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**EXECUTIVE COUNCIL
Thirteenth Ordinary Session
24 - 28 June 2008
Sharm El-Sheikh, EGYPT**

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Rev.1**

**REPORT OF THE PRC ADVISORY SUB-COMMITTEE ON
ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS**

**REPORT OF THE PRC ADVISORY SUB-COMMITTEE ON
ADMINISTRATIVE, BUDGETARY AND FINANCIAL MATTERS
HELD FROM 11TH TO 12TH JUNE, 2008**

1. ATTENDANCE

1. Members of the Sub-committee present at the meeting were:

- | | |
|------------------|------------------|
| 1. Angola | 18. Mali |
| 2. Algeria | 19. Mauritania |
| 3. Benin | 20. Mozambique |
| 4. Burundi | 21. Niger |
| 5. Botswana | 22. Nigeria |
| 6. Burkina Faso | 23. Namibia |
| 7. Chad | 24. Rwanda |
| 8. Congo | 25. Tanzania |
| 9. Cote d'Ivoire | 26. Tunisia |
| 10. Ethiopia | 27. Senegal |
| 11. Egypt | 28. South Africa |
| 12. Gabon | 29. Sudan |
| 13. Ghana | 30. Swaziland |
| 14. Guinea | 31. Uganda |
| 15. Kenya | 32. Zambia |
| 16. Libya | 33. Zimbabwe |
| 17. Lesotho | |

2. PROPOSED AGENDA

- a) Opening remarks by H.E. Deputy Chairperson;
- b) Managing compensation into the future: Request for salary adjustment (deferred in January, 2008);
- c) Draft revised Staff Rules and Regulations (deferred in January, 2008);
- d) Long Duration Mission: An addendum to the revised Draft Staff Rules;
- e) Consideration of proposals on the revision of the staff quota system;
- f) Consideration of proposals on budget surplus and transfer between budget lines;
- g) Consideration of report on social security system (deferred in June, 2007).

3. CHAIRMANSHIP OF THE MEETING

2. The Bureau of the Sub-Committee could not provide a chair for the meeting due to logistical and protocol constraints: the substantive chair (Ambassador of Botswana) and the other Bureau members either had no sitting Ambassador or where there is one, he was not available or had not presented the letters of credence to the Ethiopian Government and/or

the AUC authorities. Accordingly, the Bureau agreed to approach the Ambassador of Tanzania to chair the meeting of the sub-committee, which he agreed to do.

3. To ensure compliance with the Rules of procedure, the opinion of the Legal Counsel was sought on the above arrangement. The Legal Counsel confirmed its appropriateness and the meeting proceeded as follows:

4. **ADOPTION OF THE PROPOSED AGENDA**

4. After an exhaustive discussion, the sub-committee agreed to adopt for discussion, the following items only on the agenda:

- a) Opening remarks by H.E. Deputy Chairperson;
- b) Consideration of proposals on the revision of the staff quota system;
- c) Consideration of proposals on budget surplus and transfer between budget lines;
- d) Consideration of report on social security system (deferred in June.2007).

5. The following items on the proposed agenda were deferred for consideration at a later date.

- i) Managing compensation into the future: Request for salary adjustment (deferred in January, 2008);
- ii) Draft revised Staff Rules and Regulations (deferred in January, 2008);
- iii) Long Duration Mission: An addendum to the revised Draft Staff Rules;

6. In particular, the sub-committee:

- i) agreed to recommend that an ad-hoc sub-committee be set up to study the revised draft Staff Rules soon after the July, 2008 summit and advise the statutory sub-committee accordingly, for consideration in the January, 2009 summit; and
- ii) agreed that the item proposed on *Managing compensation into the future: Request for salary adjustment* salaries is deferred for consideration after the June/July summit.

5. **AGENDA I: Opening Remarks by H.E. Deputy Chairperson**

7. H.E. the Deputy Chairperson – Mr. Erastus Jarnalese Onkundi Mwencha welcomed distinguished members of the sub-committee and gave an overview of the programme of reforms that the new administration wish to embark on. In particular, he highlighted the reforms underway in Administration, Human Resource Development, Finance and Programming which should form the core support for effective and efficient programme delivery. He assured member states of the new Commission's resolve to ensure all-round efficiency in output and called for mutual trust and confidence between Management and PRC. He ended his address by assuring all that the results of the new reforms underway

particularly in recruitment, Partner Fund accounting and conference services should start manifesting through improved service delivery within the next six months.

6. AGENDA II: Consideration of proposals on the Staff Quota System

6.1 Presentation of Scenario

8. The Commission presented its proposals on revising the staff quota system agreed in Maputo to enable the distribution of eighty-two (82) new positions approved after Maputo. The Maputo formula of quota was based on the distribution of the 375 professional positions on the structure at that time. Since Maputo, 82 new positions have been approved which need to be factored into the quota system to facilitate recruitment.

9. To assist the sub-committee in making a decision on the matter, the Commission proposed two alternative scenarios for consideration:

- a) Divide the 82 posts equally among the 53 member states. The results of decimal points should be rounded up to an accuracy point of 0.750.
- b) Add one position to the Maputo base entitlement of each country which shall result to a minimum quota of 5 staff per member state, The difference of 29 positions are divided among member states and the results are rounded up using 0.750 accuracy on the basis of assessed contributions.

10. The results of the two options are the same but the Commission recommended scenario (ii).

6.2 Sub-Committee Deliberations:

11. The sub-committee debated the proposals put forward and could not reach a consensus on the options of distributing the 82 positions. The three positions/recommendations that emerged from the discussions are:

- a) Deferment: To defer discussions and decision on the matter pending further consultations. The few holders of this position do not agree with any of the options proposed by the Commission and they argued that the matter is too politically sensitive for an immediate decision.
- b) Further Study: To subject the matter, including the proposals made by the Commission, to further study before making a decision on it. Some suggested that the assessed scale of contributions to the budget should have a bearing on the distribution of these extra posts.
- c) Adoption of Scenario (ii): A group of members are of the opinion that the options given by the Commission are fair, equitable and based on principles adopted by the organization. This group agrees to adopt Scenario II to distribute the eighty-two (82) positions at stake.

7. AGENDA III: Consideration of Proposals on Budget Surplus and Transfer between budget Lines

12. The Commission presented its proposals on the two issues as follows:

7.1 Budget Surplus

13. The Commission asked for approval to:

- a) Increase the working Capital fund from \$2 million to \$10 million to reflect the Union's financial requirements to date. An amount of about \$ 3.5 million is required to service statutory payments per month and most of these are to be advanced in the first three (3) months of the budget year, The limit of \$2 million was set in the OAU days and it is now grossly inadequate;
- b) Treat any payment of arrears of contributions due from member states to first repay any borrowing from the working capital;
- c) Use 15% of arrears not required to repay working capital and miscellaneous income in line with Council Resolution: CM/res1363 (LV), to finance the budget by reducing the amount payable on assessed contributions;
- d) Revert excess of income over expenditure for a particular financial period to replenish working capital and likewise, recover deficits from the same;
- e) Amend the Financial Rules and Regulations to reflect the above policy decisions.

7.2 Sub-Committee Deliberations

14. The Sub-committee exhaustively discussed and debated the request of the Commission at length. The following positions emerged from the discussions:

- a) In principle, a group agrees with the request for an increase in the working capital and there appears to be a consensus among this majority that an increase from \$2 million to \$5 million is reasonable;
- b) A group felt that the amount of \$2 million currently in place should remain the same. They argued that the shortcomings documented by the Commission are results of poor administration of the budget, not working capital ceiling;
- c) In addition to positions **(a)** and **(b)** above, the sub-committee agreed that the matter of adding/ carrying forward surplus funds to subsequent budgets to reduce the burden of assessed contributions on member states need to be considered. In this connection, the sub-committee reminded itself that this matter is reiterated in a Council Decision (EX.CL/Dec.378) and urged the Commission to provide pertinent information to assist the sub-committee to make informed recommendations as directed by Council.

7.3 Transfer between budget lines

15. The Commission asked for approval to authorize the Chairperson of the Commission to make transfers between lines of the approved budget up to an amount not exceeding 10% of the amount appropriated for the budget line from which the transfer is made. The Commission proposes to report all such transfers in the annual financial reports. All other transfers shall be done through the virement process.

16. The Commission pointed out that this was a good practice in financial management and that it was necessary for even budget execution, flexibility and efficient allocation of resources.

7.4 Sub-Committee Decision

17. The sub-committee unanimously decided to disapprove this request for the following reasons:

- a) It is a reflection of poor budget preparation and planning;
- b) The virement mechanism is an adequate system and if followed properly, should cater for all such requirements; and
- c) The Commission should rather concentrate on finding ways to make budget preparation and execution more efficient to avoid situations of transferring between budget lines, which could be subject to abuse.

8. AGENDA IV: Consideration of report on AU Social security system.

18. At the request of the Bureau of the sub-committee and due to the specialized and technical nature of the report, the Commission invited the Consultant who conducted the study to help present the report and provide clarifications where necessary.

8.1 Presentation of Report

19. The Consultant- Mr. Peter Bastians of Lane, Clarke and Peacock presented the report as follows:

- a) The report under consideration is the results of a study that the Executive Council first authorized in 2003. The report was first considered in Accra in June 2007 from where the Commission was instructed to provide specific information on the **structure, mandate and financial implications** of the proposed Fund.
- b) The report contains the Commission's response to the Accra Decision. Precisely, it is recommended that an AU Pension Fund be established as a legal entity. The operations and funding of the autonomous Fund shall be the responsibility of AU.

- c) The financial implication of withdrawal from ALICO shall be nil if the withdrawal is made over a phased period of five years.
- d) The financial implication on AUC in terms of contributions shall be **\$930,000.00** and a security buffer of **\$915,000.00**, both spread over a period two years.
- e) The operational cost of the new fund is estimated to be **\$740,000.00** which compares favourably with the operational cost of about **\$850,000.00** that the Commission currently pays for the operations and administration of the scheme with ALICO.
- f) Other justifications for the new Fund include its benefits of a higher Replacement Factor after retirement, the value for money advantage envisaged in returns on investment, the new and better terms of Insurance and Pensions for all categories of staff and field mission personnel.
- g) HIV/AIDS which is excluded from the current Plan with ALICO is now covered like any other disease.

8.2 Sub-Committee Decision

20. The sub-committee unanimously agreed to recommend the establishment of the AU Pension Fund and terminate the current contract with ALICO as of 01st January 2009, and withdraw the accumulated assets over a period of five years to avoid penalties as stipulated in the contract, as recommended in the report. All other requests made in the report are supported except the request to increase retirement age from 60 years to 65, which the sub-committee rejects for being inappropriate for an all-African organization like the AU.

21. In supporting the request made for the establishment of an AU Pension Fund, the sub-committee instructs that the Commission works on the finer details of setting up the Fund- **operational mechanism, the legal framework and other associated logistics** and submit the same to the sub-committee and PRC for endorsement as soon as possible.

22. The Sub-Committee adjourned at 01:15 hours.

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