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INTERIM REPORT ON ALTERNATIVE SOURCES OF FINANCING THE AFRICAN UNION

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I. Introduction

1. The African Union (AU) and the New Partnership for Africa's Development (NEPAD) are founded on a common political and economic vision as well as the strong and shared conviction that it is necessary to urgently eradicate poverty, and that countries should individually and collectively foster sustainable growth and development while actively participating in global economic and political life. This vision can only be realized if the continent is able to mobilize the necessary resources to implement its development programmes and initiatives.

2. It should be noted that the Organization of African Unity (OAU) largely depended on statutory contributions of the Member States for financing its activities, which, for the most part, were administrative functions. However, the creation of the African Union increased operational requirements and makes it imperative to identify other financing sources. Additional financial resources are needed not only to operate the various organs of the Union, but also to implement its continental programmes and sectoral projects as contained in its strategic plan for 2004-2007.

II. Alternative Financing Proposals

3. Several financing sources have since been proposed including those by His Excellency President WADE of Senegal on import levy as well as a tax on insurance; the proposal on the Pan-African Resource Solidarity by the African Organization of Civil Societies, and other financing sources like the popular mobilization of financial resources and mobilization of resources through the private sector. Pursuant to this, the Conference of Ministers of Economy and Finance, held in May 2005, in Dakar, Senegal discussed the various proposals and in particular those by HE President Wade. The main proposals are summarized below.

The Import Levy

4. With respect to the import levy, it is proposed to charge a 0.2 percent ad valorem rate of all imports of consumption goods, excluding donations and exemptions, payable by the importer. This charge is treated as a part of the customs duties and collected for the AU by the customs departments of Member States and routed to the AU bank account with the national banks in the respective states. This levy has the advantage of being very light (does not add a significant amount to the value to the import) and can use existing machinery for collection.

A Levy on Insurance Policies

5. On the insurance proposal, the underlying principle is to levy a 0.2 percent or more charge on insurance premium at the point of purchase of such insurance policy by African citizens and businesses operating in Africa.

6. The Conference of Ministers of Economy and Finance (CAMEF) welcomed the alternative financing proposals and agreed that President WADE's proposals should be presented to the Member States before July 2005, once the document has been translated in the four working languages of the Union. The Member States, RECs and civil society should further be involved in the review of these proposals. The Commission on its part circulated the proposals to Member States in August 2005 with request for Member States to submit their comments. The Commission has since received comments from the following Member States, Burundi, the Gambia, Ghana, Kenya, Namibia, Tunisia and Zambia.

III. Comments by Member States

7. **Burund**i appreciated the proposals but indicated that the levy on insurance premiums would not be effective due to the size and low level of development of the insurance industry. Burundi, however, prefers the imposition of a levy on ex-union imports, which should be accompanied by harmonization of tariffs. The levy may increase the cost of imports, which can reduce the level of imports and consequently the revenue.

8. **The Gambia** points out that the two proposal on 0.2% levy on ex-Union imports and 0.2% levy on insurance premiums would not be efficient and equitable. The levies would not maximize efficiency because of linking a tax measure to an expenditure, tax systems vary widely in Africa and the levels of efficiency tend to also vary from country to country and taxing imports does not bring efficiency to the system, it increases costs of imports more so for open economies and landlocked countries. The Gambia also notes that the private sector in Africa is impeded by high risks and costs such that imposing a levy on insurance will increase the cost of ensuring risk and this will impede development. With respect to equity, the Gambia is of the view that the two proposals would be heavy on other countries for example an import levy would more than double the Gambia's contribution while the levy on insurance would fall heavily on South Africa (80% contribution), which has a well developed insurance market in Africa.

9. The Gambia concludes that contribution continue on the basis of assessment made based on the GDP of each country and it should be the responsibility of that country to choose how it would raise the contributions.

10. **Ghana** indicated that it supports the two proposals on a levy on ex-union imports and on insurance premiums.

11. **Kenya** recommended that the AU constitutes a team of experts from the AU Member States who would critically examine the proposals taking into account the

national circumstances and regional commitments. The team would then make recommendations to the CAMEF.

12. **Namibia** suggested that the mode of funding that would be adopted should fulfill the criteria of transparency, financial autonomy, stability of proceeds and equity contributions. The Namibian Authorities are of the view that the levies on ex-union imports and on insurance premiums could be the best options but caution on the risk of the funds being appropriated by the State in times of difficulty and also the need to make fiscal legislative changes. They also point out that in terms of equity, the burden will fall heavily on those countries with economic weight and those with open economies, where ex-union trade is highest. Countries with foreign currency problems will also face difficulties.

13. Namibia Authorities conclude that there is need for political and diplomatic consultations by Member States on the proposals.

14**.** **Tunisia** indicated that the two proposals are not acceptable as they affect the fiscus.

15. **Zambia** has reservations on both proposals. The authorities are of the view that a levy on insurance may not be a reliable source of revenue in countries with a fragile insurance industry and the imposition of a levy on ex-union imports required substantial work to be done with respect to the level of tariffs, collection mechanism and who collects and sharing mechanism if necessary. The conclusion by the Zambia authorities is that further critical analysis needs to be undertaken on the implications and consequences of the proposals.

IV. The Way Forward

16. The comments so far received are varied with specific recommendations in some cases. Commission would like to give other Member States more time to prepare their comments and once received, they would be synthesized. The Commission will then call a meeting of experts, in March 2006, to deliberate on the comments and make appropriate recommendations, which will be submitted to the Conference of African Ministers of Economy and Finance in April 2006. The decision of the CAMEF will then be submitted to Summit in June 2006.

Proposal by the Economic, Social and Cultural Council (ECOSOCC)

17. The ECOSOCC at its meeting on 30 March 2005, held in Addis Ababa, adopted Resolution 01/ECOSOCC/AU/05 which requests the Assembly of the AU Heads of State and Government to “impose a five US Dollar tax on each air ticket bought for inter-state travels and ten US Dollars on each ticket for travelers between Africa and other continents”. These resources should be collected in favour of the Commission of the African Union. ECOSOCC requests that this proposal be tabled before the 6th Assembly of Heads of State and Government in Khartoum, The Sudan.

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