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**REPORT OF THE COMMISSION ON ALTERNATIVE SOURCES OF
FINANCING THE AFRICAN UNION (RECOMMENDATION OF
THE AU CONFERENCE OF MINISTERS OF
ECONOMY AND FINANCE)**

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**Meeting of the CAMEF Ministerial Working
Group on Alternative Sources of Funding
the African Union
Washington DC, USA
10 October 2014**

REPORT OF THE MEETING

I. INTRODUCTION

1. The meeting of the Conference of African Ministers of Economy and Finance (CAMEF) Ministerial Working Group (MWG) on Alternative Sources of Funding the African Union (AU) was held at the AU Mission to the United States of America (USA) in Washington DC, USA, on 10 October 2014. The meeting was chaired by Hon. Dr Ngozi Okonjo-Iweala, Minister of Finance of the Federal Republic of Nigeria and Chairperson of the Bureau of CAMEF.

2. The meeting was attended by the following members of the MWG: Algeria, Democratic Republic of Congo, Egypt, Mauritius, Nigeria, South Africa, and Tunisia. Seychelles also attended the meeting.

3. Also present were representatives of the African Union Commission (AUC) and the United Nations Economic Commission for Africa (UNECA).

II. ADOPTION OF THE AGENDA

4. The agenda was adopted as follows:

- a) Opening remarks and purpose of meeting-H. E. Dr Ngozi Okonjo-Iweala, Minister of Finance, Federal Republic of Nigeria;
- b) Opening Statement-H. E. Mr Erastus Mwencha, Deputy Chairperson, African Union Commission;
- c) Presentation of Study Report-Dr Adeyemi Dipeolu, Director, Capacity Development Division, United Nations Economic Commission for Africa;
- d) Discussions and Recommendations to Summit;
- e) Any Other Business.

III. OPENING OF THE MEETING

5. In her welcome remarks, the Minister outlined the purpose of the meeting and the assignment given to the MWG to make recommendations on alternative sources of funding the AU for the consideration of the Heads of State and Government. She recalled the Ministers of Finance meeting in Abuja in March 2014, which called on the MWG to find a solution to address the budgetary challenges of the AU. To assist the MWG, she called on the ECA to prepare a study on the subject, which would be presented at the meeting. She called on the Ministers to have a frank and open discussion on the issue so that concrete proposals would be placed for consideration at the January 2015 Summit of the AU. She ended by thanking the Ministers for their presence and the ECA for preparing the study at the request of the Chairperson of the AUC.

6. The opening statement was delivered by H. E. Mr Erastus Mwencha, Deputy Chairperson of the AUC. He started by thanking the Ministers for making time out of their busy schedules with the meetings of the World Bank and the International Monetary Fund (IMF), to participate in the meeting of the MWG. He also thanked Hon. Dr Ngozi Okonjo-Iweala for her leadership in bringing the Ministers together so as to brainstorm on the assignment given to them by the leadership of the continent. He reminded the meeting that the Assembly of Heads of State and Government had requested the AU Commission to assist in finding sustainable and predictable alternative funding sources for the Union. In this regard, the Commission undertook a number of studies and identified possible sources of funding. In furtherance of the studies, a High Level Panel led by H. E. Olusegun Obasanjo, former President of the Federal Republic of Nigeria, was constituted to consult with the Heads of State and Government on the subject. The panel embarked on extensive consultations and recommended the use of the following two options: a \$2 hospitality levy per hotel stay; and a \$10 airfare levy on international flights originating in or out of Africa.

7. The Assembly approved the report of the panel in principle at its twenty-first Ordinary Session in May 2013 in Addis Ababa, Ethiopia. The Assembly also requested Conference of Ministers of Finance and Economic Planning to urgently review the report and to propose implementation modalities of different options, including exploring increased assessed contributions and other additional proposals by Member States. Ministers were requested to report to the Assembly at its Ordinary Session in January 2014.

8. Following the Assembly Decision, the AUC presented a report on the modalities for implementing the two options to the Seventh Joint Annual Meetings of the Economic Commission for Africa (ECA) Conference of African Ministers of Finance, Planning and Economic Development and the AU Conference of Ministers of Economy and Finance, held in March 2014, in Abuja. The Ministers took note of the report and discussed it at length and decided to set up a ministerial working group. The MWG is expected to make recommendations to the AU Summit on the two options proposed by the High Level Panel as well as other options. He urged the Ministers to come up with proposals for the considerations of the Assembly so that the Union would wean itself from dependency of external partners to fund its budget.

IV. ACCOUNT OF PROCEEDINGS

Presentation

9. Dr Adeyemi Dipeolu, Director, Capacity Development Division of UNECA presented a study conducted by UNECA, entitled "Alternative Funding Sources for the African Union: Implementation of Options." He noted that current budget estimates showed that 28 per cent of the AU 2015 programme and operating budget would be funded by Member States and the remaining 72 per cent by external partners. The current budget formula suggested that the AU was heavily dependent on external partners and this was likely to jeopardize implementation of its programmes, as any fiscal constraints experienced by the economies of those partners may affect their contribution to its budget.

10. He reminded the meeting that Heads of State and Government had recognised the need to wean the AU from external dependency and to provide the Union with adequate, reliable and predictable resources to support the implementation of its programmes and activities. In light of that, the study proposed that Member States gradually cover the total budget of the AU through a formula of: 100 per cent of the operating budget, 75 per cent of the programme budget and 25 per cent of the Peace Support Operations budget.

11. The study noted that adopting the proposed formula would lead to an increase in assessed contributions of Member States. It, therefore, suggested that Member States could address the rise in assessed contribution by mobilizing non-treasury resources. To mobilize non-treasury resources, the study suggested that Member States may, among other instruments, consider adopting a \$10 levy on tickets for international flights originating in or out of Africa; a \$2 hospitality levy; and an SMS levy. Member States could potentially raise in 2015, 2016 and 2017, respectively, \$431 million, \$485 million and \$546 million from the \$10 levy; \$151 million, \$167 million and \$184 million from the \$2 hospitality levy; and \$872 million, \$1.17 billion and \$1.6 billion from the \$0.005 SMS levy.

12. The study suggested that, alternatively, AU Member State could increase their assessed contributions. Furthermore, the desire of the AU leadership was that the assessed contributions of Member States should be based on four principles of fairness, predictability, flexibility and compliance.

13. Applying the principle of fairness and solidarity, the study also considered scenario where the countries were grouped in three tiers: 60 per cent of the budget covered equally by countries with shares of GDP above 4 per cent; 25 per cent of the budget equally paid by countries with shares of GDP between 1 and 4 per cent; and 15 per cent of the budget equally shared by countries with shares of GDP less than 1 per cent. Six countries (Algeria, Angola, Egypt, Libya, Nigeria and South Africa), the first tier, equally share 60 per cent of the AU's budget; the next 12 (Cameroon, the Republic of the Congo, Ethiopia, Equatorial Guinea, Gabon, Ghana, Kenya, Sudan, Tanzania, Tunisia, Uganda and Zambia), the second tier, share 25 per cent of the budget; and the remaining 36 Member States, the third tier, share 15 per cent of the budget.

14. Regardless of which option is chosen, there was a need for Member States to pay their contributions on time so as to ensure proper planning. The study, therefore, proposed that compliance should be strengthened.

15. The study concluded with the following recommendations:

- a) The AU was urged to cover a larger share of its budget by adopting a budget formula where it covers 100 per cent of the operating budget, 75 per cent of the programme budget and 25 per cent of the peace support operations budget to be phased within five years from 2016;
- b) Under the new budget formula, each Member State would continue to support the AU budget by paying its assessed contributions;

- c) Member States could continue paying their assessed contributions from their treasury or raise additional resources by using any of the three options suggested above;
- d) With a view to ensuring solidarity, the AU was urged to group the countries into three tiers, with the group of countries with the larger share of GDP paying a larger share of contributions to the AU budget, with a ceiling such that the contribution of any particular Member State does not exceed 12 per cent of the total AU budget; and
- e) The AU must build the capacity to collect assessed contributions and strengthen compliance.

Discussions

16. The meeting thanked the ECA for the report. Generally, the meeting supported the conclusions of the study. However, it was indicated that Member States should have the flexibility to choose any of the options for their contributions to the budget of the AU. The meeting also agreed that Member States may decide to continue paying their assessed contributions from their treasury or any other options they may prefer.

17. The meeting also called on the AU Commission to strengthen its mechanism on the collection of contributions of Member States. It also called for the prudent use of resources provided by Member States.

V. RECOMMENDATIONS

18. After an exhaustive deliberation, the meeting agreed on the following:

- a) The need for AU to cover a larger share of its budget by adopting a budget formula where it covers 100 per cent of the operating budget, 75 per cent of the programme budget and 25 per cent of the peace support operations budget to be phased within five years from 2016;
- b) Member States mobilize non-treasury resources to support assessed contributions by adopting a levy on tickets for international flights originating in or out of Africa; a hospitality levy; and an SMS levy. However, Member States may decide to continue paying their assessed contributions from their treasury or any other options they may prefer;
- c) Member States be grouped into three tiers: 60 per cent of the budget covered equally by countries with shares of Continental GDP above 4 per cent; 25 per cent of the budget equally paid by countries with shares of Continental GDP between 1 and 4 per cent; and 15 per cent of the budget equally shared by countries with shares of Continental GDP less than 1 per cent;
- d) The AU should build the capacity to collect assessed contributions and

strengthen compliance¹. In this regard AU should approach the African Development Bank on the possibility of developing an effective collection mechanism;

- e) The report of the meeting in Washington DC. be circulated to all Ministers of Finance and Foreign Affairs; and
- f) In accordance with the mandate given to the MWG, the report of the meeting in Washington DC. be submitted to the Assembly of Heads of State and Government of the AU at its next meeting.

VI. CLOSING

19. The Chairperson closed the meeting, thanking the participation of the Ministers and called on the Secretariat to circulate the report of the meeting electronically to all members of the Ministerial Working Group.

¹ Tunisia entered reservation on conclusions of the meeting.

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