68060
5

Distr
LIMITED

PAMM/MAN/NA.8/79
15 September 1979

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

Intergovernmental Meeting on Proposed Graduate School of Management for North Africa

Tangier, 20-24 November 1979

FINANCING OF THE INSTITUTE AND MEMBER STATES' CONTRIBUTIONS

1. Introduction - Basic principles for consideration

The following basic principles for the establishment and development of the Institute are submitted for consideration in discussing the financing of the Institute and member States' contribution to its budget;

(i) the Institute shall be an intergovernmental institution with characteristic North African orientation in its mission and programmes;

(ii) accordingly, the Institute shall be owned and managed by its member States and shall be developed and financed on the basis of co-operation and collective self-reliance;

(iii) while the financing of the Institute shall be the primary responsibility of member States of the Institute, supplementary assistance from bilateral and multilateral organizations and agencies in programme support and other forms of technical co-operation arrangements, shall be welcomed, provided such assistance is in no way tied to objectives that are inconsistent with the purpose and functions of the Institute;

(iv) member States shall contribute on an agreed basis to the capital and running cost of the Institute;

(v) the host country shall be obliged to contribute substantially to the financing of the Institute through the provision of institutional infrastructure and special grants for the operation of the Institute, thereby ensuring its viability.

2. Aim of paper

The aim of this paper is to elaborate on some of the basic principles enunciated above. A further objective is to weigh the pros and cons of the various options and to submit a workable proposal which takes account of the need to ensure equal responsibility for the development and growth of the Institute and at the same time recognize the fact that member States are at different stages of development with varying levels of income and resource endowment.

M79-2671

In submitting the compromise proposal it is duly recognized that authority for the determination of the manner and level of member States' contributions to the budget of the Institute lies solely with the Board of Directors of the Institute when established. Therefore, all prior debate on the original recommendation by the intergovernmental meeting referred to above and the proposal by the Secretariat are only meant to provide a rational basis for the consideration of the matter by the Board of Directors and to facilitate its decision on it.

3. Principle of equal contribution

The need for the member States to assume principal responsibility for financing the proposed Institute does not call for much debate. There is no other option to member States assuming direct responsibility for the development of the Institute and the orientation of its training and research activities to serve their needs. Primary responsibility in financing the Institute will ensure effective ownership, management and direction by the member States.

Equal contribution to the capital and recurrent budget of the Institute can be justified by the need to ensure equal responsibility for the survival and growth of the Institute. It also implies equal control by all the member States. The Constitution and, in particular, the Rules of Procedure of the Board of Directors stipulates that all member States or their representatives at meetings of the Board shall have equal votes. It is therefore reasonable to attach equal financial contribution to the right of equal vote. The principle of equal contribution also implies equality of treatment in deriving advantages from the programme activities of the Institute, and in particular equal distribution of trainee places and fellowship awards.

Having regard to the realities of the African situation, however, several member States might not readily subscribe to the principle of equal contribution. It is common knowledge that member countries are not all equally endowed with natural resources, educational infrastructure, research capability, level of economic and social development, resources of trained manpower, and size of population. Other basic indices of socio-economic development vary a great deal between one country and another. Accordingly, relative capability to support the Institute and use its programme facilities will vary, depending upon a country's level of development, its own local training capability, its managerial manpower requirements and other factors that need not be elaborated. While it is fair to ensure that the relatively more developed member countries should have the same vote in OAU and in ECA as the less developed countries, it cannot be considered equally fair to expect that Sudan and Mauritania, for example, should make the same financial contribution as Algeria, Egypt and Morocco for the support of the proposed Institute.

The principle of collective self-reliance to which all member States subscribe requires that group welfare should be ensured through the better-off member States helping to improve the lot of the less well-off. Essentially, co-operation and collective self-reliance require that member States should share in the task and benefits of development, each according to its ability and means.

Equal contribution to the budget of the Institute would mean that the more developed and wealthier member States would find the financial obligation much easier to meet while the poorer member States would find the financial obligation much easier to meet while the poorer member States would find it much more difficult to meet their contributions. As in taxation, the incidence of equal contribution would be greater on, and rather unfair to, the poorer member States, but lighter on, and more advantageous to the richer member States. Equal treatment in bearing the burden of maintaining the Institute requires that the incidence of the financial contribution should affect all member States fairly equally. This requires that each member State should contribute to the budget of the Institute according to its capability.

4. Combined options

From the foregoing argument it may be obvious that neither the principle of equal contribution nor that of contribution on the basis of capability applied alone can meet the ready acceptance of all member States. To ensure the fullest support of all member States both in contributing to the budget of the Institute and in taking advantage of its programme activities, the two basic principles might be combined as follows:

> Member States may be grouped into three categories according to their gross domestic product which for the purpose of contribution to the Institute's budget would reflect varying degrees of their capability to support the Institute. It further recognizes that countries within the same range of income as measured by their GDP should be treated equally in being called upon to make financial sacrifice for the Institute. Consequently, as opposed to equal contribution across the board for all member States, equal contribution would then apply only to a group of countries whose income capability falls within the same range of GDP.

Table 1 provides comparative indices of member States' contributions to a selected number of intergovernmental organizations and institutions. Member States have regularly accepted the OAU scale of contribution which is based on the principle of capability to contribute. The African Regional Centre for Technology and the African Institute for Higher Technical Training and Research have adopted the same scale of contribution. IDEP follows a similar principle. By contrast, CAFRAD recognizes differences in the income capacity of member States and consequently has grouped them into five income ranges for equal levy within each income range. The Secretariat has seriously considered this compromise in making the computations set down in Table 2.

Column 5 of Table 1 indicates the rate applicable to each member State using the CAFRAD formula when all 7 states become members of the Institute. Table 2 shows the grouping of countries into income or GDP range, the rate of equal contribution within each range and the difference between the sacrifice required of the least able and the most capable. Thus the rate applicable to Mauritania and that applicable to Libya differs by a factor of 3. The rate applicable can be compared with those of CAFRAD. Reduced number of membership would automatically increase the rates applicable to the different income or GDP groups.

The principle of grouping countries on the basis of the level of their gross domestic product or national income is not without serious drawbacks. It provides a type of yardstick for measuring income differentials among countries. It is certainly not a perfect measure. Economists are not all agreed that what goes into the income or GDP "basket" is all that should be in there, especially in the context of developing countries where the unpaid services of the family go a long way to make all the difference in the level of material wealth and comfort. Similarly, politicians do not always accept that one country is all that more developed than another nor do they readily agree that a 2 or 5% difference in GDP level justifies pushing their countries into a higher rather than a lower category for the purpose of assessment in contributing to the budget of an organization. Just by changing the amount in the income range there could be marked difference both in the number of countries in a given group and the amount that member States would be expected to contribute. In other words, there is much for the statistician to juggle with before arriving at a solution which in the end may still not satisfy many.

Because of the possible discrepancies that may arise in either using equal contribution for equal vote or fair contribution by grouping countries into income categories on GDP basis, there is much merit and convenience in adopting for the Institute the OAU Scale of member States' contribution. The arguments in support of that scale have long been debated and accepted by all member States; in terms of contributions based on equity and capacity. It is considered fair.

Another version of the combined options is to oblige member States to contribute on equal basis 50% of the Institute's budget while the remaining 50% is levied on the basis of differences in gross domestic product and ability to pay. Even in this approach most countries will have cause to be dissatisfied: The incidence of an equal share of the first 50% of the budget would be comparatively heavier on the poorer member States than on those that are richer. The question of the inadequacy of GDP as a basis for determining ability to contribute funds remains debatable. The majority of the member States are not likely to be happier with either options than with a combination of the disadvantages of both.

TABLE 1

Comparative Indices of African States Contributions to Intergovernmental Organi ations and Instit tions
(in percentages)

Member States	OAU (1977)	CAFRAD (1979)	IDEP (1978)	African Centre for Technology	African Institute for Higher Technical Training	Comparative index proposed for the Institute
1. Algeria	6.15	6.13	7.9	same as OAU Scale of Contribution		17.909
2. Egypt	7.57	6.13	7.9			22.044
3. Libya	10.00	6.13	7.9			29.121
4. Mauritania	0.94	1.02	1.0			2.737
5. Morocco	4.30	11.16 a/	3.4			12.522
6. Sudan	1.85	4.08	3.4			5.387
7. Tunisia	3.53	4.08	2.4			10.296
Total 49 African States	100.00	100.00	100.00	-	-	100.016 (100.00) (for 7 States)

Source: IDEP - Summary Report on IDEP's Financial Situation, Appendix 2 and ECA Conference of Ministers resolution 287 (XII).

African Regional Centre for Technology -- Report of the First Meeting of the Executive Board, document ARCT/EB/1/9 Annex IV

CAFRAD - Eighteenth Meeting of the Governing Board, document DG.1/78 document 9, Appendix III

a/ Host Country

TABLE 2

Assessment of Member States for the Support of Intergovernmental Institutions

(in percentages)

Countries	1977 GDP at constant factor price	CAFRAD (1979)	Unqualified equal contribution	Contribution based on GDP capability	Comparable contribution based on OAU index
Group I: Countries with GDP less than US$1500 million (Factor 1)					
	US$ million	%	%	%	%
Mauritania	209.9	1.02	14.285	5.88	2.737
Group II: Countries with GDP between US$1500 and US$3000 (Factor 2)					
Sudan	2240.4	4.08	14.285	11.76	5.387
Tunisia	2273.1	4.08	14.285	11.76	10.296
Group III: Countries with GDP of over US$3000 (Factor 3)					
Morocco	4321.7	11.16 a/	14.285	17.65	12.522
Algeria	6004.1	6.13	14.285	17.65	17.909
Egypt	8915.2	6.13	14.285	17.65	22.044
Libya	6397.9	6.13	14.285	17.65	29.121
Total for 7 States	-	-	99.995 (100.00)	100.00	100.016 (100.00)

Source: Data on 1977 gross domestic product at 1970 constant factor cost were supplied by ECA Statistics Division as provisional figures.

For CAFRAD scale of contribution see DG.1/78 Doc.9 Appendix III op.cit.

a/ Host Country

5. Charges for services

One further recommendation for consideration is that the Institute should charge fees for its courses as well as an element of overhead cost per student intake. By this arrangement the Institute is not expected to turn itself into a profit-making institution; rather it is expected to recover some of the costs of providing services. The Institute should still regard its primary task as that of training African personnel, and therefore treat revenue earnings from training activities as secondary.

The Institute will be expected to charge admission, tuition and examination fees. In addition, a good part of the administrative overhead cost of running the Institute and developing course programmes should be calculated in terms of unit cost per student and recovered from clients sending students for training at the Institute. This is an indirect form of contribution by member States and should be regarded as a levy based on individual member State's utilization of the services of the Institute. This is only supplementary to the direct annual contribution for the support of the Institute or capital levy for buildings and equipment. For example, Tunisia and Egypt may be taken as members. Let us assume that Tunisia contributes 10% and Egypt 15% of the Institute's budget as direct assessment. In the same year Tunisia accounted for 10 student/year of training at the Institute and Egypt 75 student/year, while the administrative overhead cost for the Institute worked out at US$500 per student/year. On the basis of "pay as you use the facilities" of the Institute, Tunisia would be required to pay a supplementary overhead cost of only US$5000 and Egypt US$37,500. This would appear a fair treatment of both clients.

Recommendation: Action required

Having considered the advantages and disadvantages of the above proposals and having regard to the necessity to ensure that the Institute's financing is soundly assured, the meeting is invited to:

(a) favourably consider recommending for adoption for the Institute the OAU index of member States' contribution to the Institute's capital and recurrent budget;

(b) recommend that the Institute should charge its clients a proportion of its administrative overhead costs on a per-student per-year basis according to the number of nationals such clients sent to the Institute. This amount shall be additional to the direct contribution recommended above and shall not preclude the Institute from charging admission, tuition and examination fees or other legitimate fees.