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PROGRESS REPORT OF THE HIGH LEVEL PANEL ON ALTERNATIVE SOURCES OF FINANCING THE AFRICAN UNION CHAIRED BY H.E. OLUSEGUN OBASANJO, FORMER PRESIDENT OF NIGERIA CONSULTATIONS WITH MEMBER STATES

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I. Introduction

1. One of the issues the Assembly of Heads of State and Government of the African Union discussed during its 17th Ordinary Session held in Malabo, Equatorial Guinea, in June/July 2011, was Alternative Sources of Financing the African Union (AU). The Chairperson of the Commission highlighted the Union's increasing financial difficulties and the urgent need to explore alternative means of financing it in order to address the various socio-economic challenges facing the Continent in a rapidly globalizing world.

2. Consequently, in Decision/Assembly/AU/Dec.364 (XVII), the Assembly requested the Commission to expedite the process of setting up a High Level Panel on Alternative Sources of Financing the Union and further requested that the Panel undertakes consultations with Member States and submits a report to the Assembly in January/February 2012.

3. The Chairperson of the AU Commission, H.E. Dr. Jean Ping, appointed the High Level Panel on Alternative Sources of financing the African Union, comprising myself, as Chairperson of the Panel, and H.E. Dr. Salim Ahmed Salim, former Secretary General of the Organization of African Unity (OAU); H.E. Mr. EdemKodjo, former Secretary General of the Organization of the African Unity (OAU); and H.E. Dr. Luisa Diogo, former Prime Minister of the Republic of Mozambique as the other members. H.E. Ruben Maye Nsue Mangue, Permanent Representative of the Republic of Equatorial Guinea to the AU, was appointed to support the Panel as the Personal Representative of the then Chairperson of the Union, H.E. Obiang Nguema Mbasogo, President of the Republic of Equatorial Guinea. The North African region did not propose anyone to be a member of the Panel in spite of several reminders. However, H.E. Dr. Salim Ahmed Salim later withdrew his membership from the Panel owing to personal reasons. The Panel, therefore, co-opted H. E. Dr. Maxwell M. Mkwezalamba, Commissioner for Economic Affairs, as a member.

4. The purpose of this report is to give an update of the progress achieved by the Panel so far, and seek views from the Summit on the way forward.

II. Overview of the Rationale for Alternative Sources of Financing the AU

5. The rationale for the decision of the Summit lies in the need to enable the continent, through the African Union Commission, actively pursue its integration and development aspirations. It will be recalled that the then Organization of African Unity was transformed into the African Union to enable Africa deal with the economic, social and political challenges confronting the continent in a rapidly globalizing world. In this regard, adequate resources are crucial to the fulfilment of its mandate. The current system of statutory contributions, which had been in place since the OAU days, has

been deemed to no longer be adequate to meet the growing financing needs of the Union due to greater operational requirements and increased scope of activities.

6. Presently, the Union continues to depend heavily on partners to finance its programmes. For instance, Member States contributed just about 7% of the Programme Budget in 2011 and 2012. Added to this is the problem of arrears in back payment of statutory contributions by Member States. By year 2009 and 2010, Member States arrears amounted to US$ 40 million and US 43 million, respectively. Another problem is the continued dependence of the Union on five countries (Algeria, Egypt, Libya, Nigeria, and South Africa) for financing the bulk of its activities. The five countries each account for 13.272% of the Union Budget. That is, around 66.36% of the total Union budget comes from only five countries. The implication of the heavy dependence on a few countries is that failure to honour their commitments by any one of the countries could mean a serious financial trouble for the Union. The 2011 events in North Africa brought this reality to the fore and it provided a strong incentive and justification for spreading the financing web much wider.

7. The issue of Alternative Sources of Financing the African Union was discussed at various Experts and Ministerial meetings, including the Conferences of African Ministers of Economy and Finance(CAMEF) held in Dakar, Senegal, in 2005; Addis Ababa, Ethiopia, in 2008; and Yaoundé, Cameroon, in 2010. Recommendations from all the meetings were taken into account in the ensuing steps, leading up to the consultations by the High Level Panel.

III. Methodology of consultations

8. The Panel held its inaugural meeting in Addis Ababa, Ethiopia, on Monday, 15 August 2011, to review the eight financing options evaluated and recommended in a series of studies conducted by the AU Commission. The options were the following:

i) Private sector funding;
ii) Levy on insurance premiums (rate 0.2%);
iii) Import levy (rate 0.2%);
iv) Levy on hydro-carbons (rate 0.5%);
v) Levy on air tickets (US$5.00 for international travel and US$2.00 for domestic travel);
vi) Tourism levy (0.5%);
vii) Levy on national budgets (1%);
viii) Export levy (0.2%).

9. Following the review, the Panel deemed it fit to recommend the adoption of all or a combination of the following options:

i) Private sector funding;
ii) Levy on insurance premiums (rate of1%);
iii) Levy on international travel (US$2.5 for travel outside the Continent and US$1 for travel within the Continent);

iv) Tourism and hospitality (US$1 for each stay);
v) Import levy (0.2% on goods imported from outside the continent).

10. However, in addition to the above-mentioned options, the Panel in its deliberations, proposed a levy on text messages at the rate of 5 cents per mobile phone text message, or any amount to be determined through consultations with the Member States.

11. In the Panel's review, consideration was given to a number of factors, including the flexibility of choice, resource generation capacity, equity, feasibility, cost of administration, sustainability, and impact on economy. These were the main options that were discussed with the Member States.

12. The Panel also agreed on a programme to undertake the consultations. While it would have been ideal to undertake consultations with all 54 Heads of State and Government of the Union, it was not practical in view of cost and other considerations. Hence, the Panel decided to limit the consultations to a selected number of countries, mindful of size and geographical representation, among other criteria. In this regard, the following countries were identified:

i) Algeria
ii) Egypt
iii) Nigeria
iv) Chad
v) Tunisia
vi) Ethiopia
vii) Ghana
viii) Malawi
ix) Namibia
x) South Africa
xi) Kenya
xii) Uganda
xiii) Angola
xiv) Cameroon
xv) Cote d'Ivoire
xvi) Tanzania
xvii) Sudan
xviii) Senegal
xix) Seychelles
xx) Benin
xxi) Liberia
xxii) Togo

13. The consultations were focused on seeking the political support of Member States to Alternative Sources of financing the African Union. Member States were also to be encouraged to clear their existing arrears.

14. In undertaking the consultations, the Panel was divided into two groups:

a) Group 1 comprised H.E. General Olusegun Obasanjo (leader); and H.E. Mr. Edem Kodjo;

b) Group 2 comprised H.E. Dr. Luisa Diogo (leader), with the support of H.E. Dr. Maxwell M. Mkwezalamba, and H.E. Dr. Ruben Maye Nsue Mangue;

Each Group was accompanied by one member of the Secretariat during consultations;

IV. Outcome of the Consultations

15. The High Level Panel visited the following Member States and held consultations at various times, either as individual Members or as a team and in no particular order and depending on the availability of the Panel Members and the Heads of States of the Member States for the consultations

1) Nigeria
2) Liberia
3) Ethiopia
4) South Africa
5) Benin
6) Senegal
7) Côte d'Ivoire.
8) Namibia
9) Malawi

16. At the margins of the African Union Summit of January 2012, the following Member-States were also consulted:

1) Equatorial Guinea
2) Togo
3) Algeria

17. The outcome of the consultations so far clearly reflects overwhelming support for finding alternative sources of financing the AU, with a view to identifying internal means to finance the continent's development and integration agenda. The numerous challenges faced by the continent that require adequate resources in order to be solved were outlined, including peace and stability. There was a general consensus that there is indeed a challenge of funding for the African Union and for Africa in general, which creates dependence on donors. It was also agreed that the principle of alternative funding of the AU was good as it would bring about economic independence and rid the continent of the current situation whereby donors stipulate the programmes of the Union they will support.

18. The current Member States assessed contributions system was deemed administratively difficult and unreliable and there is need to identify alternative mechanisms of financing the Union. It was, however, emphasized in all consultations that the principle of equity amongst Member States should be underlined in the design and implementation of the new system. During the consultations, some raised a concern in relation to the potential impact of the options on African economies. The Panel notes, however, that an impact analysis was carried out as part of the overall study of the options. The study concluded that the impact was minimal, if any.

V. Panel's Proposals and Recommendations

19. From the original eight options recommended, three options were selected essentially for their

1) Ease of collection and administration by collecting member-States.
2) Little strain on Government.
3) Sustenance of quantum of fund and incrementality.
4) Equity.

20. Considerations were given to a number of factors, including the flexibility of choice, resource generation capacity, equity, feasibility, cost of administration, sustainability and impact on economy. The comments of member-States were taken into consideration and so were the views of the leaders that the Committee visited or consulted. Most leaders expressed strong views against wastage of resources within the Commission.

21. The Commission will need to work out by itself, or through an expert firm the amount, that could be generated annually from each of the selected options for the High Level Panel to be able to make firm recommendations in the light of the needs of the Commission. Specifically, the following options were provisionally selected, subject to decision of the Summit:

- US$2.00 hospitality levy per stay in a hotel instead of tourism levy;
- US5 cents levy per text message sent;
- US$5.00 travel levy on flight tickets originating from or coming to Africa from outside Africa.

22. As for the other options, the following observations were made:

1) Private Sector: - **Reviewed and found unreliable**
(On the Private Sector levy, while it was noted that this could give the private sector the opportunity to make a direct contribution to the African Union, the levy would be unreliable but left as opportunity for private sector participation in funding)

2) Insurance Levy; - **Reviewed and discarded**

3) Export Levy - **Reviewed and discarded**

4) Import Levy - **Reviewed and discarded**

5) Hydrocarbon export levy - **Reviewed and discarded**

6) National budgets levy - **Reviewed and discarded**

VI. Panel's Recommendations and Conclusions

23. The High Level Panel invites the Assembly to:

- Take note of the Report
- Take note of the three options identified, namely:-

  a) US$2.00 hospitality levy per stay in a hotel instead of tourism levy;

  b) US5 cents levy per text message sent;

  c) US$5.00 travel levy on flight tickets originating from or coming to Africa from outside Africa

- Mandate the African Union Commission to undertake an analysis of the revenue generation capacity of each one of the three proposed options to enable the High Level Panel make firm recommendations to the January 2013 African Union Assembly of Heads of State and Government, taking into account the needs of the African Union.

2012

Progress report of the high level panel on alternative sources of financing the African Union chaired by H.E. Olusegun Obasanjo, former President of Nigeria consultations with member states

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