

AFRICAN UNION

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**EXECUTIVE COUNCIL
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**CONSIDERATION OF THE RECOMMENDATIONS OF
THE GROUP OF FIFTEEN EXPERTS FROM MEMBERS
STATES ON THE ALTERNATIVE SOURCES OF
FUNDING OF THE AFRICAN UNION**

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GROUP OF FIFTEEN EXPERTS FROM MEMBERS STATES
ON THE ALTERNATIVE SOURCES OF FUNDING
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INTRODUCTION

1. In implementation of Decision EX/CL/Dec. 77(IV) which mandated the Commission to invite a group of 15 experts from Member States (3 per region) specialized in financial customs and public finance matters to consider the Report of the Interim Chairperson on Alternative Sources of Funding the African Union, the experts met from 3 to 5 May 2004 in Addis Ababa, Ethiopia.

2. The following countries were nominated to represent the regions:

| | |
|----------|-------------------------|
| North: | Egypt, Libya, Tunisia |
| South: | Malawi, Namibia, Zambia |
| Central: | Congo, Chad, Burundi |
| East: | Rwanda, Kenya Sudan |
| West: | Benin, Burkina, Nigeria |

Attendance

3. Experts from the following Member States attended the meeting:

| | |
|-----------|------------|
| - Benin | - Libya |
| - Burkina | - Namibia* |
| - Burundi | - Nigeria |
| - Congo* | - Rwanda |
| - Egypt* | - Sudan |
| - Kenya | - Zambia |

* Represented by Staff of Embassy in Addis Ababa.

4. Experts from the following Member States did not attend the meeting:

- Chad
- Malawi
- Tunisia.

Election of the Bureau

5. Dr. George T. Irele from Nigeria was elected Chairperson and Ms. Rhodah Njuguna from Kenya was elected Rapporteur.

Organisation of work

6. The following working hours were adopted:

Morning: 9 a.m. to 1 p.m.
Afternoon: 3 p.m. to 7 p.m.

Adoption of the Agenda

7. The meeting adopted the following agenda:

1.
 - a) Opening of the meeting
 - b) Organisation of work
 - c) Adoption of the agenda
2. Consideration of the Report of the Interim Chairperson on Alternative Sources of Funding the African Union
3. Any other business.

Chairperson's remarks

8. The Chairperson thanked the representatives for electing him. He indicated that this was an honour both to him and his country. He urged participants to be focused in their deliberations in order to ensure the meeting achieved its objectives.

Presentation by the Consultants

9. The consultants stated that:

- 1) Assessed contributions:**

Assessed contributions have not always performed well in the past as a funding mechanism but they nevertheless remained the main source of financing the African Union activities. Proper mechanisms, including the introduction of a new regime of economic and financial sanctions, and moral persuasion and an enhanced budgetary process and collection machinery should be put in place to improve on the efficiency of their collection from Member States in order to avoid accumulation of arrears.

2) Union Levy

Union levy could be an important budgetary revenue source. However, its optimal application requires a certain level of integration, i.e. harmonization of trade and sectoral policies, both of which may be achieved in the medium to long term.

Before implementing the Union Levy, a programme of action should be adopted that may include:

- a study on several issues including the definition of the levy base and rate, and the rules of origin, levy collection mechanisms and associated sanctions against non-performance;
- the design of a workable institutional and administrative framework for the management of the system.

3) Value Added Tax (VAT)

Value Added Tax (VAT) offers a great opportunity for mobilizing resources in the long run. However, its successful application requires harmonization of fiscal policies. A transitional period is required during which all Member States will familiarize themselves with the VAT.

4) Other taxes

Among other taxes, the most promising is the tax on travel to and from Africa. Appropriate collection mechanism should be put in place involving collaboration with the International Air Transport Association (IATA).

- 5) Non Tax Revenue Sources : These are miscellaneous incomes such as user fees, remuneration for services, investment incomes etc.
- 6) Grants and Donations
- 7) Establishment of a Trust Fund

Presentation of the Strategic plan of the AU Commission

10. A short presentation on the strategic plan of the AU Commission was made by the Commission with a view to appraising the experts with the short, mid and long-term objectives of the Commission.

GENERAL DEBATE

11. The general debate on the options and recommendations contained in the Report of the Interim Chairperson on Alternative Sources of Funding the African Union took place as follows:

a) Assessed Contributions

12. After the exhaustive debate that took place on this option, the experts agreed that the assessed contributions would remain for some time the main source of funding the organs of the AU. However, the collection needs to be improved.

13. The experts suggested that the Commission should explore ways and means of increasing the collection and the possibility of involving national/central banks which would be authorized to transfer Member States assessed contributions directly to the Commission bank account.

14. They suggested an annual GNP levy, or a uniform percentage of Member States national budgets. To this end, a mechanism to enhance prudent management, to increase transparency and accountability of the funds contributed by Member States should be put in place.

15. They also suggested that the Deputy Chairperson should continue to liaise on this issue with Member States and, where necessary, with Heads of State in view of the high rate of arrears and the destabilizing effect they have on the smooth functioning of the Commission.

16. The experts also discussed the issue of the need for prudent management of available funds to enhance transparency and accountability as an incentive to Member States to pay promptly their contributions.

b) Union Levy

17. When discussing this option, the experts observed that a Union Levy would be more relevant within the context of an integrated economy. They added that, although economic integration is the ultimate goal of the AU, this was far from being achieved. It would, therefore, be inappropriate to recommend Union levy as an alternative source of funding at this point. A certain level of integration with harmonised trade policies would have to be achieved for this to be applicable.

c) Value Added Tax (VAT)

18. When discussing this option, the experts observed that this could also be applicable within the context of an integrated economy which is consistent with the medium and long term objectives of the AU and, where all Member States would have adopted the VAT in their budgetary revenue structure and their fiscal policies harmonized accordingly.

d) Other taxes

19. When considering this option, more specifically with regard to taxes on travel into and from the African Union Member States, the experts considered this as a discriminatory tax that would affect air travel only. This would make travel to Africa uncompetitive. In addition, there would be major complication in management since it would involve many actors outside the continent.

e) **Other Proposals from the Experts**

- **Relationship with Development partners**

20. The experts were of the view that this was an area that the Commission would explore with a view to deepening the relationship with the existing development partners and possibility of opening new partnerships.

- **Private Sector Involvement**

21. The experts observed that the Commission needed to develop and engage partnership with the private sector especially where private sector has comparative advantage and is exploiting common resources like air space. Such activities would be levied and the funds made available directly to the AU. The involvement of the private sector could be envisaged within the framework of NEPAD with pecuniary benefits to the AU.

- **Partnership with Private Foundations**

22. The experts were of the view that partnership with private foundations should also be explored and exploited especially with regard to specific projects in social sector.

- **African Trust Fund**

23. The experts discussed the possibility of establishing an African Trust Fund which could be used for subscriptions from Member States, Friends of the AU, African Eminent Personalities, Private foundations, Africans in the Diaspora.

- **African Bond**

24. The Experts discussed the issue of an African Bond that could be floated for a given period of time and, a percentage of the proceeds used to fund AU activities. This could be seriously considered when the African Investment Bank is established.

25. At the end of the general debate, the following recommendations were made.

RECOMMENDATIONS

1) Assessed Contributions

The experts recommended that:

- i) the Assessed contributions remain as the core source of funding the AU in the short and medium term and, that the modalities of collecting them be improved.
- ii) the Commission be mandated to deal directly with the Ministries of Finance of Member States, as far as the contributions are concerned.
- iii) other ways of increasing the collection be explored. For example, Member States contribute a percentage of their national budget.

2) Union Levy

- i) The experts recommended that the Commission take the measures required towards the implementation of the Union Levy.

3) Value Added Tax (VAT)

- i) The experts agreed that the Value Added Tax (VAT) was a viable alternative source of funding; however, they recommended that this option be considered when economic integration and harmonization of fiscal policies of Member States were achieved.

4) Taxes on air travel to and from AU Member States

- i) The experts did not recommend this option because of its discriminatory nature and its complexities in management and difficulties in its implementation.

5) Other Proposals From the Experts

i) Relationship with Development partners:

The experts recommended that the Commission deepen the existing relationships with development partners and open new partnerships with other possible donors.

ii) Private Sector Involvement:

The experts recommended that the Commission develop partnership with private sector especially in areas where private sector has comparative advantage within the framework of NEPAD with mutual pecuniary benefits.

iii) Partnership with Private Foundations

The experts recommended that the Commission should explore and exploit partnership with private foundations particularly on specific projects.

iv) African Trust Fund

The experts recommended that the Commission consider the possibility of establishing an African Trust Fund that could attract subscriptions from Member States, Friends of Africa, African Eminent Personalities, Private foundations, and Africans in the Diaspora.

v) African Bond

The experts recommended that the Commission should consider floating an African bond whose proceeds could be used to fund AU activities when the African Investment Bank is established.

Any Other Business

26. No item was discussed under this agenda item.

27. The meeting adjourned at 7:00 p.m.

2004

Consideration of the recommendations of the group of fifteen experts from members states on the alternative sources of funding of the African Union

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