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Meeting of the Committee of Experts
Addis Ababa, 31 March - 2 April 2016

Joint AUC-AACB strategy on the establishment of the African central bank (ACB)

I. The global economic and financial architecture is changing, revealing uphill, but not insurmountable challenges, threatening macroeconomic stability and economic growth in Africa.

II. Africa has therefore embarked on several economic and political integration initiatives, covering both real and financial sectors such as promotion of trade, and acceleration of economic growth and development to minimize the impact of the ensuing instability.

III. While trade and real sector integration may have had considerable attention, financial integration has been slow. Therefore, the African Union Heads of State and Government underscored, in the context Article 44 of the Treaty establishing the African Economic Community (Abuja Treaty) and Article 19 of the Constitutive Act of the African Union respectively, the need for the “establishment of an African Monetary Union through the harmonization of monetary zones” and “creation of the three AU African financial institutions, namely the African Central Bank (ACB), the African Monetary Fund (AMF) and the African Investment Bank (AIB)”.

IV. Within the framework of the setting up of the ACB, the African Union Commission (AUC) signed an agreement with the Government of the Republic of Nigeria, host country of the ACB, for the Headquarters of the Steering Committee for the establishment of the ACB. The Steering Committee was setup under the Chairmanship of the Governor of the Central Bank of Nigeria, Dr. Sanusi Lamido Sanusi, CON.

V. In addition, the AUC and the Association of African Central Banks (AACB) set up a Joint Committee to work closely towards the creation of the African Central Bank. In this regard, the Joint Committee set up a Study Group to carry out the preparatory work ahead of the establishment of the ACB. It is in this framework that the Study is undertaken, from which the Joint AUC-AACB Strategy for the establishment of the ACB is derived.

VI. The report of the Study Group proposes strategies, roadmap with clear tasks and timelines leading to the establishment of the African Economic, Fiscal and Monetary Union as well as the African Central Bank (ACB) and African Single Currency.

VII. The Study Group comprises five AUC experts and five experts designated by the AACB to represent each of its Sub-regions.

VIII. On its side, the AUC designated the Experts of the Steering Committee headed by Dr. Okorie A. Uchendu, Chairman's representative and Team Leader of the Study Group.

IX. The Steering Committee is made up of the following experts:

  i. Dr. Polycarp Musinguzi;

  ii. Dr. Neil Nyirongo;

  iii. Dr. Amath Ndiaye;

  iv. Dr. Boubie Bassole; and

  v. Ms. Bopelokgale Soko.

X. The AACB designated the following five experts:

  i. Mr. Arlindo de Carvalho, Representative of the Central Sub-Region;

  ii. Dr. Rogatien D. Poda , Representative of the West Sub-Region;

  iii. Mr. Neetyanand Kowlessur, Representative of the East Sub-Region;

  iv. Mr. Djimé Diagana, Representative of the North Sub-Region;

  v. Dr. Keith Jefferis, Representative of the South Sub-Region;

XI. To perform its function, the Study Group received financial support from the AUC and the Federal Government of Nigeria, through the Central Bank of Nigeria (CBN). The AUC and the AACB thank the Federal Government of Nigeria, and the Chairman of the African Central Bank (ACB) Steering Committee and Governor, Central Bank of Nigeria, Dr. Sanusi Lamido Sanusi, CON for their financial support.

XII. This Report has taken into account the comments and decisions of the AACB Sub-regions following the August 2012 Joint AUC-AACB Committee Meeting and Annual Assembly of the AACB in Algiers, Algeria as well as those of the Joint AUC-AACB Committee Meetings of February 21st – 27th, 2013 which were held in Dakar, Senegal.

XIII. The Study Group has produced two Volumes:

  i. Joint Strategy Report On The Establishment Of The African Central Bank (ACB); and

  ii. Main Report on the Establishment of the African Central Bank (ACB).

CHAPTER 1: INTRODUCTION

1.1 Preamble

1. This document is derived from the Main Report of the Joint Committee of the African Union Commission (AUC) and the Association of African Central Banks (AACB) Study Group. It proposes a strategy for the creation of the African Central Bank (ACB) taking into account: Political Economy Context, Objectives of the African Union (AU) which is a successor of the Organization of African Unity (OAU) that was established by a Charter in 1963, the various African Union legal frameworks and attendant initiatives, and the different stages attained by Regional Economic Communities (RECs) of the African Union, as pillars to facilitate African Economic and Monetary Integration.

2. It discusses the stages and approach to integration, the preconditions for successful economic and monetary union, and the net benefits of economic and monetary union. It highlights the lessons from the ongoing Euro zone debt crisis and monetary unions worldwide as well as the challenges to economic and monetary union in Africa, and the main recommendations. Furthermore, it proposes the strategies, roadmap with clear tasks and timelines leading to the establishment of the African Monetary Union, African Central Bank (ACB) and African Single Currency. In addition, it highlights the role of the African Monetary Institute (AMI) as a transitional arrangement.

1.2 Political Economy Context

3. A series of decisions were made, starting with the adoption in 1980, at an OAU Extraordinary Summit, of the Lagos Plan of Action, which was translated into concrete form in Abuja, Nigeria in 1991 as the Treaty establishing the African Economic Community (the Abuja Treaty).

4. The decision to establish an African Central Bank was enshrined in Article 44 of the Abuja Treaty (1991), and Article 19 of the Constitutive Act, adopted in Lome, Togo in 2000 which stated, respectively, the need to establish an African Monetary Union through the integration of regional monetary zones, and the establishment of three African Financial Institutions: African Investment Bank (AIB), the African Monetary Fund (AMF), , and the African Central Bank (ACB). The Abuja Treaty envisaged a six-stage transition programme spanning a 34-40 year period, following its coming into force in 1994, for establishing the African Economic Community and Monetary Union, culminating in the setting up of the African Central Bank and the creation of an African single currency.

5. In 1999, prior to the adoption of the Constitutive Act, an Extraordinary Summit of the OAU held in Sirte, Libya, issued the Sirte Declaration establishing the AU in accordance with the objectives of the OAU. The Declaration also called for acceleration of the integration process. This was followed in 2001, by the 37th Ordinary Summit in Lusaka, Zambia, which established the African Union along with the NEPAD Programme. In conformity with the economic integration fast tracking as implied in the Sirte Declaration, a study was conducted by the AU Economic Affairs Department in 2007, which reviewed the Abuja Treaty. This was with particular emphasis on the stages of integration under Article 6 of the Treaty.

6. The main outcome of the study was to bring forward the integration period covering the six stages, from 2028 to 2017. This entails the scaling down of the major obstacles to the fast-tracking in the areas of non-tariff

barriers, differences in legal systems and overlapping membership, and free movement of persons, goods, services, capital and labour.

7. In the spirit of the Sirte Declaration, the creation of the Minimum Integration Programme (MIP) was adopted at the Meeting of the Ministers of Integration held in Yaoundé, Cameroon, in 2009, with a view to enhancing capabilities of RECs, AUC and member states for fast-tracking Africa's integration. To bridge the infrastructural gap in Africa, the AUC and African Development Bank (AfDB) developed the Programme for Infrastructural Development in Africa (PIDA) in 2009, spanning the period 2010-2030.

8. In support of the African integration process in addition to the financial institutions to be created including the African Central Bank, other institutions have already been put in place namely the Pan African Parliament that came into existence in 2003; African Court of Justice; Peace and Security Council; and the Economic, Social and Cultural Council.

9. In a same vein, the AACB started work on the Abuja Treaty in 2000, which led to the adoption of the African Monetary Cooperation Programme (AMCP) in 2002 in Algiers, Algeria. The AMCP set out primary and secondary convergence criteria, policy measures and timelines that would lead to the creation of a single monetary zone and a continental African Central Bank by the year 2021. At the core of the AMCP is macroeconomic convergence programme, which would guide the various African sub-regions towards the adoption of African Monetary Union and African Single Currency.

10. To forge a common front, the African Union Commission and Association of African Central Banks Governors agreed in Tripoli in 2007 to set up the Joint AUC-AACB Committee to define a common strategy for the establishment of the African Central Bank. Since then, the AACB and AUC organs have regularly discussed the implementation, monitoring and evaluation of the AACB AMCP and AU Abuja Treaty, respectively. The Joint Committee at its inaugural meeting in 2007 in the AUC headquarters, agreed as follows:

(i) Macro-economic convergence remains a prerequisite to the introduction of a common currency and the creation of the ACB. In this regard, the Committee recommended re-assessment of the convergence criteria and harmonization of economic policies. The AACB shall undertake a study for this purpose.

(ii) The need to create an African common market (free movement of goods and services, labour and capital, and development of infrastructure) prior to attaining monetary integration. The AUC should carry out the relevant studies with the input of the AACB on capital market development, and ensure implementation.

(iii) The Regional Economic Communities (RECs) should be the pillars of economic and monetary integration in Africa.

(iv) The creation of African Monetary Institute (AMI) as a transition stage towards the creation of the ACB and an AMI - ACB Steering Technical Committee shall be established by the AUC-AACB Joint Committee.

11. A consultant was engaged to carry out a study with the objective of proposing an AUC-AACB common strategy and roadmap toward attaining monetary integration in Africa and the establishment of the ACB. The Terms of Reference of the consultant were:

(i) Briefly analyse the theoretical aspects of macroeconomic and monetary integration in general and their relevance to the African context, particularly the preconditions of a monetary union to cope with the challenges of an accelerated development of the regional economy and globalization;

(ii) Examine the institutional and operational issues drawing on the experiences and practices of monetary integration programs of RECs and existing monetary unions and make recommendations on harmonization towards the establishment of a continental monetary system;

(iii) Given the fact that macro-economic convergence remains a precondition to the introduction of a common currency, review the relevance to Africa of the macroeconomic convergence criteria of the AMCP should be made and examine to what extent they can be used to faster economic development in Africa;

(iv) Determine the rules for membership of the monetary union;

(v) Determine possible links between the three African financial institutions and their interaction with the existing national and regional institutions;

(vi) Define a roadmap for the implementation of the strategy for the establishment for the ACB with a program of action and a timeframe;

(vii) Consider the establishment of an African Monetary Institute as a transitory state to the creation of the ACB.

12. The expected output from the consultant was “The Strategy” and a comprehensive “roadmap” for the implementation of The Strategy as well as an “Executive Summary of The Strategy”.

13. However, the proposed approach of using a consultant was unsuccessful. This led to the formation of a Joint Study Group made up of AACB-AUC experts to design an AUC-AACB common strategy and roadmap towards the establishment of the ACB. Guided by the Joint AACB-AUC Terms of Reference provided to the consultant, the Joint Study Group developed a Work Programme and budget for the Work Programme (2012-13). This was presented to both the Joint Technical AUC-AACB Committee and the Joint AUC-AACB Committee on 28th and 29th February 2012, respectively. A revised Work Programme, Work Plan and Budget, which took into consideration of the decisions and comments of these meetings, were prepared and sent to the AUC.

14. The revised Work Programme covered:

(i) Theoretical and empirical aspects of economic and monetary union;

(ii) Evaluation of the performance of the RECs in satisfying preconditions for economic and monetary union as a necessary condition for the establishment of the African Central Bank;

(iii) Lessons from monetary unions;

(iv) Strategies and roadmap;

(v) Transitional institutional arrangement – African Monetary Institute;

(vi) Summary and Conclusion.

15. In carrying out its assignments, the Joint Study Group reviewed existing literature on African integration and related works, visited relevant institutions, exchanged views with stakeholders and relied on their wealth of experience.

1.3 Benefits and Costs of Economic and Monetary Union

16. Economic and monetary union can in principle have both benefits and costs. The key ones are summarised below.

1.3.1 Benefits of Economic and Monetary Union

(i) Improved macroeconomic stability derived from budgetary discipline and the conduct of monetary policy by the supra-national and independent central bank.

(ii) Significant reduction in inter-country transaction costs through the use of a common currency.

(iii) Elimination of exchange rate volatility and associated risks.

(iv) Enhanced cross-border comparison of prices of goods and services.

(v) Enhanced political solidarity through shared vision for prosperity.

(vi) Deeper and broader financial markets that strengthen the monetary transmission mechanism and reduce the costs of borrowing.

(vii) Savings in foreign exchange reserves since not all imports will require foreign currencies.

(viii) Gains from trade creation, by increasing cross-border trade and investment flows.

(ix) Wider access to markets as industries with economies of scale may be able to produce at efficiently higher levels due to integrated goods and services markets.

(x) Asymmetry of shocks due in large part to differences in commodity exports of member states could be minimized, due to the integration of their economies.

(xi) Share in the distribution of the surpluses of the Common Central Bank.

(xii) Gains from pooling of resources in the provision of economic, social and physical infrastructure.

1.3.2 Costs of Economic and Monetary Union

(i) Loss of sovereignty to a supranational body in the conduct of monetary and exchange rate policy.

(ii) Individual countries' loss of ability to use monetary and exchange rate policy instruments in responding to asymmetric economic shocks.

(iii) Constraints on the implementation of fiscal policy at the national level.

(iv) A single regional monetary and exchange rate policy, which may not be suited to the circumstances of individual countries.

(v) In the absence of alternative adjustment mechanisms, a loss of regional and international competitiveness at the country level.

(vi) Risk of conflict of objectives between the Central Bank and the governments of Member States in absence of common fiscal policy.

(vii) Loss of country-specific seigniorage income.

(viii) Loss of national control over foreign exchange reserves.

(ix) The costs associated with regional institutions, such as for banking supervision.

(x) Political disagreements over the nature of common policies, centralisation of powers and constraints on national autonomy, and the costs of financial flows and transfers.

(xi) Some loss of political sovereignty at the national level as well as economic sovereignty.

17. Broadly, speaking, the main economic benefits arise from savings on transactions costs when levels of intra-regional trade and investment flows are high – i.e. between countries that have close economic relationships. The main economic costs arise when countries have different economic structures (and hence are exposed to different exogenous shocks), are not well diversified, and do not have well-developed markets and the flexibility to respond to shocks in the absence of macroeconomic policy tools.

18. The balance of costs and benefits will therefore depend on country-specific circumstances, and hence will vary from country to country. At the country level, economic growth and incomes may be higher or lower in a monetary union. A priori, it is impossible to predict whether there will be a net benefit, i.e. whether or not the benefits outweigh the costs. However, the balance will be more likely to result in net benefits if a range of preconditions for monetary union are met.

CHAPTER 2: PRECONDITIONS FOR SUCCESSFUL ECONOMIC AND MONETARY UNION

2.1 Introduction

19. The achievement of a monetary union with a single currency for a region could be a more advantageous adjustment mechanism for responding to common economic shocks than the use of multiplicity of currencies. Where shocks are different, or asymmetric across countries, however, this may not be the case. The ability to respond to asymmetric shocks at the national level in the absence of macroeconomic policy tools (exchange rate, monetary and fiscal policies) depends on a range of prerequisites being met, of which the most critical ones are:

(i) Economic integration and flexibility;

(ii) Convergence and harmonization of macroeconomic policies;

(iii) Financial integration;

(iv) Harmonization of statistical definitions and conventions; and

(v) Progressive Political integration; and

(vi) Fiscal Federation.

20. It should be noted that no monetary union has emerged solely from an acknowledgment of the supposed economic benefits, but political will has always played a key and decisive role.

2.2 Economic Integration and Flexibility

21. Three fundamental criteria are identified in assessing the benefits associated with monetary unions: the intensity of intra-union trade; the mobility of factors of production, and the flexibility of product and factor

markets. The idea behind these criteria is that in case of an asymmetric shock, that is to say a shock to just one part of the union, there must be mechanisms to allow real exchange rates to adjust.

22. The mobility of factors of production, especially labour inputs, is a crucial pre-requisite to economic and monetary union – part of the condition that member states have highly integrated trade, capital and labour flows. Under this approach, which focuses on exogenous criteria for monetary union, the attainment of a common market is a prerequisite for the creation of a monetary union.

23. On the other hand, by the endogeneity thesis, the creation of monetary union would intensify intra-area trade in goods, services and labour and would tend to increase the symmetry of shocks and minimize the cost of the monetary union. This thesis therefore considers the existence of the single currency as an important step towards economic integration.

24. The integration of physical infrastructure (transport, energy, water and information technology and communication) is vital to an economic and monetary union. This increases the return on investment, stimulates trade, improves competitiveness by reducing transaction costs and facilitates the movement of factors of production. It can achieve economies of scale and ultimately strengthen economic integration.

2.3 Convergence and Harmonization of Macroeconomic Policies

25. The process leading to monetary union may be gradual or big bang. In the first case, it is necessary that the macroeconomic policies and performance of the involved countries converge. The convergence criteria are intended to guide and harmonize the macroeconomic policies as well as performance of the States during this transition period. Moreover, these criteria may help to reduce the risk of asymmetric shocks and contagion. The primary criteria that enable this convergence relate to inflation, budget deficits, central bank financing of the fiscal deficit, foreign exchange reserves, interest rates and exchange rates.

2.3.1 Fiscal Discipline

26. The sustainability of public finances relative to the rate of economic growth prevents excessive fiscal deficit financing, especially by the Central Bank, because it can be a source of inflation and high interest rates. This sustainability is achieved through sound public finances. This criterion takes into account, inter alia, fiscal restraint and minimization of "fiscal dominance" in individual countries, including the elimination of central bank financing of a fiscal deficit.

2.3.2 Inflation

27. The primary objective of monetary policy is to achieve low and stable inflation. Thus, the greatest contribution of monetary policy to economic growth and development is in anchoring inflation and its expectation as it:

(i) Provides an incentive to saving, investment and enhancement of productivity gains, and lengthens the savings, investment and planning horizons of economic agents, which is conducive to economic growth;

(ii) Reduces the costs of uncertainty;

(iii) Reduces transaction costs and the cost of doing business in general;

(iv) Reduces the erosion of savings and income; and

(v) Stabilizes business and investor expectations, and facilitates rational decision-making.

2.3.3 Financing of the Budget Deficit by the Central Bank

28. The financing of budget deficit by the central bank is incompatible with an anti-inflation policy in pursuit of the primary objective of price and financial stability. The restriction on the ease of financing the budget deficit by the national or sub-regional financial institutions therefore induces member states to have strong monetary-fiscal policy coordination while upholding Central Bank Independence.

2.3.4 Foreign Reserves

29. To maintain the stability of the exchange rate in the face of changes in underlying macroeconomic fundamentals such as terms of trade, productivity, capital flows and fiscal policy, as well as transitory factors and exogenous factors, while meeting external debt obligations and government import requirements, it is necessary to hold optimal foreign exchange reserves. Adequacy of import cover may be in terms of months of imports of goods and non-factor services.

2.3.5 Interest rates

30. In a monetary union, a common benchmark interest rate will apply across the union. Hence, in order to avoid an adjustment shock when the union is established, it is necessary for interest rates to converge prior to the union.

2.3.6 Exchange rates

31. In a monetary union, a common exchange rate will apply across the union. Hence, in order to avoid an exchange rate adjustment shock when the union is established, it is necessary for exchange rates to converge prior to the union.

2.4 Financial Integration

32. Financial integration is a process focused on deepening and broadening markets and institutions. The process increases financial inclusion and access to financial services and builds payment systems and regulations to facilitate cross-border movement of capital; harmonizes rules and accounting standards; and facilitates efficient financial intermediation and provides a robust saving culture. Financial integration facilitates cross-border trade and promotes the harmonization of national policies, regulations, institutions and economic growth. For a monetary union to be effective, it requires an integrated capital market without internal barriers to financial flows within the single currency area.

2.5 Harmonization of Statistics

33. The evolution towards economic and monetary integration requires reliable and timely statistical information. The statistical information is used to inform and evaluate the integration process and must be binding on all member countries. The process requires the harmonization of statistical concepts, policies, classifications and transmission protocols, as well as storage and data access at national and sub-regional levels.

2.6 Political Integration

34. A monetary union is incompatible with macro-economic environments that can cause conflict arbitration within member countries. Instead, a monetary union requires that member countries share the same overall objectives and evaluate their policies in a common vision. Coordination of macroeconomic policies necessary for monetary union requires largely a renunciation of some aspects of national sovereignty. This coordination can be achieved if monetary integration is accompanied by political integration through the establishment of supranational political institutions (fiscal federation and economic governance) responsible for formulating the economic and social objectives of the economic and monetary union.

2.7 Fiscal Federation

35. It is recognized that monetary integration must entail constraints on fiscal policy at the national level. Excessive fiscal deficit or dominance in one country will impose cost on other members of the union through the impact of the single currency. The experience of the EMU shows the treaty based limits on fiscal deficits and public debts may not be effective, and nor may capital markets provide sufficient discipline for profligate governments. Hence, it is now recognised that more effective mechanisms are required to impose constraints on fiscal policy and public debts. One such mechanism is the establishment of fiscal federation, whereby national budgets have to be agreed upon at the level of the monetary union, with the quid pro quo that there is joint or multi-lateral liability for sovereign borrowing, and there are fiscal transfers between member states.

2.8 Conclusion

36. Meeting the preconditions for Optimum Currency Area (OCA) criteria is important for successful implementation of a Monetary Union. However, in practice, this may be difficult to achieve. Optimal conditions represent an ideal, and may not all be achieved in designing policy measures in the run-up to monetary union. The constraints that this may impose need to be taken into account. Furthermore, not all of the preconditions can be addressed through policy measures. Some constraints are structural, and will take much longer to address.

37. There is also some empirical evidence on two-way causality between Trade Integration and Monetary Union in support of the ‘Endogeneity’ argument. Thus, Monetary Union can cause Trade Integration. At the same time, the experience of several existing monetary unions shows that economic integration can remain weak for long periods of time and that vulnerability to asymmetric shocks may not disappear.

CHAPTER 3: PERFORMANCE, LESSONS AND CHALLENGES OF AFRICAN REGIONAL ECONOMIC COMMUNITIES (RECs) AND OTHER MONETARY UNIONS

3.1 Introduction

38. In establishing a continental central bank, it is imperative to review the experiences of existing monetary unions in Africa, Europe and other regions in order to learn from them. Detailed hereunder are some of the lessons learnt from the review of the experiences of other regions, which if taken into account, may lead to a vibrant monetary union in Africa.

3.2 Performance of the African Regional Economic Communities (RECs)

39. The performance of the African RECs are discussed under the following headings: Trade Integration, Free Movement of Persons, Goods and Capital, Infrastructural Development, Macroeconomic Convergence, Regional Monetary Unions, Financial Integration, Harmonization of Statistical Systems and Other Continental Financial Institutions.

3.2.1 Trade Integration

40. Progress made by RECs in the area of trade integration has been contrasting due to economic constraints and the establishment dates of some of the RECs. However, some RECs have registered major milestones in this area. Most Regional Economic Communities have made progress in Stages 1 and 2 of Trade Integration but seem to be hesitant in taking decisive steps to clearly cross into the third stage symbolized by the creation of free trade areas and customs unions, a notable exception and welcome development being the EAC. Furthermore, a FTA is envisaged under the COMESA-EAC-SADC Tripartite Arrangement. There is also a FTA in Arab Maghreb Union zone.

3.2.2 Free Movement of Persons, Goods and Capital

41. An evaluation of this area shows that performance of RECs has been mixed. While some have made significant progress, such as ECOWAS, EAC, COMESA and AMU, others are still making progress by undertaking reforms.

3.2.3 Infrastructural Development

42. Most RECs have made remarkable effort in developing and integrating infrastructure including power and transport to strengthen trade integration under the AUC/NEPAD Action Plan for Africa for 2010 – 2015, PIDA and MIP. However, their progress has been constrained by inadequate financing.

3.2.4 Macroeconomic Convergence

43. Analysis of convergence criteria shows mixed results for most RECs both for primary and secondary criteria. It was observed that some RECs have made significant progress in monetary policy and budget policy under primary criteria. However, most countries still face difficulty in meeting in the overall inflation target, while the achievement of fiscal deficit targets has been impacted by the persisting global economic slowdown.

3.2.5 Regional Monetary Unions

44. In order to organise multilateral surveillance for the convergence process with the aim of putting regional monetary unions in place, most RECs

are engaged in monetary integration and fiscal surveillance processes. Some RECs have made progress towards establishing a monetary union such as COMESA, EAC and ECOWAS. In these RECs, regional monetary institutes have been established namely COMESA Monetary Institute, East African Monetary Institute (in the pipeline) and West African Monetary Agency, West African Monetary Institute, in support of their monetary integration efforts. Out of the monetary zones which existed during the colonial era, the Franc zone and the South African Rand zone (CMA) are still in existence.

3.2.6 Financial Integration

45. According to the performance evaluation of the RECs, in spite of financial sector liberalization reforms undertaken in the '90s, financial integration is making slower progress than trade integration. However, it is to be noted that some remarkable developments have occurred in the financial sector in some of the RECs.

3.2.7 Harmonization of Statistical Systems

46. The adoption of macro-economic convergence programmes by RECs led to an upsurge in the demand for statistical information for evaluating and comparing the performance of member countries in the area of compliance with convergence criteria. Currently, most of the RECs have made progress in the areas of harmonization of concepts, methodologies and standards and are moving towards adopting the African Charter on Statistics.

3.2.8 Other Continental Financial Institutions

47. At the continental level, it is noted that progress has been made in putting the three continental financial institutions, namely, African Investment Bank (AIB), African Monetary Fund (AMF) and African Central Bank (ACB), in place in accordance with the Abuja Treaty and the Constitutive Act of the AU to accelerate and strengthen the regional integration process. The Protocol setting up the AIB was adopted in 2009, as well as its statutes which were endorsed by the AU Summit in 2009. With regard to the AMF, the Protocol has been finalised and adopted while the Statute is in the negotiation process in member states.

3.2.9 Summary and Conclusion

48. With the support of Pan-African Institutions and financial partners, the RECs have made some efforts to accelerate their regional integration processes. However, these efforts are rather inadequate considering the different stages defined in the Abuja Treaty, with considerable variation between different RECs. Achieving regional integration would depend on each stakeholder's determination to comply with deadlines for the establishment of the African Economic Community. To this end, the ratification and implementation of all protocols relating to integration should be encouraged. Furthermore, RECs are urged to take into account the Minimum Integration Programme (MIP), the Programme on Infrastructural Development in Africa (PIDA) and other regional and continental initiatives, with the aim of accelerating the regional integration process.

49. Based on the review of the Abuja Treaty and the AMCP of the AACB, there is need to harmonize AMCP with Article 6 of the Abuja Treaty and MIP into one continental programme, in conformity with the AU Constitutive Act Article 19. There is need also to reconcile the economic and monetary union's strategic roadmap of the RECs and Regional Monetary Institute with AU and the RECs' political roadmaps to ensure uniformity of purpose.

3.3 Lessons and Challenges from African Regional Economic Communities (RECs) and Existing Monetary Unions

50. The empirical literature review we carried out suggests a strong divergence in economic cycles among African countries and casts doubt on the economic relevance of a common currency within the RECs that have been reviewed, in terms of Optimum Currency Area (OCA) theory.This suggests that (i) attention must be paid to reforms that will help the RECs meet the OCA criteria and (ii) justification for a common currency must be more broadly based than simply the OCA criteria.

51. From the review of the integration process in Africa presented above, the preconditions for monetary integration seem difficult to achieve. This is particularly because of the low levels of intra-regional and intra-African trade; limited diversification of most African economies; exposure to different economic shocks; an unwillingness to liberalise labour markets, and to a certain extent capital markets, so as to permit cross-border factor mobility; relatively underdeveloped goods and service markets (which lack competition and flexibility); and a lack of progress – in relation to previously agreed timetables – in achieving trade and factor market integration.

52. WAEMU and CEMAC have had long experience in monetary union. They have been relatively stable, and various countries have entered and exited the unions over the years, on the basis of economic and political considerations. Despite the shared currencies, there has however been little movement towards deeper regional economic integration – which shows the importance of removing other barriers of integration if endogenous convergence is to be achieved. Although the franc zone has persisted for many years, and most of their members perceive them to have been beneficial, their relevance for the broader process of monetary integration in Africa is, however, limited.

53. The Common Monetary Area (CMA), comprising four countries in Southern Africa based around the South African rand, has also been a stable and beneficial monetary integration arrangement. Despite the loss of policy flexibility for the three smaller members (Lesotho, Namibia and Swaziland), the very high levels of intra-regional trade and economic integration has meant that the savings in transactions costs and the gains from stability and credibility have been high. However, the CMA governance arrangements – where the smaller countries have limited formal role in decision-making – probably could not be extended to new monetary unions in Africa, because all countries need to participate in the decision-making process.

54. Outside of the existing monetary integration arrangements, most African economies have flexible exchange rates and an active monetary policy. This indicates that they still consider exchange rate flexibility an important tool of macroeconomic adjustment, along with the use of monetary and fiscal policy. The loss of these adjustment tools may in general be a source of reluctance for some countries to join a monetary union.

55. The reasons why the process of integration is delayed and the preconditions for Monetary Union seem difficult to meet are summarized below.

3.3.1 Weak political commitment

56. African governments are not sufficiently committed to the implementation of many decisions taken towards the economic integration agenda. This is manifested in instances such as the delay in signing and ratification of protocols, and the tendencies to miss deadlines and shift time lines for implementation of integration programmes such as Free Trade Areas

and Customs Unions. Therefore, there is a need to put in place a surveillance, compliance and enforcement structure (both at the REC and the continental levels), with clear and direct reporting mechanisms.

3.3.2 Low Intra-African Trade

57. Africa is a major producer and exporter of primary commodities. However, most recent data based on World Trade Organisation (WTO) International Trade Statistics (2011) show that intra-Africa trade remains low (12.3 per cent) compared to Europe (71 per cent), Asia (52.6 per cent), North America (48.7 per cent) and Association of South-East Asian Nations (ASEAN) (26.3 per cent). However, the high level of informal cross-border trade and lack of timely and comprehensive data on it could have underestimated intra-Africa trade statistics.

58. For Africa to improve intra-regional trade, more efforts have to be made towards the development of infrastructure and removal of tariff and non-tariff barriers to trade and movement of factors of production. Even if this is done, however, significantly increasing intra-African and intra-regional trade is a long-term process, which depends not just on policy reform but also on patterns of comparative advantage.

3.3.3 Weak Macroeconomic Convergence

59. Ten years after the launch of the AMCP, some countries within the RECs still face challenges in satisfying the convergence criteria. The absence of binding and effective surveillance and compliance mechanisms in most RECs is a key constraint to achieving satisfactory progress towards macroeconomic convergence.

3.3.4 Low Financial Integration

60. Financial integration in Africa has progressed slowly. The financial markets are small, lack depth and are not integrated. In this regard, challenges faced include lack of modernized payment systems and cross-border supervision of financial markets, underdeveloped capital markets, and lack of harmonization of financial regulatory frameworks.

3.3.5 Statistical Harmonization Programmes

61. In order to facilitate better assessment of the integration process and for purposes of comparison of convergence indicators across the RECs, reliable, timely and harmonized statistical information is required. Therefore, the speedy implementation of the African Statistics Charter is imperative.

3.3.6 Multiple memberships across the RECs

62. The existence of multiple memberships by the African countries delays the process of integration as member countries adhere to multiple financial and integration obligations. A reluctance to address issues of overlapping memberships may be one reason why deeper integration has progressed slowly.

3.3.7 Central Bank Independence (CBI)

63. CBI should be stipulated in Member Central Banks' Acts to avoid undue political influence in discharging their functions. Many countries in Africa have achieved this, but performance is not consistent across the continent.

3.4 Lessons and Challenges from the European Economic and Monetary Union (EMU)

64. The following lessons were drawn from the Euro Zone crises:

(i) It is difficult to sustain a monetary union of member states without a fiscal union, which would ensure proper coordination and harmonization of fiscal and monetary policies, and a high degree of political integration.

(ii) Where financial markets are integrated, even small economies can cause instability in the monetary union.

(iii) A macroeconomic policy framework is essential to identify structural bottlenecks that would lead to deviations from attaining macroeconomic convergence. The impact of institutional environment (e.g. governance and business climate) is also important to macroeconomic convergence.

(iv) There is need for a banking union, with common licensing, supervisory and regulatory framework, across all member countries. Existing regulators will therefore have to delegate some of their regulatory powers to a supra-national institution.

(v) It is essential for member states to properly design Stability and Growth Pact by setting rules which include:

- (a) Introduction of limits for public debt in their constitutions.
- (b) Designing economic measures for structural reforms to reduce excessive deficits and domestic debt.
- (c) Strengthening the enforcement of sanctions including automatic application of the rule.
- (d) Strict conditionalities for access to any Financial Stability Facility and Stabilization Mechanism.

(vi) Even where there is a lengthy process of macroeconomic convergence and where the established preconditions are largely met, a monetary union can be unstable. Hence, it may be necessary that even more extensive preconditions are required to ensure stability in the monetary union.

(vii) Strict auditing of national economic statistics used to assess with compliance with macroeconomic convergence, entry and membership criteria is necessary, in order to prevent fraud and manipulation.

(viii) There is a need to have a crisis management mechanism and an exit strategy for members who fail to adhere to the membership criteria, or who wish to leave the monetary union.

CHAPTER 4: RECOMMENDATIONS OF THE JOINT STRATEGY

4.1 Introduction

65. Although some RECs have made considerable progress towards economic and monetary integration, the preceding sections highlighted some formidable challenges Africa still faces in the integration process. This section provides some recommendations as a way forward for integration in Africa.

4.2 Political Commitment

66. In order to reaffirm political will amongst member states, this strategy strongly recommends the creation of Ministries of Integration and REC Affairs in African countries as well as Regional Monetary Institutes where they do not exist. The proposed Ministries will deal with all integration related matters including;

(i) The inclusion of regional or continental decision into the national legislations;

(ii) Improving the decision making mechanism to ensure timely signing and ratification of Protocols;

(iii) Designing the communication strategy and sensitization programme to ensure that all the key stakeholders (political class, the media, the public, and the private sector, Central Bank Governors, Ministries of Finance and REC Affairs) are well informed about the integration agenda; and

(iv) Mobilising financial resources for integration programmes, projects and activities.

67. The Ministries will also be responsible for working with other countries in the regions, the AUC and other stakeholders on the following (among others);

(i) Harmonizing and rationalizing African partnerships with the rest of the world in order to prioritize Africa's development agenda;

(ii) Harmonizing policy coordination and coherence among Pan-African institutions;

(iii) Fast tracking the rationalization of RECs and membership;

(iv) Strengthening intra- and inter-community cooperation to facilitate effective integration.

(v) Accelerating the transformation of the AUC into an AU Authority.

68. It is recommended that mechanisms are established to enforce decisions and commitments relating to regional economic and monetary integration in line with the lessons learnt from the EMU.

4.3 Governance and Implementation of the Strategy

69. To implement the Joint Strategy on the Establishment of the African Central Bank (ACB), the AU Conference of African Ministers of Economy and Finance (CAMEF) should monitor the process. The Strategy proposes that an African Monetary Institute (AMI) should be established to undertake the preparatory work leading to the African Monetary Union. The AMI should then report through the Joint Committee to the CAMEF, the Council of Ministers and Heads of State.

4.4 Voluntary membership (Entry and Exit)

70. The Strategy recognizes that not all countries may wish to join monetary unions at either the REC or continental level, and that membership is therefore voluntary. Furthermore, countries that do wish to join may not all meet the entry criteria. Hence there is scope for countries to join at different times.

71. The Strategy encourages African Union member states to take all necessary steps to join the process of establishing the monetary union. Furthermore, the Strategy recognizes the possibility to identify countries that can start the monetary union according to the proposed timetable. Depending on which countries so commit, it will become clearer which RECs are likely to meet the anticipated timetable for continental monetary union.

4.5 Overlapping Memberships

72. The issue of overlapping REC memberships will need to be resolved at an early stage. Countries need to decide which REC they will belong to as the vehicle for monetary integration in line with Abuja Treaty. The Strategy recommends African Union Commission should ensure rationalisation of the RECs.

4.6 Integration Stages and Approach

73. Taking into account the fact that African countries are currently at different stages of development, and that progress with regional integration to date has been slow, the strategy recommends a five-stage gradual Step-by-Step Approach Continental Roadmap spanning the period 2014-2034. The strategy also recognises that the main difficulties in establishing common currencies will be encountered at the REC level, where are large number of separate countries and currencies are involved. RECs will also need to resolve the overlapping memberships problem. Once regional currencies have been established, and member states have committed to monetary integration, the subsequent integration of a smaller number of currencies to achieve a continental currency should be more straightforward. A longer period of time will be needed for the establishment of common currencies at the REC level. Therefore, the building blocks will be the establishment of RECs' regional central banks and regional currencies as well as fiscal unions at varying dates. RECs are encouraged to achieve this by 2028, although it is recognised that some may move more slowly. The African Economic, Fiscal and Monetary Union, the African Central Bank (ACB), and the African Single Currency will be established by 2034, for participating countries and RECs. The roadmaps of the RECs should be realigned with the continental roadmap to ensure harmony at the Africa-wide level. In adopting the timelines of the Abuja Treaty, the report took cognisance of the in-built 6-year grace period and felt that, for some countries and RECs, the period was realistic. Indeed, what was lacking was the political will to effectively implement the policy measures and programmes expected to meet the set goals and targets of the Treaty.

74. Furthermore, the consensus inherent in the Treaty provides a solid platform for future reviews. The speed of implementation of the programme will ultimately depend on the successful implementation of the essential pre-conditions for monetary union. Hence it may be necessary to adjust the programme, depending on the achievement of integration benchmarks.

75. Based on the foregoing, the strategy recommends that the Association of African Central Banks (AACB) African Monetary Cooperation Programme (AMCP) timeline of 2021 for the establishment of the ACB should be harmonized with the Abuja Treaty timeline of 2034, taking advantage of the 6-year in-built flexibility period in the Abuja Treaty.

4.7 Macroeconomic Convergence

76. Macroeconomic convergence is an important aspect of monetary union. The strategy recommends that proper attention should be given to the following macroeconomic related issues;

(i) Aligning the RECs macroeconomic convergence frameworks to the AMCP proposed by AACB;

(ii) Entrenching macroeconomic stability through the pursuit of prudent monetary and fiscal policies;

(iii) Encouraging the RECs to have an appropriate Exchange Rate Mechanism (ERM) that will adhere to universal rules as an arrangement that will govern the exchange rate management during the transition between the existence of different currencies and the adoption of a single currency;

(iv) Addressing the key challenges currently facing African Central Banks in monetary policy management will pave the way to a solid and resilient ACB; and

(v) Rationalizing public expenditure among member states which has tended to put upward pressure on the overall level of interest rates and which may in turn have caused exchange rate and interest rate instabilities in the RECs.

4.8 Development and Integration of the Financial Markets

77. There is a strong need for Africa to have a developed and effective financial market to support the integration efforts. To this end, the following are recommended:

(i) Development of a common framework and rules for monetary and financial system stability at the regional and continental levels;

(ii) Continued development of the capacity of national central banks to promote monetary stability and financial system stability within a harmonised framework at the REC level;

(iii) Harmonization of financial sector laws, rules and regulations, including the harmonization of regulation and supervision procedures and practices;

(iv) Fast tracking the development and integration of payment systems in Africa;

(v) Development and integration of the regional capital markets; and

(vi) Development of non-bank financial institutions such as pension funds and insurance.

4.9 Strengthening Policies for Economic Diversification

78. African countries should continue to strengthen policies directed at economic diversification, particularly for economies dominated by few resource exports. Economic diversification would reduce reliance on one or two commodity exports thereby reducing the effects of commodity price volatility.

4.10 Surveillance and Enforcement Mechanism

79. One important lesson Africa can learn from the current Euro Zone crises is that surveillance and enforcement mechanism is very crucial for any monetary union. It is therefore advisable for the continent to develop a credible surveillance and enforcement institution as well as to design regulatory framework with binding commitments and sanctions.

4.11 Strengthening the Development of Physical Infrastructure

80. A number of infrastructural developments are currently ongoing in Africa. However, in order to support the economic integration process, the region needs to put more efforts in terms of infrastructural development. The strategy recommends a more coordinated effort towards infrastructural development, including the raising of funds. In this regard, as recommended by the Minimum Integration Programme (MIP), the Programme for Infrastructural Development in Africa (PIDA) (2010-2030) and other infrastructural Master Plans at the RECs and Continental levels should be effectively implemented to bridge the infrastructural gap in Africa.

4.12 Statistical Harmonization

81. Economic and monetary integration requires well-adapted, regular and reliable statistical information. It is therefore crucial to strengthen national offices of statistics to ensure the reliability and timely availability of statistical data. Furthermore, there is a need to fast track the process of harmonizing statistical concepts and measurements in the region. In this regard, the African Charter on Statistics should be effectively implemented.

4.13 Accelerating the Trade Integration Process and Mobility of Factors of Production

82. There is the need for acceleration of the trade integration process in accordance with the third phase of the Treaty of Abuja for the 2007-2017 periods. The integration should be determined by the existence and the effectiveness of financial compensation mechanisms for customs revenue loss in order to facilitate agreement by countries. Mobility of factors of production also remains a conditionality and may be effective only through the application of the relevant protocols and agreements.

4.14 Transitional Institutional Arrangements

83. The strategy provides for the establishment of the African Monetary Institute (AMI) as a transitional arrangement towards the establishment of the ACB. AMI will be responsible for the preparatory technical, policy, statistical, legal and institutional groundwork leading to the establishment of the African Central Bank (ACB). Furthermore, AMI will support the AU organs and the RECs in the implementation of the monetary cooperation programme and liaise with the RECs Secretariats, and work closely with Regional Monetary Institutes and Sub-regions in monitoring and implementing the macroeconomic convergence and financial integration aspects of their strategic plans.

84. Regional Economic Communities are encouraged to create Regional Monetary Institutes where they do not exist, to be supervised by AMI in achieving the continental and regional goals of economic and monetary union.

85. The proposed AMI will be an AU organ. Consequently, it will be funded through the budget of the AU. However, the AMI will be operationally independent and may receive financial and technical support from other sources.

86. The proposed AMI will periodically review the design of the Strategic Plan and Roadmap for the establishment of the African Central Bank (ACB) to take into account emerging African realities. It will also undertake any other initiatives needed to facilitate the integration process in Africa.

87. In this regard, and following the decision of the Joint AUC-AACB Committee Meeting in Dakar, Senegal on 27th February 2013, the final Joint Strategy report to be approved at the Joint AUC-AACB Committee Meeting in Mauritius in August 2013 should be submitted to the CAMEF Meeting and subsequently to the AU Assembly of Heads of State and Government.

4.15 Communication Strategy and Sensitization Programme

88. There is a need for the ownership of the economic and monetary union project by key stakeholders, including the political class, media, general public, private sector, Central Bank Governors, Ministers of Finance and REC Affairs. This is vital to a successful economic and monetary union. In this regard, the design and dissemination of appropriate communication strategy and sensitization programme is critical.

CHAPTER 5: STRATEGIC WAY FORWARD

5.1 Introduction

89. The strategy for the establishment of the African Central Bank (ACB) provides for the necessary stages, the approach, roadmap with clear timelines and the establishment of the African Monetary Institute (AMI) as an indispensable transitional organ towards the creation of the common currency. It is understood that participating countries and RECs will strive to adhere to the proposed timetable.

5.2 Integration Stages and Approach

90. This report adapted the gradual, step-by-step approach based on the six (6) stage approach of Article 6 of the Abuja Treaty which conforms to the traditional and holistic stages leading to economic and monetary union, with the RECs as the building blocks. In adopting the timelines of the Abuja Treaty, the report took cognisance of the in-built 6-year grace period and felt that the period was realistic. Indeed, what was lacking was the political will to effectively implement the policy measures and programmes expected to meet the set goals and targets of the Treaty. Furthermore, the consensus inherent in the Treaty provides a solid platform for future reviews.

91. The Abuja Treaty envisaged a six-stage approach to African Monetary Union (single currency, African Central Bank, and one monetary and exchange rate policy) in 2028, while the AMCP planned for the establishment of the ACB and single currency in 2021. The Association of African Central Banks’

(AACB) African Monetary Cooperation Programme (AMCP) focused mainly on macroeconomic convergence and aspects of financial integration in contrast to the more comprehensive Abuja Treaty.

92. In view of this, the AACB AMCP timeline of 2021 for ACB establishment should be harmonized with the Abuja Treaty timeline of 2028, which should be extended to 2034.

93. The strategy recommends a five-Stage approach leading to the establishment of the ACB namely: Stage 1 which is the Policy and Institutional Decision Making Stage and the remaining four stages of the Abuja Treaty as well as aspects of Stage 2 of the Abuja Treaty that remained to be implemented as summarized in the Table 5.1 below:

Table 5.1
Recommended Stages Leading to the Establishment of the ACB

Stages	*Start Date*	*Completion Date*	*Number of Years*	*Goals*
Stage 1	March 2014	December 2014	1	Policy and Institutional Decision Making Stage—Creation of African Monetary Institute (AMI)
Stage 2	2015	2017	3	Effective Free Trade Areas at the REC level, Effective Tripartite Free Trade Area. Preparations for Effective REC Customs Unions; and Strengthening Macroeconomic Convergence and Financial Integration; Programme for Infrastructural Development in Africa (PIDA) (2010-2030) Phase I –II. Resolution of overlapping REC membership issues – each country to belong to only one REC.
Stage 3	2018	2022	5	Effective REC Customs Unions; and Deepening Macroeconomic Convergence and Financial Integration; Programme for Infrastructural Development in Africa (PIDA) (2010-2030) Phase II continued. Establishment of continental FTA.
Stage 4	2023	2028	6	Effective REC Common Markets; further Strengthening of Macroeconomic Convergence and Financial Integration (Payments and Settlement systems, sub-regional and Regional Stock Exchanges); and Creation of REC Central Banks and currencies as well as RECs' Fiscal and Banking Unions by 2028. Programme for Infrastructural Development in Africa (PIDA) (2010-2030) Phase III. Establishment of continental customs union.
Stage 5	2029	2034	6	African Common Market and effective Continental Economic and Monetary Union as well as Continental Fiscal and Banking Unions culminating in the African Central Bank and Single Currency; Programme for Infrastructural Development in Africa (PIDA) (2010-2030) Phase III continued to 2030

94. The above timing of completing the monetary union process by 2034 takes advantage of the six-year in-built grace period built into the Abuja Treaty. The Study Group also felt that those timelines were realistic but what was lacking is the political will as had already been identified to implement the policy measures and actions expected to achieve the set goals and targets.

5.3 Strategic Plan and Roadmap

95. This report recommends the following Strategic Plan and Roadmap with clear tasks, activities, deliverables, timelines, milestones and main actors leading to the establishment of the African Central Bank (ACB), spanning the period 2013-2034 as shown in Figure 5.1. In formulating the strategic plan and roadmap, this report has incorporated the activities of the AMCP with respect to macroeconomic convergence and financial integration.

96. The governance structure for the implementation of the Strategic Plan and Roadmap as recommended in this report should be effectively implemented.

97. The AMI will periodically review the Strategic Plan and Roadmap to take into account emerging African realities.

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Figure 5.2

Strategic plan and roadmap leading to the establishment of the African Central Bank (ACB) in 2028

First (1st) Stage February 2014 - December 2014: Policy and Institutional Decision Making Stage – Creation of African Monetary Institute (AMI)					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
1. Adoption of the Strategy leading to the establishment of the African Central Bank (ACB)	• Adoption of the Strategy by the AU Summit as recommended in this report	The Strategy for ACB	March-14	July-14	ACB Steering Committee, Joint AUC-AACB Committee, Council of Ministers (including Trade, Integration, REC Affairs and Central Bank Governors), AU Summit
2. Expanding the ACB Steering Committee	• Expanding the ACB Steering Committee	ACB Steering Committee			ACB Steering Committee, Joint AUC-AACB Committee, Council of Ministers (including Trade, Integration, REC Affairs and Central Bank Governors), AU Summit
3. Setting up of AMI	• Formulation of AMI Statute	• Statute for AMI • AMI	Aug-14	Dec-14	ACB Steering Committee, Joint AUC-AACB Committee, Council of Ministers (including Trade, Integration, REC Affairs and Central Bank Governors), AU Summit
4. Recruitment of AMI Staff in earnest to do the preparatory, technical, policy, statistical, legal and institutional work leading to the establishment of the African Central Bank (ACB).	• Staff recruitment process	Recruited AMI Staff in place			ACB Steering Committee, Joint AUC-AACB Committee, Council of Ministers (including Trade, Integration, REC Affairs and Central Bank Governors), AU Summit

Note: AMI is expected to review and update the rest of the Strategic Plan and Roadmap (2015-2028) after its inception.

Second (2nd) Stage 2014 - 2017: Effective Free Trade Area, Tripartite Free Trade Areas and Preparations for Customs Union; and Strengthening Macroeconomic Convergence and Financial Integration					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
1. Constituting the proper resources of the African Union and RECs.	• Study on financing mechanisms • Adoption and ratification of the protocol	ditto			
2. Strengthening the multilateral surveillance and enforcement mechanism by implementing the Protocol of Surveillance and Enforcement of Convergence. It must contain the country's commitment to respect the convergence criteria. The reforms needed to meet the convergence criteria will be enshrined in the Protocol. To be legally binding the Protocol must be ratified by the country's parliament.					

Second (2nd) Stage 2014 - 2017: Effective Free Trade Area, Tripartite Free Trade Areas and Preparations for Customs Union; and Strengthening Macroeconomic Convergence and Financial Integration					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
3. Removal of Tariff Barriers and Non-Tariff Barriers to regional and intra-Community trade and for the gradual harmonization of Customs Duties in relation to third States.	The observance of the timetable for the gradual removal of Tariff Barriers and Non-Tariff Barriers to intra-community by designing and adopting a Common External Tariff (CET).				
4. Strengthening of sectoral integration at the regional and continental levels in all areas of activity particularly in the fields of trade, money and finance and Infrastructural Development (including PIDA and other master plans).	• Designing and issuance of REC-Common Passport • Road interconnection of capital cities. • Implementation of AUC Maritime Charter. • Implementation of Yamoussoukro Declaration (air transport). • Implementation of PIDA and other master plans on infrastructural development.				
5. Establishment of Tripartite Free Trade Areas and Continental Grand Free Trade Area.					
6. Co-ordination and harmonization of activities among the existing and future economic communities as well as MIP Surveillance.					
7. Harmonization and coordination of macroeconomic and monetary policies as well as concepts.					
8. Interconnection of payments and clearing system.	• Upgrading and modernizing payment system • Integration of national payment systems				
9. Promotion for African banking networks.					
10. Strengthening financial markets and deepening financial inclusion	Development of Instruments, mobile financial services, agent banking, branchless banking, Islamic banking services and other financial innovations; deepening financial literacy and financial consumer protection				
11. Promotion of sub-regional and regional stock exchanges.	Unifying payment systems and creating sub- Regional Stock Exchanges				

Second (2nd) Stage 2014 - 2017: Effective Free Trade Area, Tripartite Free Trade Areas and Preparations for Customs Union; and Strengthening Macroeconomic Convergence and Financial Integration					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
12. Strengthening and harmonization of banking and financial supervision.	• Harmonization of supervision and regulatory frameworks • Implementing Basel II & III principles and international standards				
13. Deepening Macroeconomic Convergence	• Policy-oriented Empirical Modelling • Assessment of the adequacy of the Macroeconomic Convergence Criteria • Designing the Protocol of Surveillance and Enforcement of Convergence • Ratification of the Protocol • Budget deficit/GDP ratio Elimination of Central Bank financing of fiscal deficits. • Single digit inflation rate. • External reserves/import cover				
14. Limited Currency Convertibility	Ensuring convertibility between RECs' currencies				
15. Design of an Effective Communication Strategy and Sensitization Programme	Undertake vigorous public education campaigns-- Certain approaches could be pursued at AU, REC and national levels at the appropriate time involving the print and the electronic media as well as representatives of organizations in order to reach large target audiences such as consumer groups, parliaments, trade unions, industry federations, organizations of SMEs, chambers of commerce, professional associations, unions, the private sector, the academia, Civil Society Organizations and the general public.				

Third (3rd) Stage 2018 - 2019: REC Customs Union; and Deepening Macroeconomic Convergence and Financial Integration, Continental FTA					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
(i) Co-ordination and harmonization of tariff and non-tariff systems among the various Regional Economic Communities with a view to establishing a Customs Union at the Continental level by means of adopting a common external tariff.					
(ii) Deepening Macroeconomic Convergence and Financial Integration					

Fourth (4th) Stage 2020 - 2023: Further Strengthening of Macroeconomic Convergence and Financial Integration (Payments and Settlement systems, sub-regional and Regional Stock Exchanges); REC Fiscal Unions and Creation of REC Central Banks and Currencies					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
1. The harmonization of monetary, financial and fiscal policies;	• Continued observance of macroeconomic indicators of convergence. • The macroeconomic indicators of each country/sub-region would be assessed against the convergence criteria. A comparative analysis would be made thereafter to the Convergence Council.				
2. The application of the principle of free movement of persons as well as the provisions herein regarding the rights of residence and establishment	The Design and Issuance of a Common Passport at continental level				
3. Removal of all capital account controls.					
4. Creating Regional currencies by 2021 and phased withdrawal of national currencies.	Preparatory work for the launching the RECs' currencies				
5. Commissioning of a study on the establishment of an African Exchange Rate Mechanism					

Fifth (5th) Stage 2029 - 2034: African Common Market; African Economic, Fiscal and Monetary Union culminating in the African Central Bank and Single Currency					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
(i) Establishment of an African Common Market	The adoption of a common policy in several areas such as trade, and infrastructure development;				
(ii) Consolidation and strengthening of the structure of the African common Market, through including the free movement of people, goods, capital and services, as well as , the provisions herein regarding the rights of residence and establishment					
(iii) Integration of all sectors namely economic, political, social and cultural; establishment of a single domestic market and a Pan-African Economic and Monetary union.	Review of commissioned study on the African Exchange Rate Mechanism and				
(iv) Implementation of the final stage for the setting up of an African Monetary Union, the establishment of a single African Central bank and the creation of a single African currency	• Operationalization of Exchange Rate Mechanism. • Preparation of institutional, administrative and legal framework for setting up the African Central Bank and African single currency of the African Monetary Union. • Appointment of key officers of the African Central Bank. • Preparation for the introduction of African single currency. • Recruitment of staff of the Bank.				
(v) Implementation of the final stage for the setting up of the structure of the Pan-African Parliament and election of its members by continental universal suffrage					
(vi) Implementation of the final stage for the harmonization and co-ordination process of the activities of regional economic communities;					

Fifth (5th) Stage 2029 - 2034: African Common Market; African Economic, Fiscal and Monetary Union culminating in the African Central Bank and Single Currency					
Task	*Activity*	*Deliverable*	*Start Date*	*Completion Date*	*Responsibility*
(vii) Implementation of the final stage for the setting up of the structures of African multination enterprises in all sectors					
(viii) Implementation of the final stage for the setting up of the structures of the executive organs of the Community.	Mid-term assessment of country performance.				
(ix) Finalization of arrangements required for the launching of the African Monetary Union.	Final assessment of countries' performance against convergence criteria.				
(x) This is the completion stage before the take-off of the African Central Bank by 2028.	• Establishment of the African Economic, Fiscal and Monetary Union, African Central Bank and introduction and circulation of the African single currency in 2028. • Transitional period for phased withdrawal of RECs' currencies.				

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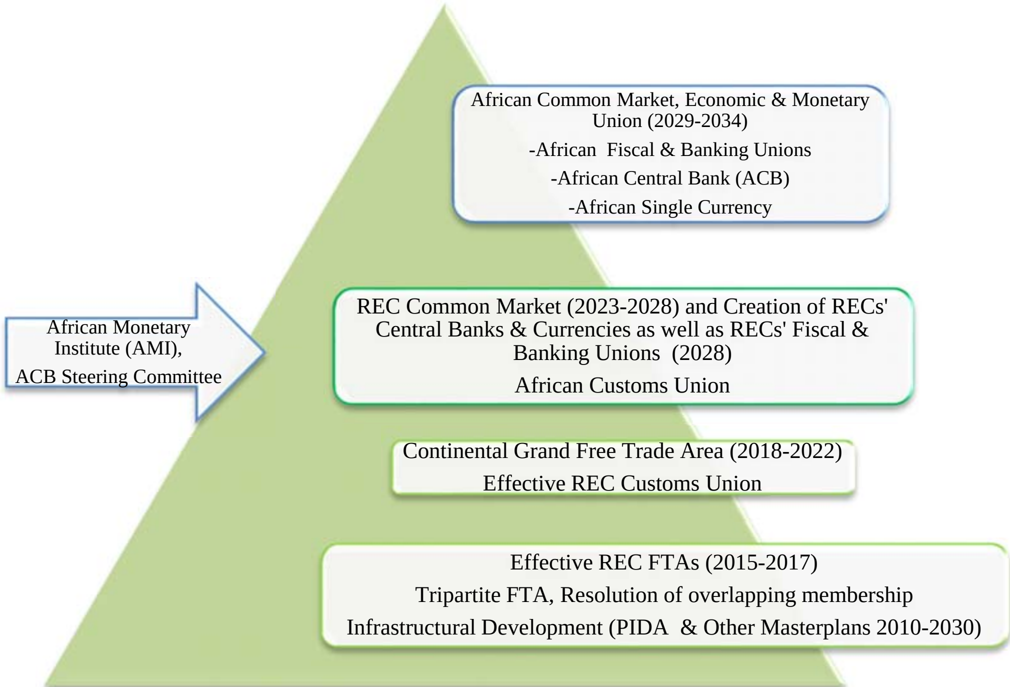
5.4 Establishment of African Monetary Institute (AMI)

5.4.1 Objective

98. The main objective of the African Monetary Institute shall be to undertake all the technical, policy, statistical, institutional and legal preparations spanning all the stages leading to monetary union in Africa and the establishment of the ACB as shown in the pyramid below.



5.4.2 Role of the African Monetary Institute (AMI)

99. A non-exhaustive list of functions that the AMI is expected to undertake is outlined below:-

(i) Undertake the implementation of the Joint Strategy;

(ii) Undertake all the technical, policy, statistical, institutional and legal preparations to attain the Continental Monetary Union, African Central Bank and Single Currency;

(iii) Review and advise on the revision of the macroeconomic convergence criteria of the AMCP and monitor the state of macroeconomic convergence of the member states and RECs against the agreed criteria;

(iv) Advise on the merits of alternative monetary policy frameworks;

(v) Advise on the design an appropriate Exchange Rate Mechanism (ERM). The AMI would be responsible for determining the value of the common currency and the conversion rates of national and RECs currencies into the common currency;

(vi) Contribute to the implementation of the African Statistics Charter and the Strategy for Statistical Harmonization in Africa;

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(vii) Make recommendations for the harmonization and coordination of monetary and exchange rate policies in the run-up to monetary union;

(viii) Monitor fiscal policies and public debt at national and REC levels;

(ix) Recommend appropriate supervisory and regulatory frameworks for an integrated financial and capital markets in the region;

(x) Advise on harmonization of financial system regulations and accounting practices in all member countries;

(xi) Make recommendations for the development of a Continental Payments and Settlement System;

(xii) Define possible links between the three African financial institutions - ACB, AMF and AIB and their interaction with the existing national and regional institutions;

(xiii) Undertake studies and prepare reports recommending the establishment of the African Central Bank;

(xiv) Define the possible institutional relationships between the ACB and, national central banks and REC central banks, focusing on such issues relating to ownership, governance system, management of foreign reserves, and financial system surveillance, supervision and regulation;

(xv) Define the entry and exit criteria for participation in the monetary union as well as the conditions for entry into force of the ACB;

(xvi) Develop a framework for a sensitization and communication programme on the net benefits of a single currency in order to create wide public support for the introduction of a common currency;

(xvii) Review the design of the Strategic Plan and Roadmap to take into account emerging African realities;

(xviii) Liaise with the RECs Secretariats and AACB Executive Secretariat, and coordinate regional monetary institutes in implementing the macroeconomic convergence and financial integration aspects of their regional strategic plans;

(xix) Develop the minimal conditions for the creation of single currency in Africa; and

(xx) Undertake any other tasks assigned to it.