

AFRICAN MONETARY COOPERATION PROGRAMME OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

INTRODUCTION

During its 23rd Ordinary Meeting in Abuja on 18th January, 2000, the Assembly of Governors of the Association of African Central Banks considered a proposal to revive the Association under the umbrella and operational framework of the Abuja Treaty which was signed in 1991 by the Authority of Heads of State and Government of the Organization of African Unity (OAU). Article 44 of the Abuja Treaty states that *«in accordance with the relevant protocols, member states shall within a timetable to be determined by the OAU, harmonize their monetary, financial and payments policies, and boost intra-community trade in goods and services as well as enhance monetary cooperation among members states»*. To this end, member states shall:

1. use their national currencies in the settlement of commercial and financial transactions in order to reduce the use of external currencies in such transactions;
2. establish appropriate mechanisms for setting up multilateral payments systems;
3. consult regularly among themselves on monetary and financial matters;
4. promote the creation of national, regional and sub-regional money markets, through the coordinated establishment of stock exchanges and harmonizing legal texts regulating existing stock exchanges with a view to making them more effective;
5. cooperate in an effective manner in the fields of insurance and banking;
6. further the liberalization of payments and the elimination of payment restrictions, if any, among them and promote the integration of all existing payments and clearing mechanisms among the different regions into an African Clearing and Payments House; and
7. Establish an African Monetary Union through the harmonization of regional monetary zones.

The Governors, in the course of their deliberations, noted that the achievement of the objectives of the Abuja Treaty was predicated on, among others, the strengthening of the sub-regional groupings and harmonization of national policies for the eventual evolvment of a monetary union in the continent. In that regard, the Assembly of Governors reconstituted the Bureau of the AACB, which according to its statutes comprises the Chairman, Vice Chairman, and Chairmen of the sub-regional Committees into a Technical Committee to draw up a framework for the establishment of an African Monetary Cooperation Programme for its consideration.

The Committee presented an initial draft of the Programme that the Governors considered during their meeting in Tanzania in August 2000. Arising from that meeting was the directive by the Governors that the Committee should review the draft with a view to making it realistic and implementable.

Except the mentioned introduction, this document is structured in 5 parts:

Part 1 – Objectives of the African Monetary Cooperation Programme (AMCP).

Part 2 – Framework for Macroeconomic Convergence

2.1 - Data collection;

2.2 - Convergence criteria of the AMCP;

2.3 – Modalities for Periodic Reporting.

Part 3 – Stages of Implementation.

Part 4 - Minimum Number of Countries to Commence the African Monetary Union

Part 5 – Institutional Framework for Surveillance.

1. OBJECTIVES OF THE AFRICAN MONETARY COOPERATION PROGRAMME (AMCP)

The African Monetary Cooperation Programme (AMCP) involves adoption of collective policy measures to achieve a harmonized monetary system and common management institution. It envisages the harmonization of the monetary cooperation programmes of the various sub- regional groupings as building blocks with the ultimate aim of evolving a single monetary zone by the year 2021 with a common currency and a common Central Bank at the continental level.

2. FRAMEWORK FOR MACROECONOMIC CONVERGENCE

The achievement of macroeconomic stability and convergence in key macroeconomic aggregates is a necessary condition for the evolution of a monetary union. Thus, there has always been the need to adopt convergence criteria in order to minimize within a time period, the degree of divergence among the economies of countries intending to undertake monetary and economic cooperation. A common feature in monetary cooperation programmes of the various regional groupings in Africa is the requirement for member countries to comply with a set of macroeconomic convergence criteria.

Given the importance of macroeconomic convergence, the measures to achieve the objective of the African Monetary Cooperation Programme would include, the adjustment of exchange rate of member countries to their equilibrium levels, eventual liberalization of current and capital account transactions, adoption of harmonized exchange rate system, harmonization of ceiling on central banks' credit to government in order to ensure fiscal policy harmonization and the adoption of market-oriented approach to the conduct of monetary policy.

2.1. Data Collection

There is the need for adequate and reliable data for the implementation of the African Monetary Cooperation Programme. It is therefore; recommended that the AACB should design a questionnaire which would accommodate all decisions to be taken by the Assembly of Governors and Council of Ministers with regard to the convergence criteria. It is also important that statistical data should be current and analyzed by the Secretariat of the AACB on quarterly and biannual basis. A programme of harmonization of macroeconomic concepts should be implemented in order to make the data comparable.

2.2. Convergence Criteria for the Establishment of the AMCP

Building on the progress so far achieved in the various sub-regional groupings, the following Primary and all countries should attain Secondary criteria before the launching of the African Monetary Union.

i. Primary Criteria

- a) Overall budget deficit/GDP ratio (excluding grants) of less than 3 per cent.
- b) Inflation rate of less than 3 per cent.
- c) Minimization of Central Bank financing of budget deficit.
- d) External reserves of equal to or more than six months of imports of goods and services.

ii. Secondary Criteria

Arrears - No accumulation of new domestic payment arrears and liquidating of all old ones in relation to the public sector.

- a) Domestic fiscal receipts/GDP ratio of equal to or more than 20%.
- b) Salary mass/total domestic fiscal receipts ratio of less than 35%.

- c) Real exchange rate stability to be maintained by each country.
- d) The sourcing of minimum of 20% government investment capital from fiscal receipts.
- e) Interest rates - The maintenance of positive real interest rates.

2.3 - Modalities for Periodic Reporting

In order to facilitate the monitoring and evaluation of performances of countries/sub-regions, periodic reports (quarterly) should be submitted to AACB Secretariat and the African Economic Community (AEC)/AU Secretariat. In the event of non-compliance with the criteria, the Secretariat would recommend remedial measures to be undertaken to rectify the situation.

3. STAGES OF IMPLEMENTATION OF THE AMCP

Given the importance of macroeconomic convergence, the measures to achieve the objective of the African Monetary Cooperation Programme would include, the adjustment of exchange rate of member countries to their equilibrium levels, eventual liberalization of current and capital account transactions, adoption of harmonized exchange rate system, harmonization of ceiling on Central Banks' credit to government in order to ensure fiscal policy harmonization and the adoption of market-oriented approach to the conduct of monetary policy. The African Monetary Union would be created, at the end of a process, comprising the underlets six stages:

Stage I (Year 2002-2003)

- Establishment of Sub-regional Committees of the AACB where they do not exist and revitalization of existing Committees.
- Adoption by each Sub-region of formal monetary integration program.

Stage II (Year 2004 - 2008)

- Harmonization and coordination of macroeconomic and monetary policies as Well as concepts.
- Gradual interconnection of payments and clearing system.
- Promotion of African banking networks.

- Promotion of sub-regional and regional stock exchanges.
- Strengthening and harmonization of banking and financial supervision.
- Observance of the following macro-economic indicators by year 2008:
 - Budget deficit/GDP ratio not exceeding 5 per cent.
 - Central Bank credits to government not exceeding 10 per cent of previous year's tax revenue.
 - Single digit Inflation rate.
 - External reserves/import cover of at least 3 months.

Stage III (Year 2009 - 2012)

- Observance of the following macroeconomic indicators by year 2012
- Budget deficit/GDP ratio not exceeding 3 per cent by 2012.
- Elimination of Central Bank credit to government.
- Inflation rate of less than 5 per cent.
- External reserves/imports cover of equal or greater than 6 months.

Stage IV (Year 2013-2015)

- Assessment of macroeconomic performance and negotiation for the establishment of a common Central Bank (Year 2015). At this stage,
- Countries would be required to consolidate achievements made at the third stage. The activities under this stage would include:
 - Inflation rate of less than 3 per cent.
 - 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.
 - Commissioning of a study on the establishment of an African Exchange Rate Mechanism.

Stage V (Year 2016-2020)

- Finalization of arrangements required for the launching of the African Monetary Union (2016 - 2020).
- This is the completion stage before the take off of the common Central Bank. The following activities are expected to be undertaken:
- Preparation of institutional, administrative and legal framework for setting up the common Central Bank and currency of the African Monetary Union.
- Adoption of the institutional, administrative and legal framework for the setting up of the common Central Bank and currency of the African Monetary Union.
- Review of commissioned study on the African Exchange Rate Mechanism and
- Operationalisation of Exchange Rate Mechanism.
- Appointment of key officers of the Common Central Bank.
- Preparation for the introduction of a common currency.
- Recruitment of staff of the Bank.
- Mid-term assessment of country performance.
- Final assessment of countries' performance against convergence criteria.

Stage VI (Year 2021)

- Introduction and circulation of the common African currency (2021).
- A transitional period during which sub-regional monetary institutions would operate
- Alongside the African Central Bank.

4. - MINIMUM NUMBER OF COUNTRIES TO COMMENCE THE AFRICAN MONETARY UNION

The African Monetary Union would be established when the majority of countries and or Central Banks in the various sub-regions, representing at least 51% of the AACB membership, have fulfilled the convergence criteria.

5. – INSTITUTIONAL FRAMEWORK FOR SURVEILLANCE

To ensure that there is a permanent institutional framework at the level of member states and at the sub-regional level to monitor performance, the following is proposed:

- **Convergence Council**, comprising Ministers of Finance and Governors of Central Bank which will report to the Authority of Heads of State and Government of AU.
- **Coordinating Committee** made up of Bureau of the AACB, i.e., Chairman, Vice-Chairman and Chairmen of sub-regional Committees. The Committee will evaluate the proposals of the Technical Committee and make recommendations for the consideration of the Convergence Council.
- **Technical Committee**, comprising officials of Central Banks and experts of the Ministries of Finance, will evaluate and analyze information from the various sub-Regions and make proposals to the coordinating Committee. These relate to macroeconomic convergence criteria specified in the plan of action and any other issues as may be directed by the Assembly of Governors.
- **AACB Permanent Secretariat and the AEC/African Union Secretariat.**

Adopted in Algiers, on September 04, 2002