure of the Unit.

(b) Update on the implementation of the 0.2 percent levy

68. F15 Experts received a progress report on the domestication of the 0.2 percent levy mechanism adopted by the Heads of State and Government in July 2016 in Kigali, Rwanda (Assembly/AU/Dec.605 (XXVII).

69. It was recalled that the 0.2 percent levy on eligible imports is a uniform resource mobilization mechanism to assist Member States to pay their assessed contributions predictably and sustainably. He further underscored the timeliness of its adoption, coming a year after the Assembly adopted Decision 578 in June 2015 in Johannesburg, South Africa, committing Member States to finance progressively over five years from 2016 to 2020, 100 percent of the operational budget, 75 percent of the program budget and 25 percent of peace support operations.

70. However, it was noted progress that on implementation of the 0.2 percent import levy remains highly variable with only seventeen of the AU Member States are at various

stages of its implementation[1]. This performance was attributed to persisting challenges that cut across three areas of: compliance with commitments made under bilateral and multilateral trading systems; restrictions due to various national legislation; and weak internal enforcement mechanisms.

71. Among the strategies proposed to expedite the implementation of the levy were: the need for the Commission, in collaboration with the AfCFTA Secretariat, to intensify technical assistance to Member States including expediting notifications to the WTO in relation to the free trade area status of the AfCFTA; piggy-backing on existing structures at both ECOWAS and ECCAS to collect the 0.2 levy in addition to their community levies; and the need to convene Central Banks and Customs authorities to discuss their roles in the implementation of the Kigali Decision as it relates to setting up of AU escrow accounts including collection and remittance modalities, and, the identification of eligible goods for the application of the levy, respectively.

72. Following the presentation, the F15 Technical Experts made the following observations and comments:

a. Some Experts lauded the 0.2 levy as an important revenue mobilization mechanism which allowed them to fulfil their financial obligations to the Union including other multilateral subscriptions from ensuing surpluses.

b. Some Experts also recalled that from subsequent Decisions such as Assembly Decision 733 of February 2019, the levy mechanism had an in-built flexibility embedded within which allowed Member States that have no difficulty paying their contributions outside the levy mechanism, to continue doing so as long as the principles of predictability and sustainability are respected.

c. The Commission should undertake studies on ways and means to expedite the implementation of the levy, by gathering best practices from the Embassies in Addis Ababa of levy implementing countries.

d. The Commission should also, upon request by a Member State, embark on technical and advisory missions to countries that may require assistance to implement the levy.

73. The Commission's Office of the Legal Counsel updated the meeting of Assembly Decision 733 which stipulated that Member States, while implementing the decision, will be granted flexibility in fulfilling their obligations, as per their constitutional provisions and national laws as stipulated in Decision 733 of February 2019.

74. In summary, the Commission was urged to intensify technical and advisory consultations with countries that sought to implement the levy as mandated by Assembly

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[1]These countries comprise: Kenya, Gambia, Congo Brazzaville, Gabon, Rwanda, Cameroon, Chad, Sierra Leone, Djibouti, Cote d'Ivoire, Guinea, Benin, Sudan, Ghana, Nigeria, Mali and Togo

Decision 733 of February 2019, taking due consideration of the flexibility accorded to Member States, as per their constitutional provisions and national laws.

(c) Consideration of the Draft Rules of Procedure of the F15

75. A representative of the Commission's Office of the Legal Counsel (OLC) presented the draft rules of procedure of the Committee of Fifteen Ministers of Finance, highlighting key Decisions that established and defined the mandate of the F15, its composition, powers and functions, and decision-making procedures.

76. While the Experts generally agreed with the various Articles of the draft Rules of Procedure, the question of membership to the F15 remained a sticking point. The Experts recalled that during the consideration of the draft Rules of Procedure at the Retreat of the F15 in Sharm El-Sheikh, Egypt in December 2019, the matter of the criteria to determine membership to the Committee caused an impasse on the finalization of the draft Rules of Procedure.

77. It was recalled that during the discussions at the Retreat of the F15 in Sharm El-Sheikh, the two opposing views were as follows:

i) The expansion of the membership from ten (Decision 605) to fifteen (Decision 687) was informed by the need to grant all Tier 1 countries a seat in the F15. Therefore, it follows that the Rules of Procedure of the F15 should have a criterion which embeds within it a permanent seat for Tier 1 countries.

ii) All Member States have a right to become members of the F15 in accordance with the principles of equal sovereignty, rotation and solidarity.

78. As a result of the impasse, it was further recalled that the Egypt Retreat recommended that the F15 Experts would consult and provide the criteria to guide the composition of membership to the Committee.

79. Moreover, the Experts updated that para. 2 of Rule 94 of the new AU Financial Rules (FR) adopted in February 2022, relating to the Committee of Fifteen Ministers of Finance (F15), stipulates that 'The Committee shall develop its rules of procedure which shall be adopted by the Assembly".

80. In that regard, a proposal was made that membership to the F15 shall be on a criterion based on the scale of assessment for contributions to the Regular Budget, such that, the three highest contributors to the AU assessed budget from each of the five AU Regions shall constitute the membership of the Committee. Accordingly, the tenure of membership to the F15 will be aligned to the three-year cycle of the AU Scale of Assessment.

81. With regards to membership to the Committee, it was recalled that the OLC explained that as per established practice in determining the composition of all

Committees of the Policy and Advisory Organs of the Union, governed by a standard AU Rules of Procedure, membership to the relevant Committees is based on the principle of equal sovereignty that grants every Member State an equal chance to be a member of a committee, subject to regional consultations. As such, the proposed criterion to determine membership to the F15 on the basis of a ranking drawn from amounts contributed to the AU assessed budget, as informed by a three-year scale of assessment, may go against the principle of equal sovereignty and representation and effectively, also, dilutes the overarching principle of solidarity.

82. The OLC further noted that Assembly decision Assembly/AU/Dec.687(XXX) of January 2018 stipulated that, "the membership of the Committee of Ministers of Finance shall be expanded from ten (10) to fifteen (15) members, i.e., three (3) Member States per region. In this regard, the Committee will be called the Committee of Fifteen Ministers of Finance (F15)". In this regard, a criterion that determines the membership to the Committee based on the three highest contributors to the AU assessed budget within the Regions may not have any legal basis and is rather a substantive matter than procedural. It is within this understanding that the OLC proffered an advice to the F15 to follow the established practice and mirror its Rules of Procedure to those of other Ministerial Committees. The OLC also noted that in accordance with the established procedures, the matter would require further deliberation by the Policy Organs prior to a decision to formulate the membership as proposed.

83. Following the discussions, the Experts agreed to present the draft Rules of Procedure as agreed upon for further deliberation by the Ministers.

(d) Consideration of the proposal of the six Countries of the Northern Region on the modalities for the Peace Fund.

84. The F15 Experts received highlights on the on-going consultations on the matter of assessing the Peace Fund. It was recalled that on the matter of assessing the Peace Fund, a proposal by the six countries from the Northern Region with reservations, was presented to the Joint Sitting of the Ministerial Committee on Scale of Assessment and Contributions and the Committee of Fifteen Ministers of Finance held on the 31^{st} of January 2022, for deliberation and recommendation to the Policy Organs for Decision.

85. It was further recalled that the proposal by the six countries had the following features:

a. The proposal emphasized that under the general scale, the Northern Region would carry a heavier burden compared to other regions. This is contrary to Decision 605 of 2016 in Kigali which stipulated that the total endowment to the Peace Fund ($400 million) shall be raised through equal contributions from each of the five (5) AU Regions.

b. It acknowledged, however, that equal contributions from each of the five AU Regions may not be compatible with the principles of capacity to pay and equitable burden-sharing since not all AU regions have the same capacity to pay and the economies are different. Under the current scale of assessment 2020-2023, the regional shares of the five AU regions in respect of the assessed budget is: Northern Region 29.66%; Western Region 19.92%; Eastern Region 19.82%; Central Region 8.45%; and Southern Region 22.14%.

c. It proposed that, in the continued spirit of solidarity and equitable burden sharing, the Central Region shall contribute 10% equivalent to $40 million, while the remaining four regions contribute 22.5% each, equivalent to $90 million each.

d. However, the proposal took further note that forty-nine (49) Member States wish to continue using the general scale as applied to assess Member States to the Regular Budget, to assess their contributions to the Peace Fund.

e. In that regard, contributions to the Peace Fund by each of the six concerned Member States with reservations shall be made in accordance with their equitable contribution to the 22.5% or $90 million regional share as per their proposal, regardless of whether a seventh Member State from the Northern Region wishes to contribute according to this proposed formula or shall continue with its contributions to the Fund according to the general scale (consensus).

f. This proposal would lead to a shortfall of $28,136,379.12 compared to the total collection that could be obtained from the Northern Region under the current assessment method.

86. It was also recalled that the proposal was subsequently presented to the Executive Council and following extensive deliberations, and having found no middle-ground to resolve the issue, directed the Commission to work closely with the F15 and the Office of Legal Counsel to analyze proposals made by the Countries of the Northern Region regarding the assessment of Member States to the Peace Fund and the implications thereof and recommend solutions in accordance with the legal frameworks of the African Union (EX.CL/Dec.1162(XL) of February 2022).

87. The Decision further directed the Commission, guided by the solutions recommended thereof, to continue consultations with the concerned Countries from the Northern and other regions - to agree on a mechanism for contributions to the Peace Fund and report back to the Executive Council in July 2022.

88. Accordingly, F15 Egypt made a presentation to the Experts and proposed recommendations to cover up for the $28,136,379.12 shortfall as follows:

a. Reducing the total amount allocated to the Peace Fund by the amount of the shortfall, which is ($28,014,082.20) of the $400 million endowment (approximately 7%).

b. Fill the gap by assessing the $28,014,082.20 to the other four regions.

c. Use the interest generated from investing the endowment to the Peace Fund to bridge the gap.

d. Use the interest generated from investing the contributions already paid by the six countries to bridge the gap.

e. Bridging the gap through arrears collected on assessed contributions to the AU regular budget. This was argued to be a solution as the mechanism is already provided for under Article 21, paragraph 2 of the Protocol establishing the Peace and Security Council.

89. Following the presentation, the following observations were made:

a) Reducing the initial US$400 million endowment to the Peace Fund by the amount of the shortfall would undermine the technical studies undertaken by the Commission that informed the determination of the prescribed endowment.

b) Regarding the handling of interests generated from investing the Peace Fund, some Experts held the view that such a discussion fell within the purview of the Fund's Board of Trustees and the Fund's Fund Manager and as such lay beyond the scope of the F15 Experts.

c) A caution was raised that bridging the gap through arrears may also undermine efforts already made by countries facing difficulties in paying their assessed contributions to the regular budget considering that, in effect, it would provide a relief to the six countries who are requesting to pay amounts less than their capacity to pay. Furthermore, the recommendation would set a precedent and may open up avenues to draw funds from the reserve fund to compensate for gaps on assessed contributions left by countries facing difficulties in paying their assessed contributions.

d) A proposal was made to reduce the shortfall by the amount of interest already generated from investing the Fund, following which, the remaining shortfall could be filled from collection of arrears to the regular budget and voluntary contributions from Member States.

90. While appreciating the proposals made, it was recalled that the OLC updated the meeting that its role was to assist the Experts recommend solutions in accordance with the legal frameworks of the African Union as was stipulated in Executive Council Decision EX.CL/Dec.1162(XL) of February 2022. Accordingly, the OLC guided that among the five proposals made to cover for the shortfall, the recommendation to use arrears offered a potential solution as it refers to an existing legal framework.

91. However, the OLC further noted that Rule 36 of the revised AU Financial Rules, adopted by the Assembly in February 2022, stipulates that the initial endowment of

US$400 million to the Peace Fund shall be financed through statutory contributions from Member States. It was further noted that, as per Rule 36 of the Financial Rule, revenues in the form of interest earned from investing the Peace Fund is listed as one of the statutory sources of financing of the Fund. Hence from the five (5) options listed, the recommendation to use arrears as provided for in an earlier legal framework was chosen as the most viable option as it had an already existing legal framework for its implementation. However, the OLC shall undertake a further review to determine its legality in respect of the ordering of related legislations.

92. Following the discussions, Experts from the Northern, Western, Eastern and Central Regions settled for the fifth recommendation to bridge the gap through arrears collected on assessed contributions to the AU regular budget. The Experts from the Southern Region requested for more time to consult on the matter within their region.

K. Observations and Comments by the Ministers

93. Following the presentation of the Report of the Experts, the F15 Ministers made the following observations and comments:

(i) On the 0.2 percent import levy

94. Some Delegations stressed on the importance of the 0.2 percent import levy mechanism as an important tool in mobilizing adequate funds to sustain the development objectives of the Union, while some echoed the need to accommodate alternative means of financing the Union including maintaining the already established methods provided that the overarching principles of sustainability and predictability of remittances are respected.

(ii) Recommendation

95. The Ministers, recalling Assembly Assembly/AU/Dec.733(XXXII) of February 2019, urged the Commission to intensify technical and advisory consultations with countries that sought to implement the levy, taking due consideration of the flexibility stipulated in the Decision.

(iii)On the Draft Rules of Procedure

96. Delegations favouring the proposal that membership to the Committee should be determined on the basis of contributions stressed that there was an inherent and pressing need for the top contributors to assume a more direct role in ensuring that financial resources availed to the Commission and other Organs are used under the highest fiduciary, accountability, and transparency standards. While underscoring that solidarity remained the overarching principle, membership to the Committee based on the scale of assessment would provide visibility and an appreciation to the top contributors on account of their shouldering a significant burden of the assessed budget.

97. However, the opposing views underlined the concern that the proposed criteria for determining membership to the Committee based on the three highest contributors from a given region would undermine solidarity and unity amongst the AU member states. As such, there should be a more objective criteria which is inclusive and accords every Member State a fair chance of representation and service to the Committee on a rotational basis, based on the outcome of regional consultations, as per the established practice. It was further underscored that of importance as concerns assessed contributions in relation to the Committee's membership, Member States selected to serve in the F15 should set the pace and pay their contributions in a timely manner in accordance with the AU Financial Rules.

98. This view was further buttressed with a highlight that the F15's role is to provide strategic guidance to the Union on matters concerning economic policies and budget and financial reforms and accordingly, the provision of such guidance should not be limited to the domain of high contributors or Tier 1 countries. Further, it was recalled that the expansion of the membership of the Committee from ten (10) to fifteen (15) members through Assembly Decision 687 of January 2018 did not statutorily include Angola and therefore refutes the argument that the expansion was informed by the need to accommodate all Tier 1 members.

99. Following lengthy deliberations, a compromise was reached to propose the expansion of the membership of the Committee to twenty (20) members to be constituted on the basis of a criterion of the top three contributors per region, plus an additional member who shall be determined from the respective regional consultations as per the established practice.

100. However, a concern was raised that expanding the membership to twenty may lead to quorum issues which would affect the statutory proceedings of the Committee and effectively undermine its work.

101. A further view noted with concern that in view of the duration it would take to consider and adopt the proposal to expand the membership to twenty (20), it may be prudent to recommend a Rules of Procedure based on the premise of standing Decision 687 which stipulates that the current membership of the F15 constitutes fifteen countries. Therefore, an F15 Rules of Procedure should be proposed to regularise the activities of the Committee pending a further Decision on the matter of expansion.

102. In proffering its guidance on the matter, the Office of the Legal Counsel reiterated that on the basis of an established practice which is governed by a standard AU Rules of Procedure, membership to all Committees of both the Policy and Advisory Organs of the Union is based on the principle of equal sovereignty which grants an equal opportunity to all Member States subject to regional consultations. As such, the OLC further reiterated that the proposed criterion to determine membership to the F15 on the basis of a ranking drawn from amounts contributed to the AU assessed budget, informed by a three-year scale of assessment, may contravene the principle of equal sovereignty and representation and dilutes the overarching principle of solidarity.

103. On the matter of expanding the membership to twenty (20), the OLC noted that the draft Rules of Procedure under consideration are premised on standing Assembly Decision 687 that stipulates the composition of the Committee as three (3) Member States per region, therefore fifteen (15), thus constituting a substantive matter which would require a follow-up Decision to amend the membership to twenty (20) upon which the Rules of Procedure can subsequently be drafted. Nonetheless, the OLC underscored that in accordance with the established procedures, the matter would require further deliberation by the Policy Organs to seek a Decision on both expansion and membership.

104. In appreciating the proposals made, it was nonetheless underlined that the ensuing ideas do not constitute the adopted Rules of Procedure but rather recommendations to be forwarded to the Policy Organs for further deliberation and decision.

(iv)Recommendation

105. The Ministers adopted the F15 Draft Rules of Procedure recommending the expansion of the membership of the Committee to twenty (20) members to accommodate the top three contributors in the respective regions including tier one countries, while the rest of the composition would be determined from the regional consultations as per the established practice.

(v) On the proposals to address the shortfall on the full endowment of the Peace Fund:

106. A concern emerged that the option settled for by the Experts, recommending that the shortfall be filled from the Reserve Fund, would deplete resources intended to buffer the organization against unprecedented funding constraints. Accordingly, more options may need to be explored with regards to the impending shortfall.

107. The option proposed to distribute the shortfall to the Western, Eastern, Central and Southern Regions was deemed as contradictory to the AU Financial Rules which stipulate that an initial endowment of US$400 million will be obtained from Member States assessed contributions.

108. With regards to the option to use interests generated from investing the Fund to cover the shortfall, it was emphasized that Rule 36 1(a) of the FR underlines that the initial endowment of US$400M shall be financed through statutory contributions from Member States.

109. A proposal was also made in favour of reducing the full endowment of US$ 400 million by the amount of the shortfall, and accordingly, the programs and activities within the stipulated windows could be revised to fit the reduced endowment. However, the OLC noted that any reductions would necessitate an amendment of the Financial Rules as the amount of the initial endowment is clearly stipulated to be US$ 400 million. A member further recalled the remarks by the AU High Representative on Financing the Union

regarding the basis for determining the initial Peace Fund endowment which, as highlighted in an earlier presentation, is intended to serve as a seed capital that could leverage negotiations with the UN to allow the latter's assessed contributions to be used within the continent on peace and security activities that may fall outside the relevant UN protocols governing the use of such resources. As such, the initial endowment constitutes a bigger political perspective which may be undermined by the proposed reduction.

(vi)Recommendation

110. There being no consensus to recommend a solution, the F15 Experts were requested to re-examine the proposals and generate more recommendations for consideration by the Ministers at a later date.

L. Consideration of the Draft Communique

111. The draft Communique (attached as an annex to this report) was considered and adopted with amendments.

112. In addition to the report of the Retreat, the Commission informed that a Declaration encapsulating the contents of the Communique would be presented to the Executive Council in July 2022 for further deliberation and endorsement for adoption by the Assembly in February 2023.

M. Closing

113. In his closing remarks, the Chair reiterated the importance of the theme, underlining that it came at an opportune moment and accorded the F15 a convenient space to engage in critical dialogues on the fundamental question of building the resilience of African economies against rapidly emerging and negatively impacting global events such as the COVID-19 pandemic and the Russia-Ukraine conflict.

114. The Chair further thanked the African Union Commission and the host country, the Kingdom of Morocco, for facilitating the 2022 F15 Retreat. He also extended an appreciation to the Deputy Chairperson of the African Union Commission for her determination and unwavering commitment to support the work of the F15 and in particular, her efforts to highlight, in the context of the sustainable financing of the African Union, the critical areas of concern that required the urgent attention of the F15. He ended the meeting by thanking all participants for their attendance and the enriching discussions.

<u>COMMUNIQUE: RETREAT OF THE COMMITTEE OF FIFTEEN MINISTERS OF FINANCE (F15) HELD ON 13-14 JUNE 2022 IN RABAT, KINGDOM OF MOROCCO.</u>

We, the Committee of Fifteen Ministers of Finance (F15), under the Chairpersonship of **Honourable Ukur Yatani**, Cabinet Secretary of the National Treasury of the Republic of Kenya, on behalf of **Honourable Tahir Hamid Nguilin**, Chairperson of the Committee of Fifteen Ministers of Finance and the Minister of Finance and Budget of the Republic of Chad, in our Annual Retreat held on 13-14 June 2022 in Rabat, Kingdom of Morocco, under the theme '**Beyond COVID-19 pandemic and the Russia-Ukraine Conflict: Enhancing the Resilience of African Economies and Financial Sustainability of the African Union**':

1. Express our profound gratitude to **Honourable Mrs. Nadia Fettah**, Minister of Economy and Finance, and the Government of the Kingdom of Morocco, for graciously hosting the Annual Retreat of the F15, including the warm hospitality and conducive environment to engage in pertinent discussions on enhancing the resilience of African economies in the face of multiple economic and social challenges and as well, hold constructive debates on the financial sustainability of the African Union.

2. Appreciate the presence of **Her Excellency Dr. Vera Songwe**, Under Secretary General and Executive Secretary of the United Nations Economic Commission for Africa, **His Excellency Mr. Wamkele Mene**, Secretary General of the Secretariat of the African Continental Free Trade Area (AfCFTA), **His Excellency Dr. Donald Kaberuka**, African Union High Representative on Financing the Union and the Peace Fund, **Ms. Yacine Fal**, Acting Vice President for Regional Development, Integration and Business Delivery and **Ms. Hassatou N'Sele**, Acting Vice President for Finance and Chief Financial Officer, both of the African Development Bank Group, which continues to reaffirm that deeper cooperation and synergistic collaboration between the African Union, the United Nations Economic Commission for Africa, and the African Development Bank Group, remains an imperative for the enhanced coordination and mutual support required for achieving inclusive and sustainable development in the context of the African Union's Agenda 2063 and the 2030 Agenda for Sustainable Development.

3. Recalling the Decision on self-reliance adopted by the Assembly in June 2015 in Johannesburg, South Africa, which recognized that to achieve the goals set out in Agenda 2063, Member States must take practical and concrete measures to finance the budget of the African Union, we commit to reinforce this determination by remitting Member States assessed contributions in a timely manner.

4. Further recall the Kigali Decision 605 of July 2016 on Financing the African Union through which the Assembly adopted a uniform 0.2 percent import levy mechanism to mobilize the requisite financial resources that would support Member States to sustainably and predictably, fulfil their financial obligations to the Union for the achievement of our development goals. To this end, we call upon the African Union Commission to intensify technical and advisory support to Member States to address

the pending concerns of the alignment and harmonization of the import levy mechanism with their national laws, including alignment with the various bilateral and multilateral trading systems, bearing in mind the flexibility stipulated in Assembly Decision 733 of February 2019.

5. Remain cognizant of the enduring and compounding economic and social challenges occasioned by the COVID-19 pandemic, and exacerbated by the Russia-Ukraine conflict, and commit to foster more effective cooperation within and across our respective jurisdictions by intensifying efforts to build economies that are more resilient to food insecurity, severe price distortions in the commodity markets and disruptions in the supply chain of petroleum products and fertilizers among other strategic goods. We further recognize the particular importance of coordinated efforts to mobilize financial and technical resources required for the accelerated improvement of health care systems and services, including substantial investments towards the elimination of high-burden diseases such as malaria, tuberculosis and HIV, and the swift and comprehensive management of pandemics.

6. Reaffirm and stress the importance of the African Union Development Agency (AUDA-NEPAD) and the AfCFTA, to promote inclusive economic development and structural transformation of African economies, as well as advancing the cause of regional integration. AUDA-NEPAD and the AfCFTA promise multiple benefits ranging from promotion of industrialization and enhanced value-chain systems in the critical sectors of agriculture, manufacturing, energy, and services, to rapid development of infrastructure and digital technologies, human capital development and the generation of decent jobs opportunities, including its latent potential to shield the continent against pressures from unprecedented global economic, political and health crises.

7. Commit to strengthen our collaboration with the African Union Commission and deepen engagements to support the budget and financial reforms aimed at attaining the highest fiduciary, transparency, and accountability standards in the utilization of the financial resources availed for the implementation of the various development programs. In that regard, we commit to reinforce the ongoing reforms with a robust tri-annual review of the Union’s financial management, budgetary and accountability principles and recommend periodic improvements, including through a budget performance assessment mechanism to be set in place by the Committee.

8. Pledge to support the role of Regional Development Financial Institutions in the global financial architecture, as they leverage their collective financial capacities to support the implementation of national and regional development plans, including support to initiatives that would build the resilience of Member States to shocks triggered by economic, social, and political challenges. Also call for the expedited operationalization of African Financial Institutions which are key to accelerating the continent’s economic and regional integration including their focal role in the mobilisation of domestic resources for development programs and better management of the continental financial sector.

9. Further recognize the imperative to close the development financing gaps in the critical areas of agriculture, health, education, infrastructure, research and development, and sustainable environment management including climate change mitigation and resilience, and therefore commit to continue coordinated engagements across the public and private, domestic and international spheres, to mobilize these needed financial resources, including encouraging the reallocation of Special Drawing Rights from the developed to developing nations.

10. Commit to strengthen reforms at the national level that would stimulate development friendly and quality foreign direct investments, particularly as it relates to simplified and stable tax systems, transparent and accountable administrative systems and processes, strong legal institutions, and skilled and affordable labour markets, among others. This should be underpinned by investments in digital technologies and infrastructures that foster efficient and effective administrative systems. By the same token, we commit to reinforce measures that curb illicit financial flows (IFFs) that drain from the continent of Africa, substantial financial resources paramount for the economic and social development, and which remains a key undermining factor to the attainment of the goals and aspirations of Agenda 2063. IFFs continue to hamstring development efforts, exacerbate inequalities, and aggravate instabilities, plunging a significant population of Africa into deeper destitution.

11. Call for renewed vigour on the part of Member States to address the longstanding concerns of inequity and none-access to public services, inefficient and ineffective public institutions, and the exclusion of benefits accruing from the continent's vast wealth of resources, all of which considerably constitute the root causes of conflicts and civil unrests that stagnate or reverse Africa's development gains and undermine durable peace and security. We further emphasize the need to optimize revenues from mineral resources primarily through in-country beneficiation, including the harmonisation of fiscal regimes and royalties along value chains.

12. Underscore the importance of multi-dimensional efforts and mechanisms for conflict prevention and resolution, which emphasize and promote dialogue-centred approaches, and equally requiring adequate, timely and sustainable financing. As such, we commit to continue resourcing the revitalized Peace Fund and urge the African Union Commission to continue supporting its relevant governing structures to sustain the highest standards for its operationalization, including support on enhanced coordination and cooperation in policy planning, adoption, and implementation.

DRAFT DECLARATION ON THE FINANCIAL SUSTAINABILITY OF THE AFRICAN UNION

The Assembly,

TAKING NOTE of the Communique issued by the Committee of Fifteen Ministers of Finance, following its Annual Retreat held on 13-14 June 2022 in Rabat, Kingdom of Morocco, under the theme '"***Beyond COVID-19 pandemic and the Ukraine-Russia Conflict: Enhancing the Resilience of African Economies and Financial Sustainability of the African Union***";

RECALLING the 50th Anniversary Solemn Declaration, adopted in May 2013 in Addis Ababa, Ethiopia, affirming the commitment to support Africa's new path for attaining inclusive and sustainable economic growth and development, further marking the re-dedication of Africa towards the attainment of the Pan African Vision of "An integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international arena" as encapsulated in the African Union's Agenda 2063;

FURTHER RECALLING the Declaration on Self-Reliance adopted by the Assembly in June 2015 in Johannesburg, South Africa, which recognized that in order to achieve the goals set out in Agenda 2063, Member States would need to take practical and concrete measures to achieve self-reliance and **REAFFIRMED** that self-reliance is not self-isolation, but a commitment to base the development of the continent primarily on its own resources;

ALSO RECALLING the monumental Financing Decisions Assembly/AU/Dec.578(XXV) of June 2015 in Johannesburg which boldly spelt out the self-financing targets for the Union's operational, program and peace support operations' budgets, Decision 605 of July 2016 which adopted the 0.2 percent import levy mechanism to facilitate assessed contributions and also revitalized the African Union Peace Fund, and Decision Assembly/AU/Dec.605(XXVII) of January 2017 in Addis Ababa which adopted, as one of the five areas in the proposed reforms that is critical for a transformed and strengthened Union, the recommendation to 'Finance the African Union sustainably and predictably with the full ownership of the Member States';

COGNIZANT of the enduring and compounding economic and social challenges occasioned by the COVID-19 pandemic, and worsened by the Russia-Ukraine conflict, and including other challenges related to civil and political strife and climate change, all of which have disrupted Africa's development agenda, and to a considerable extent, reversed gains attained in the medium-term and exacerbated pre-pandemic economic, social and political vulnerabilities;

ENCOURAGED by the swift coordination and cooperation at the continental level between various public and private entities, including stimulus packages to cushion against the associated disruptive effects of the pandemic and support economic recoveries, not excluding the mobilization of financing for the purchase and distribution of vaccines, bearing in mind that they remain a vital component in the strategies towards the full resumption of economic activity and social interactions within and between countries;

STRESSING the importance of the African Continental Free Trade Area to promote inclusive economic development and structural transformation of African economies through its promising prospects to yield multiple benefits by promoting industrialization and enhancing value-chain systems, including the rapid development of infrastructure and digital technologies, human capital development and the generation of decent jobs opportunities; and its latent potential to shield the continent against pressures from unprecedented global economic, political and health crises, as well as advancing the cause of regional integration;

COGNIZANT of the fundamental interlinkages between sustainable development and peace and security, and the increasing need for comprehensive and multifaceted approaches at the national, regional, and continental levels for conflict prevention and resolution, including mechanisms which emphasize and promote dialogue-centred approaches that equally require adequate, timely and sustainable financing,

Hereby:

1. **COMMIT** to continue with institutional reforms across the African Union out of which is expected a realigned and reenergized African Union that performs significantly better, with continuous improvement year upon year, to deliver results in a visible and measurable way in the short- and medium-term, in line with the goals and aspirations of Agenda 2063.

2. **URGE** the Committee of Fifteen Ministers of Finance (F15) to deepen engagements with the African Union Commission to support the budget and financial reforms aimed at attaining the highest fiduciary, transparency, and accountability standards in the utilization of the financial resources availed for the implementation of the various development programs;

3. **CALL UPON** Member States to renew their determination for self-reliance by ensuring that the development agenda of the African Union is adequately, predictably, and sustainably financed through financial resources mobilized from within the continent;

4. **FURTHER CALL UPON** Member States to reinvigorate the efforts to domesticate the 0.2 percent Union levy on eligible imports, as the levy remains one of the viable resource mobilization mechanisms for Member States to meet their annual statutory remittances sustainably and predictably, while cushioning national treasuries from fiscal pressures induced by the financial requirements of a strengthened Union;

5. **ALSO CALL UPON** national governments to continue working in close and earnest collaboration with the African Continental Free Trade Area (AfCFTA) Secretariat to support the full implementation and operationalization of the AfCFTA, and capitalize on the vast opportunities for economic growth and transformation with respect to the diversification of the regional productive

capacities, optimization of intra-regional markets and the strengthening regional integration.

6. **CALL** for synergistic collaboration between the African Union, Regional Economic Communities, Regional Development Financial Institutions and other pan-African institutions in the efforts to support the mobilization of domestic and external financial resources required to close the development financing gaps in the critical areas of agriculture, health, education, infrastructure, research and development, and sustainable environment management including climate change adaptation and resilience, among others;

7. **PLEDGE** to support the role of Regional Development Financial Institutions in the global financial architecture, as they leverage their collective financial capacities to support the implementation of national and regional development plans, including support to initiatives that would build the resilience of Member States to shocks triggered by economic, social, and political challenges;

8. **CALL** for the expedited operationalization of African Financial Institutions which are key to accelerating the continent's economic and regional integration including their focal role in the mobilisation of domestic resources for development programs and better management of the continental financial sector.

9. **CALL UPON** Member States to continue with reforms at the national level that stimulate development friendly, and quality foreign direct investments that balances responsibilities and rights of investors, particularly as it relates to simplified and stable tax systems, transparent and accountable administrative systems and processes, strong legal institutions, and skilled and affordable labour markets, among others. This should be underpinned by investments in digital technologies and infrastructures that foster efficient and effective administrative and operations systems;

10. **DETERMINE** to curb illicit financial flows (IFFs) that drain from the continent of Africa, substantial financial resources paramount for economic and social development, and remains a key undermining factor to the attainment of the goals and aspirations of Agenda 2063, as IFFs continue to hamstring development efforts, exacerbate inequalities and aggravated instabilities, plunging a significant population of Africa into deeper destitution;

11. **REAFFIRM** the commitment of Member States to continue resourcing the revitalized Peace Fund and urge the African Union Commission to continue supporting its relevant governing structures to sustain the highest standards for its operationalization, including support on enhanced coordination and cooperation in policy planning, adoption, and implementation;

12. **CALL FOR** renewed vigour on the part of Member States to address the longstanding concerns of, in some cases, inequity and none-access to public

services, inefficient and ineffective public institutions, and the exclusion of benefits accruing from the continent's vast wealth of resources, all of which considerably constitute, among others, the root causes of conflicts and civil unrests that stagnate or reverse Africa's development gains and undermine durable peace and security. We further emphasize the need to optimize revenues from mineral resources primarily through in-country beneficiation, including the harmonisation of fiscal regimes and royalties along value chains.

13. **COMMIT** to intensify our efforts to build economies that are more resilient to food insecurity, severe price distortions in the commodity markets and disruptions in the supply chain of petroleum products and fertilizers among other strategic goods. We further recognize the particular importance of coordinated efforts to mobilize financial and technical resources required for the accelerated improvement of health care systems and services, including substantial investments towards the elimination of high-burden diseases such as malaria, tuberculosis and HIV, and the swift and comprehensive management of pandemics.

FEBRUARY 2023

DRAFT
DECISION ON THE REPORT OF THE RETREAT OF THE COMMITTEE OF FIFTEEN MINISTERS OF FINANCE

The Executive Council,

1. **TAKES NOTE** of the Report of the Retreat of the Committee of Fifteen Ministers of Finance held on 13-14 June 2022 in Rabat, Kingdom of Morocco, under the theme **"*Beyond COVID-19 pandemic and the Ukraine-Russia Conflict: Enhancing the Resilience of African Economies and Financial Sustainability of the African Union*",** including the Communiqué therein;

2. **RECALLS** Decision Assembly/AU/Dec.578(XXV) of June 2015 in Johannesburg, which adopted the African Union's self-financing targets of 100% for the Operational Budget, 75% for the Program budget and 25% for the Peace support operations budget and **FURTHER RECALLS** Decision Assembly/AU/Dec.605(XXVII) of July 2016 in Kigali whereby the Assembly reaffirmed its determination to ensure that the African Union (AU) is financed in a predictable, sustainable, equitable and accountable manner with the full ownership by its Member States;

3. **ALSO RECALLS** Decision Assembly/AU/Dec.687(XXX) of January 2018 in Addis Ababa, which endorsed the budget oversight role and functions of the F15 and adopted the 'golden rules' that provide a framework for financial management and accountability principles at the African Union;

4. **RECALLS** Decision Assembly/AU/Dec.733(XXXII) of February 2019 which mandated the Commission to provide technical support to Member States in accelerating the implementation of the 0.2% import levy and further reaffirmed that that Member States, while implementing the Decision, will be availed flexibility in fulfilling their obligations, as per their constitutional provisions and national laws, in accordance with Rule 33 of the Rules of Procedure of the Assembly of the Union.

5. **FURTHER RECALLS** Decision Assembly/AU/Dec. 819(XXXV) of February 2022 in Addis Ababa which urged Members States to accelerate implementation of the 0.2% levy on eligible imports, adopted in July 2016 with a view to reaching at least 35 Member States fully implementing the levy;

6. **ALSO RECALLS** Decision Assembly/AU/Dec. 821(XXXV) adopting the Revised AU Financial Rules and **TAKES NOTE** of Rule 94 (2) on the Committee of Fifteen Ministers of Finance (F15) which stipulates that the Committee shall develop its rules of procedure which shall be adopted by the Assembly;

7. **URGES** Member States to promptly pay their assessed contributions in adherence to Rule 23 (1) of the Financial Rules of the African Union, with the objective to

address program implementation challenges directly associated with cash-flow constraints;

8. **APPRECIATES** the determination by the F15 to support the ongoing budget and financial reforms of the African Union and **ENDORSES** the commitment to reinforce the processes with a robust tri-annual review of the Union's financial management, budgetary and accountability principles, and to recommend periodic improvements including through a budget performance assessment mechanism to be set in place by the Committee;

9. **DIRECTS** the African Union Commission, upon the request of Member States, to intensify technical and advisory support to address the pending concerns of the alignment and harmonization of the 0.2% import levy mechanism with their national laws, including alignment with the various bilateral and multilateral trading systems, bearing in mind the flexibility stipulated in Decision Assembly/AU/Dec.733(XXXII) of February 2019.

10. **ENDORSES** the Draft Rules of the Procedure of the Committee of Fifteen Ministers of Finance (F15) for adoption by the Assembly in February 2023, including the proposed recommendation on the expansion of the membership of the Committee to twenty (20) members to accommodate tier one countries, whilst the rest of the composition shall be determined from regional consultations as per the established practice;

11. **TAKES NOTE** of the concern of the F15 in relation to the proliferation of new institutions that carry significant financial implications and **ACKNOWLEDGES** the need for a systematic approach that considers the financial implications of new institutions and potential duplications;

12. **DECIDES** that in the context of ongoing reforms, to institute a moratorium on establishing new structures, and **FURTHER REQUESTS** the F15 to provide technical inputs to the upcoming restructuring and rationalisation of AU Organs and Offices outside the Headquarters, in an exercise that is intended to achieve a Union that is better aligned, efficient and effective.

13. **TAKES NOTE** of the **'**Declaration on the Financial Sustainability of the African Union' and **ENDORSES** it for consideration and adoption by the Assembly at its 36th Ordinary Session in February 2023.

2022-06-20

Report of the Retreat of the Committee of Fifteen Ministers of Finance (F15)

African Union

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