MONETARY INTEGRATION IN AFRICA: PROBLEMS AND PROSPECTS

BY

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JULY 2015
DECLARATION

I, Nii Ayiquaye Staniel Tetteh, hereby declare that this work is entirely my personal efforts except references to other works in support of this dissertation under the supervision of Dr. Vladimir Antwi Danso. It is record of my own work and has not been previously presented in any form whatsoever in application for a degree elsewhere. All sources of information collected and materials used have been duly acknowledged by reference and bibliography.

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NII AYIQUAYE STANIEL TETTEH   DR. VLADIMIR ANTWI DANSO
(STUDENT)                     (SUPERVISOR)

DATE......................  DATE......................
DEDICATION
I dedicate this work to my father Mr. Ransford Tetteh for his support, love and advice, to my mother Mrs. Dorothy Tetteh for her words of encouragement and prayers and to my siblings Geoffrey and Rodney.
ACKNOWLEDGEMENT

I would like to express my deepest appreciation to the Almighty God first and foremost for seeing me through this study successfully. I am grateful for His grace and mercies showered upon me throughout my life. He has indeed been good to me and I will forever praise His name.

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My thanks also go to Dr. Vladimir Antwi-Danso for supervising me superbly to complete this study.

My appreciation goes to Mr. Japheth Ofosu Appiah for his advice and encouragement at the early stages of my LECIAD journey. You were very helpful, thank you.

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I am grateful to the Director, the Senior Members and the entire LECIAD staff for their contributions in diverse ways which saw me through the entire program successfully.

I am also grateful to my dear family members for their support throughout my life.

Finally, I would like to thank my friends for their support. Special thanks to my friends of the LECIAD class of 2014/2015 academic year. You made my LECIAD experience a memorable one.

Thank you all.
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<table>
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<th>Description</th>
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<tbody>
<tr>
<td>AEC</td>
<td>African Economic Community</td>
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<tr>
<td>AMU/UMA</td>
<td>Arab Maghreb Union</td>
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<td>AU</td>
<td>African Union</td>
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<tr>
<td>AUC</td>
<td>African Union Commission</td>
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<tr>
<td>BCEAO</td>
<td>The Central Bank of West African States</td>
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<tr>
<td>BEAC</td>
<td>The Central Bank of Central African States</td>
</tr>
<tr>
<td>CEMAC</td>
<td>Central African Economic and Monetary Community</td>
</tr>
<tr>
<td>CEN-SAD</td>
<td>Community of Sahel-Saharan States</td>
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<tr>
<td>CET</td>
<td>Common External Tariffs</td>
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<tr>
<td>COMAI</td>
<td>Conference of African Ministers in Charge of Integration</td>
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<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CU</td>
<td>Customs Union</td>
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<td>EAC</td>
<td>East African Community</td>
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<tr>
<td>EAMU</td>
<td>East African Monetary Union</td>
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<tr>
<td>ECCAS/CEEAC</td>
<td>Economic Community of Central African States</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>FAL</td>
<td>Final Action of Lagos</td>
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<td>FTA</td>
<td>Free Trade Area</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HLTF</td>
<td>High Level Task Force</td>
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<tr>
<td>LPA</td>
<td>Lagos Plan of Action</td>
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<tr>
<td>MAC</td>
<td>Monetary Affairs Committee</td>
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<td>NEPAD</td>
<td>New Partnership for Africa’s Development</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>NTB’s</td>
<td>Non Tariff Barriers</td>
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<tr>
<td>OAU</td>
<td>Organization of African Unity</td>
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<td>OCA</td>
<td>Optimum Currency Area</td>
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<td>RECs</td>
<td>Regional Economic Communities</td>
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<td>RIA</td>
<td>Regional Integration Arrangements</td>
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<tr>
<td>SACU</td>
<td>Southern African Customs Union</td>
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<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
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<tr>
<td>SAMU</td>
<td>Southern African Monetary Union</td>
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<tr>
<td>UEMOA/WAEMU</td>
<td>West African Economic and Monetary Union</td>
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<td>UNECA</td>
<td>United Nations Economic Commission for Africa</td>
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<tr>
<td>WACB</td>
<td>West African Central Bank</td>
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<td>WAMA</td>
<td>West African Monetary Agency</td>
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<tr>
<td>WAMI</td>
<td>West African Monetary Institute</td>
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<td>WAMZ</td>
<td>West African Monetary Zone</td>
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ABSTRACT

Monetary union has become a contentious issue in recent times especially since the successful launch of the European monetary zone. The African Union has plans to create an economic and monetary union for its members. This will involve the creation of a new unified currency for the whole of Africa. This work seeks to give an appraisal of the significance of a monetary union to Africa, look at the challenges and prospects of such an agenda and determine whether or not a monetary union is viable for the Continent. To do this, I reviewed literature on existing monetary union and looked at the challenges they had faced. I also looked at the benefits of a monetary union to the countries that belonged to the monetary unions. My findings show that most of the RECs in Africa have plans to implement monetary unions in their respective regions. Also the policies of the RECs are not being harmonized which might pose problems in future when the continent wide monetary union is to be launched.
CHAPTER ONE: RESEARCH DESIGN

1.1 Background to the Research Problem

The integration of the African continent has been a major agenda for African countries for many years. Various steps have been taken over the years by the various regional and continental bodies to ensure that Africa is better integrated. Economic integration is seen as an important step in ensuring overall integration of the African continent.

Since the 1960’s the United Nations Economic Commission for Africa (UNECA) has encouraged African nations to combine their economies into sub-regional markets that would ultimately form a wide African economic union. Within the Organization of African Unity (OAU), various resolutions and declarations were adopted to ensure continent-wide economic integration. The summit in Algiers in September 1968 and then in Addis Ababa in August 1970, and, again May 1973 identified the need for economic integration as a tool for the realization of the objectives of the organization.

The endorsement of the Kinshasa Declaration at a Summit in Libreville in July 1977 led to the adoption of the OAU Council of Ministers in December 1976 which proposed the establishment of an African Economic Community, which was to be achieved in successive stages.

In 1980, the OAU Extraordinary Summit adopted the Lagos Plan of Action as a major step towards the goal of integration. The commitments in this Plan and the Final Act of Lagos were finalized in June 1991, when the member states of OAU signed the Treaty establishing the African Economic Community (AEC), popularly known as the Abuja Treaty. This was done during the 27th Ordinary Session of the OAU. The Abuja Treaty came into force after the required number of ratifications was obtained by May 1994. The Abuja Treaty was aimed at
establishing an African Economic Community primarily to promote economic growth as well as social and cultural development on the continent. Furthermore it was to ensure African economic unification and by so doing increase self sufficiency and indigenous development and to create a framework for development, mobilization of human resource and material. The AEC would further promote cooperation and development in all aspects of economic activities in order to maintain economic stability and ensure peaceful relations between member-states. It was also aimed at diversifying the productive base of the continent geared towards increasing locally produced goods which would later give rise to more intra-African trade flows. The target areas were agriculture, industry and mining. According to the treaty, the AEC would be set up through a gradual six-stage process over thirty four years.

As part of the process of forming the AEC, Regional Economic Communities were set to act as the foundation for the eventual unification of the continent. To boost the creation of a continent wide monetary union, the various RECs have plans on creating monetary unions in their various regions which would eventually be merged to form one monetary union for the whole of Africa.

Monetary integration arrangements are not new to Africa. During the colonial period, a number of currency unification arrangements existed in various regions across Africa. As states in Africa began to gain independence, such arrangements were reviewed by the newly independent states and most of such arrangements were discontinued. In the end, most of the former British colonies abandoned monetary union when they gained independence. Some of the former French colonies however maintained the monetary union from the colonial system. The arrangements in the former French colonies have progressed over the years to what we now have as the monetary unions in West and Central Africa.
After gaining independence, most African countries sought to show their sovereignty by setting up their own central banks and issuing their own national currencies. Monetary policies also differed from country to country. While some countries pursued policies to ration and control goods and services, others embarked on massive government expenditure which led to uncontrollable inflation. Generally, the policies of the various countries were weak and led to negative consequences. As these negative consequences of these policies began to manifest in subsequent years, African countries sought to rectify this and on the advice of the Bretton Woods Institutions removed the controls and reduced central bank financed government expenditure. Although these policies brought temporal relief for African countries, their economies continued to suffer.

African leaders sought to find a new approach to dealing with their economic woes. Their efforts led to the Sirte Declaration which in turn led to the establishment of the African Union (AU) to replace the OAU through a Constitutive Act. The AU and its member states then agreed to the New Partnership for African Development (NEPAD) to accelerate the regional and continental integration process which included monetary and economic integration.

There are a number of regional monetary integration initiatives presently being considered in Africa. There are also existing monetary unions that are progressing steadily. In West Africa, the Economic Community of West African States (ECOWAS) since its formation has had the objective forming a single currency union among other objectives. The absence of any progress in forming a single currency for many years led a subset of the ECOWAS countries to propose a second monetary zone in addition to the existing CFA franc zone in West Africa known as UEMOA/WAEMU. This would be a fast track approach to the creation of a unified West
African Monetary zone. The two zones would eventually be merged to achieve the objective of a single West African Currency.

In East Africa, Kenya, Tanzania and Uganda have agreed to revitalize the East African Community (EAC), which was dissolved in the 1960s. The project envisions a single currency which would in effect re-establish the currency union constituted around the East African shilling that was in place at the time of independence.

Southern Africa has also been exploring monetary integration in the context of expanding the CMA cantered on the rand. The CMA currently has Lesotho, Namibia, South Africa and Swaziland as member states. Some consideration is being given to expanding the CMA to include other SADC countries. The expanded monetary zone would involve shared monetary policy responsibility by South Africa’s Reserve Bank with neighbouring central banks.

The monetary unions of the various RECs would eventually be merged to form a single monetary union for the whole of Africa.

1.2 Problem Statement

In forming currency or monetary unions, there should be an assured benefit of reducing transaction costs, convergence criteria and also a sizeable amount of trade between the proposed countries. Here in Africa, transactions between countries are low and despite the fact that all Regional Economic Communities have defined criteria that potential members of monetary unions being formed should meet, such criteria are not always met because member countries face varying economic problems. For several years, ECOWAS countries have struggled to meet the convergence criteria.
There have been a lot of discussions about economic integration. Among the discussion is that, in Africa there has been a fixation on the use of a single currency. However a look at successful economic unions show that currency unification is often embarked on after all other economic integration arrangements have been achieved. Therefore the study seeks to understand why monetary integration has been given so much attention in Africa while other economic integration arrangements have not been achieved.

Also, there has been a lot of work done on the various economic groupings and their efforts at forming a monetary union but not much has been done on how the various monetary unions would be harmonized to achieve a single currency for Africa as a whole. The various economic groupings apply conflicting strategies in their efforts to achieve monetary unions and it begs the question of which strategy would be used when the time comes for Africa to adopt a single currency. Also there is nothing to show how the efforts of the RECs would be harmonized when the time comes to implement a continent wide monetary union.

1.3 Research Questions

What are the benefits of a common currency to Africa?

Is Africa ready for a single currency?

What challenges would Africa face in its quest towards a monetary union?

1.4 Aims and Objectives

To give an overview of monetary integration in Africa

To discuss the problems and prospects of monetary integration in Africa

To discuss the cost and benefits of a monetary union to Africa
1.5 Scope of the Study

The scope of the study would be to look at existing monetary unions in West Africa like the UEMOA and also proposed monetary unions like WAMU.

1.6 Hypothesis

The Regional Economic Communities have slowed down efforts at achieving monetary integration in Africa.

1.7 Rationale

First, this study will add to the body of knowledge on economic integration in Africa. Second, the RECs are focused on achieving monetary integration so it is important to investigate the factors that have been a hindrance to them in achieving this objective.

1.8 Theoretical Framework

The theory underpinning this work is the theory of Optimum Currency Area. This theory describes the ideal factors that need to be in place for countries to embark on currency unification. This theory has often been used to determine if a particular region is ready or not to form a currency union. The Theory of OCA was pioneered by Robert Mundell, although others point to earlier work done by Abba Lerner in the area. Mundell's originally proposed definition was in terms of internal mobility and external immobility of labor and capital. Mundell was of the view that, there could be constraints to the size of a currency area depending on the character of shocks affecting the economy. According to Mundell, if shocks affecting countries are similar then it would be good to form a currency union. However, if the response to shocks to countries of a union is asymmetric or dissimilar, then an overall response of a union would prove costly for some countries in the union. Mundell enunciated four main criteria for the assessment
of an optimum currency area and these are the nature and magnitude of shocks, factor mobility, intensity of trade and fiscal transfers.\textsuperscript{10}

For countries in Africa who mainly produce primary commodities for export, their source of shocks is usually from trade. For instance, Nigeria shocks are related mostly to changes in the world price of oil which is the country’s major exports. Other countries also face different levels of shocks based on the commodities they export. Such a scenario will result in asymmetry of shocks because of the differences in commodity exports and the fact that the prices of various commodities do not move together on the market. Countries that produce and export the same commodities are likely to experience symmetry of shocks because any change in world prices would affect them all.

For a region to have a successful monetary union there must be labour and capital mobility. This includes the physical ability of workers to travel across a region. The must be no barriers to free movement. Unless labour can move freely among countries in a monetary union, a fall in demand in one country would result in unemployment in the other countries of the union. In Africa labour mobility is often impeded by factors like immigration restrictions and language and cultural barriers. ECOWAS has facilitated mobility by eliminating visa requirements but there are still some administrative difficulties for citizens of one ECOWAS country to establish residency in another ECOWAS country.

The more countries trade with each other, the greater the benefits for the countries if they form a monetary union. A monetary union would take away a considerable amount of transaction costs when countries in the union trade with each other. Unfortunately most of Africa’s trade is with
the outside world and trade among African countries is as low as ten per cent. This means Africa is not poised to benefit greatly from a monetary union.

Critique

Paul Krugman, argued that two of the major parameters for a region to embark on a monetary union, labour/ factor mobility and fiscal integration were not met by Europe but they went ahead with their monetary union. He therefore questions whether the Optimum Currency Area is the right tool to use in evaluating whether a region is ready for a monetary union or not. It must be noted however, the theory of OCA was used to analyze the European Union before it implemented its monetary union and it also suggested that the European Union was not an optimum currency area. The European Union went ahead to launch its monetary union and it has dealt with the challenges that came with it and it is progressing.

This theory is relevant to my study because it sets out parameters such as the nature and magnitude of shocks, factor mobility, trade intensity and fiscal transfers that must be in place to ensure a successful monetary union.

1.9 Literature Review

A lot of scholarly work has been and continues to be done on monetary integration in Africa. It has become even more topical since the emergence of the Euro in the European Union. Scholars have begun to look into the viability of a single currency in Africa and whether the continent is ready for such an undertaking. Most of the work done in this area has mainly been focused on whether Africa qualifies as an Optimum Currency Area (OCA) and whether countries can meet the four main parameters proposed for a region to be classified as an Optimum Currency Area.
Also, most of the work done tends to focus on one sub regional block or another and not necessarily the entire Africa region in general.

In “The Itenary of the African Integration Process: An Overview of the Historical Landmarks”, Rene N’Guettia Kouassi gives a general overview of the various initiatives embarked upon by African leaders over the years in their efforts to achieve political and economic integration on the continent.\(^ {12} \)

According to the author, African leaders saw the need for economic integration because of the adverse effects of Africa’s balkanization after independence. They had to find a solution to all the problems they were faced since they gained independence. He opines that, the political and economic reaction to the problems they faced is what led to the establishment of numerous intergovernmental agencies that would promote integration on the continent.\(^ {13} \) Such organisations would give all African countries one voice and ease the constraints associated with the limited size of national markets.

This article highlights the various development strategies that were aimed at integrating the continent. It gives a trajectory of all the initiatives embarked on by African leaders and the results they achieved over the years. It reviews the initiatives started in the 1970s and 1980s like the Monrovia Symposium Preparatory Meetings, the Lagos Plan of Action (LPA), the Final Act of Lagos (FAL) and the Abuja Treaty.\(^ {14} \) It also looks at actions take in the 1990s and beyond like the Sirte Declaration, the Constitutive Act of the African Union and the New Partnership for African Development (NEPAD).\(^ {15} \)

The author concludes that all the initiatives taken had great enthusiasm which culminated in the countries coming together to embark on them. Their efforts were however impeded by the lack
of political will to build on the enthusiasm that started the initiatives. This meant that they faced problems when implementing the policies agreed.\textsuperscript{16}

This literature is very helpful as it gives a general understanding of the efforts put in over the years to achieve integration on the continent. It highlights the commitment of African leaders to achieve integration and shows the challenges they have faced and how to move forward.

In “The Proposed Eco: Should West Africa Proceed with a Common Currency” \textsuperscript{17}, Chuku A. Chuku investigates the viability of proceeding with a common currency in West Africa. He looks at the symmetry of shocks and the speed of adjustment among countries to external and domestic shocks, supply shocks and monetary shocks. He does this by using a four-variable approach of the theory of Optimum Currency Area to capture the correlation of external shocks especially the global financial crises and the correlation of domestic monetary shocks among the countries. He also examines the extent to which individual economies satisfy the other three criteria of forming an Optimum Currency Area. These are, intra regional trade and openness, labor and factor mobility and fiscal or geographical conditions. He gives an overview of the economic profile of West African economies. He also looks at the economic growth among countries. The author highlights that should there be a monetary union, there is likely to be a dragging effect where slow growing economies would drag fast growing economies down and vice versa. However, he also points to the fact that the production structure of economies in West Africa are similar in that they all have a rather strong agricultural sector contributing significantly to GDP and a weak manufacturing sector with low contribution to GDP.

In Regional Economic Integration in Africa, various theories and models are used to determine the success or failure of regional integration initiatives. The author is of the view that the success
or failure of a regional integration initiative should be evaluated in the context of the objectives it seeks to achieve and the political, economic and institutional context within which it operates. According to him, all RECs set out to ultimately achieve a common market area among member countries. Judging by this objective, he notes that none of the RECs has successfully fulfilled the requirements of a functional common market. This may perhaps be due to a lack of commitment by governments to implementing terms of treaties signed. Some of the possible reasons given for this phenomenon include, issues of complementarity, loss of revenue, issues of compensation and a variation in initial conditions, political issues like loss of sovereignty and a lack of political commitment, overlapping membership, poor private sector participation and implementation problems of harmonization policies.

The Monetary Geography of Africa, unlike the other articles reviewed above gives a holistic view of integration in Africa. The authors, Paul Masson and Catherine Patillo talk about the AU’s strategy on relying on the prior creation of monetary unions in five existing regional economic groupings as an intermediary stage which would eventually lead to a merger and creation of a single African Central Bank and Currency. They suggest that selective expansion of existing monetary unions would serve as a means of inducing countries to improve their policies. Throughout the article, the authors compared efforts in Africa to those of Europe and although they occasionally admitted the differences in conditions and circumstances I do not find such comparisms necessary as experience has shown that foreign ideas do not always work here. The authors point out that an ill managed currency would continually depreciate and would not make it attractive. Again reference is made to the OCA theory and the costs of giving up ones currency like in the other works reviewed above. The authors pose a vital question of whether the creation of a regional central bank would solve the credibility problems that plague existing
central banks. Furthermore they mention that the experience of Africa’s two long standing monetary unions in the CFA franc zone which comprises two regions - WAEMU and CEMAC and also the CMA based on the South African rand do not suggest that the existence of a monetary union will necessarily lead to an increase in regional trade and policy coordination. They conclude by weighing individual gains against costs in order to determine which countries would benefit from selective expansion of existing monetary unions. They also simulate a single currency and determine that only the COMESA and ECOWAS regions would gain on average from a single currency.

With the exception of the work by Patillo and Masson, all the others focus on particular regions and not Africa as a whole and that is a trend noticed in most literature. Although the work by Patillo and Masson is more a holistic approach to monetary integration in Africa, it fails to look at how efforts of the various regional economic groupings would be harmonized in the end to form a common currency in Africa. The existing monetary unions in Africa seem to be pushing for one agenda using conflicting measures and it begs the question of whether these can be harmonized ultimately to achieve a common goal.

1.10 Sources of Data

Information used in this study was from Secondary Sources. Books, journals, news items and internet sources were consulted. Some of the books and journal articles were downloaded from the internet.

1.11 Methodology

Analysis of Data was done by qualitative and descriptive means. I analyzed the information I got from the books and journal articles and deduced findings and make relevant conclusions.
1.12 Arrangement of Chapters

Chapter One: Research Design

Chapter Two: An overview of Monetary Integration in Africa.

Chapter Three: Problems and Prospects of a Monetary Union in Africa

Chapter Four: Summary of Findings, Conclusion and Recommendation
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2 Ibid
3 Ibid
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6 Ibid
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CHAPTER TWO: AN OVERVIEW OF MONETARY INTEGRATION IN AFRICA.

2.0 Introduction

Monetary Integration arrangement or currency unification is not new to Africa. Such arrangements can be traced back to the days of colonialism, when the colonialists instituted various currency unification measures in their respective colonies. This chapter presents an overview of monetary integration on the continent. The history of monetary integration on the African continent would also be looked at. The efforts of the various Regional Economic Communities at using a single currency in their various regions would be examined. Particular emphasis would be placed on already existing currency unions on the continent and the plans in place to implement others.

2.1 Integration in Africa

Since independence, African leaders have shown commitment in achieving the objective of integration on the continent.\(^1\) For Africa, integration is seen as an essential initiative that would ensure development. Many scholars are of the view that it is only through integration that Africa would be able to overcome the challenges of globalization and be stronger in the world market. Together, Africa would be strong but as small units, African countries would not be able to compete with the rest of the world effectively.

African leaders in their quest to achieve integration on the continent have undertaken various initiatives since independence.\(^2\) Some of the initiatives taken include the Monrovia Symposium Preparatory Meetings where African leaders organized several meetings to discuss the economic independence of Africa. The African leaders came to a realization that for Africa to eradicate
poverty and hardship permanently, it could not rely on anyone else but itself. This resulted in the Addis Ababa declaration of 1973.³ It recommended self-supporting growth strategies for the continent. There was also the Kinshasa Declaration in 1976 which recommended the free ownership and control of natural resources by ensuring permanent sovereignty of African countries, the establishment of the African Common Market, the African Energy Commission and the African Economic Community (AEC) within a period of fifteen to twenty years. Later between February to March 1977, the Revised Master Plan was adopted which promoted the ideals of self sufficiency with a collective effort by all.⁴ The OAU summit held in Libreville, Gabon in July 1977, then adopted the recommendations of both the Kinshasa Declaration and the Revised Master Plan.

In February 1979, African leaders met at a symposium in Monrovia with the objective to redefine the true basis for Africa’s growth and development. This was organized by the OAU General Secretariat. There were a number of similar summits held after that like the Fifth Meeting of the ECA African Ministers Conference in Rabbat from 20th to 28th March in 1979 and the OAU Summit held in Monrovia in July 1979.⁵ Such initiatives led to the adoption of the Lagos Plan of Action (LPA) and the Final Act of Lagos (FAL). This demonstrated the willingness of African leaders to tackle their economic and political issues on their own with policies and strategies they came up with collectively. With the LPA and FAL, African leaders adopted a development pattern based on the principle of individual autonomy and collective self-sufficiency.⁶ Emphasis was placed on developing strategies on their own that would suite their respective nations.
2.2 Economic Integration in Africa

Monetary unification is an aspect of economic integration which cannot be overlooked. In recent times, there have been discussions about the role a monetary union can play in the broad process of economic integration. The situation in Africa is quite peculiar because generally, African countries have struggled to achieve other stages of economic integration like the establishment of a free trade area and removal of barriers to trade. Also trade among African countries is quite low. There have also been discussions about the stage at which a monetary union should be embarked upon.

Regional economic integration efforts can come in a variety of forms which include preferential trade area (PTA), free trade area (FTA), customs union, common market, economic union (which includes monetary unification) and a political union.

2.2.1 Preferential Trade Area

This is an arrangement where member states of a REC apply lower tariffs to imports produced by other member states than imports from non-member states. Members can also determine the tariffs to impose on imports from non-members.

2.2.2 Free trade Area

Whereas a PTA imposes high tariff on non-members of a union and low tariffs on imports from members, a free trade area does not impose tariffs on imports from members of a union. However, members can determine the tariffs to impose on imports from non-members.
2.2.3 **Customs Union**

A customs union is like a free trade area where members impose a common external tariff on non-members. Members of a custom union may also cede sovereignty to a single customs administration.

2.2.4 **Common Market**

A common market is a customs union that allows free movement of the factors of production which include capital, land and labor across national borders in a REC.

2.2.5 **Economic Union**

An economic union is a common market with unified monetary and fiscal policies which includes the use of a common currency.

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<th>Levels of Regional Integration</th>
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*Figure 1*

*Source: KP, Rajesh. Regional Economic Integration (2014)*
2.2.6 Political Union

A political union is seen as the ultimate stage of integration where members eventually become one nation. National governments cede sovereignty over economic and social policies to a supranational authority. They establish common institutions and judicial and legislative processes which include a common parliament.

Generally, countries can start with any of these arrangements but it is advisable to begin by removing impediments to trade among themselves. In that case starting with a preferential trade area then gradually transitioning into a free trade area and then a customs union, a common market, an economic union and finally crowning it with a political union.\(^7\)

2.3 Regional Economic Communities

On 3\(^{rd}\) June 1991, forty-nine out of fifty-one states at the time signed the treaty establishing the African Economic Communities (AEC). The Treaty however entered into force on 12\(^{th}\) May 1994. This was seen by many as a new chapter in the history of African integration, this treaty set the path for economic integration and collective development on the continent.\(^8\) This treaty was known as the Abuja Treaty. The Abuja Treaty served as a framework for the implementation of the integration agenda. The establishment of the AEC was based on certain key integrating sectors like transport and communication, industry, agriculture, energy, education, science and technology, trade, money and finance.\(^9\)

A deadline of between thirty to thirty-nine years was set for the establishment of the AEC. This was further broken down into six stages. Regional Economic Communities (RECs) were to be
set up in addition to existing ones to act as pillars that the AEC would rely on. The RECs earmarked as the pillars of the AEC include the Arab Maghreb Union (AMU), the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahel-Saharan States (CEN-SAD), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Intergovernmental Authority on Development (IGAD) and the Southern African Development Community (SADC). There are more RECs in Africa but only these eight are recognized by the African Union (AU) as the pillars of the AEC.

2.4 The Arab Maghreb Union (AMU)

The Arab Maghreb Union (AMU) also known as the Union of Arab Maghreb was established in 1889. The Treaty of Marrakesh, signed by five founding members, Algeria, Libya, Mauritania, Morocco and Tunisia signaled the beginning of the union. The AMU is a trade agreement aiming for an economic and future political unity among Arab countries of the Maghreb in North Africa. Tensions between Morocco and Algeria over the Status of Western Sahara diminished chances of promoting a viable political and economic integration. In fact the AMU has not held a summit between its leaders since 1994. In the wake of the Arab Spring Uprisings, further uncertainty clouds the union as member states are plagued with political instability. There is currently no form of monetary integration in the Union and no plans have been made towards that end.

2.5 The Common Market for Eastern and Southern Africa (COMESA)

COMESA is a free trade area with twenty members. Before COMESA came into being in 1994, there was a Preferential Trade Area which had existed since 1981. Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe formed a free trade area in 2000. Rwanda and Burundi joined in 2004, Comoros and Libya joined in 2006 and Seychelles joined in
2009. COMESA is one of the main pillars of the African Economic Community. In 2008, COMESA agreed to an expanded free-trade zone including members of two other African trade blocs, the East African Community (EAC) and the Southern African Development Commission (SADC).\(^{13}\) Members of COMESA are, Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

2.6 Community of Sahel-Saharan States (CEN-SAD)

CEN-SAD aims to create a free trade area within Africa. It was established in February 1998 by six countries but it now has twenty seven members. The founding members include Burkina Faso, Chad, Libya, Mali, Niger and Sudan. Subsequent members include Central African Republic, Eritrea, Djibouti, Gambia, Senegal, Egypt, Morocco, Nigeria, Somalia, Tunisia, Benin, Togo, Ivory Coast, Guinea-Bissau, Liberia, Ghana, Sierra Leone, Comoros, Guinea, Kenya and Sao Tome and Principe. Equatorial Guinea has agreed to join in 2018. One of the main goals is to achieve economic unity through the implementation of the free movement of people and goods in order to make the area occupied by member states a free trade area. The envisioned free trade area of CEN-SAD would be hard to practically implement because it is overlapping with the envisioned customs union of ECOWAS, ECCAS, COMESA and other trade blocs more advanced in their integration.\(^{14}\)

2.7 East African Community (EAC)

The EAC comprises five countries in Eastern Africa: Burundi, Kenya, Rwanda, Tanzania and Uganda. It was originally founded in 1917, collapsed in 1967 and then officially revived on 7th July, 2000. In 2008, after negotiations with the SADC and COMESA, the EAC agreed to expand a free trade area including the member states of all three organizations. In 2010, the EAC
launched its own common market for goods, labor and capital within the region with the goal of creating a common currency and eventually a full political federation. In 2013 a protocol was signed outlining their plans for launching a monetary union within ten years. The leaders of the five East African countries signed a protocol laying down the groundwork for a monetary union within ten years that they expect will expand regional trade. In a run-up to achieving a common currency, the EAC nations aim to harmonize monetary and fiscal policies and establish a common central bank. Kenya, Uganda, Tanzania and Rwanda already present their budgets simultaneously every June.\(^\text{15}\)

2.8 Economic Community of Central African States (ECCAS)

ECCAS is an economic community for the African Union established for the promotion of regional economic cooperation in Central Africa. The Economic and Monetary Community of Central Africa (CEMAC) is an organization of states of Central Africa established by Cameroon, Equatorial Guinea and Gabon to promote economic integration among countries that share a common currency, the CFA franc. UDEAC signed a treaty establishing CEMAC to promote the entire process of sub regional integration through the forming of monetary union with the Central African region using the CFA franc as a common currency. Member states of ECCAS include Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Equitorial Guinea, Gabon, Rwanda and Sao Tome and Principe.\(^\text{16}\)

2.9 Economic Community of West African States (ECOWAS)

West Africa has ECOWAS as its regional economic community. ECOWAS was founded in 1975 and has fifteen member-states. Members of ECOWAS include Benin, Burkina Faso, Cape Verde, Cote D’Ivoire, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Gambia and Togo. Eight among the fifteen are members of the WAEMU which is a sub-
regional group of French-speaking nations using the CFA franc as a common currency. ECOWAS has as its mandate the responsibility to promote regional economic integration.

WAEMU is a customs union and a currency union between some members of ECOWAS. It is the only working monetary union in the ECOWAS sub-region. WAEMU was established to promote economic integration among countries that share the CFA franc as a common currency. WAEMU was created by a treaty signed at Dakar, Senegal on 10th January 1994 by the heads of state and governments of Benin, Burkina Faso, Cote D’Ivoire, Mali, Niger, Senegal and Togo. On 2nd May 1997 Guinea-Bissau became the eight and only non-francophone member. Its objectives include greater economic competitiveness through open markets in addition to the rationalization and harmonization of the legal environment, the convergence of macroeconomic policies and indicators, the creation of a common market, coordination of sectoral policies and harmonization of fiscal policies. WAEMU has successfully implemented macro-economic convergence criteria and an effective surveillance mechanism. Also it has adopted a customs union and a common external tariff and has a combined indirect taxation regulations in addition to initiating regional structural and sectoral policies. A September 2002 IMF survey cited the UEMOA as the furthest along the path towards integration. ECOWAS and WAEMU have developed a common plan of action on trade liberalization and macroeconomic policy convergence.

Since April 2000, five members of ECOWAS who do not belong to WAEMU began measures to form a second monetary area known as WAMZ. These five members include Nigeria, Ghana, Guinea and Sierra Leone. WAMZ has established a convergence process towards launching a common currency. A wider monetary unification between member states is still envisaged.
although no announcement has been made about the type of currency unification arrangement that would be adopted following the unification.

2.10 Intergovernmental Authority on Development (IGAD)

This is an eight-country trade bloc in Africa. It includes governments from the Horn of Africa, Nile Valley and the African Great Lakes. The Headquarters is in Djibouti. Countries from the Horn of Africa include Djibouti, Ethiopia, Somalia and Eritrea. Countries from the Nile Valley include Sudan and South Sudan. Kenya and Uganda are from the African Great Lakes region.

2.11 Southern African Development Community (SADC)

Its goal is to further socio-economic cooperation and integration as well as political and security cooperation among fifteen Southern African States. It complements the role of the African Union. Members of SADC include Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. The SADC has in place the rand-based Common Monetary Area which involves four countries and plans are being made to establish a monetary union by 2018.

Despite the initiatives of LPA and FAL, African countries continued to face several economic challenges. Most of the countries were riddled with huge debts. The Structural Adjustment Program by the Bretton Woods Institutions which was meant to reform the economies rather brought them more problems. These challenges meant that all the initiatives taken did not have the impact they had hoped for. Efforts to find a solution to the numerous problems African countries faced led to the Sirte Declaration which initiated the establishment of the African Union (AU) to replace the Organization of African Unity (OAU) through the Constitutive Act.
The AU and its member-states then agreed to use the New Partnership for African Development as a tool to accelerate the regional and continental integration process.\textsuperscript{19}

The RECs in Africa

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\caption{Map 1}
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\subsection*{2.12 Forms of Monetary Unions}
A currency union or monetary union can be defined as an arrangement where two or more countries adopt a single currency, or different currencies having a fixed mutual exchange rate monitored or controlled by one or several central banks with closely coordinated monetary policies.\textsuperscript{20} According to Samuele Rosa, a currency union is “an agreement among members of a union (countries or other jurisdictions) to share a common currency, and a single monetary and foreign exchange policy”.\textsuperscript{21}
Monetary integration arrangements or currency unification can come in a number of forms. For the purpose of this study, five forms of currency unions would be discussed. Cobham and Robson identify three types of currency unions. The three types of currency unions identified by Cobham and Robson include:

**Informal Exchange Rate Union**
An informal exchange rate union has separate currencies where parties are fixed, but only within margins and central parties can be adjusted. The European Monetary Exchange Rate Mechanism after August 1993 is an example of an informal exchange rate union.

**Formal Exchange Rate Union**
A formal exchange rate union like the informal exchange rate union has separate currencies but here, rates fluctuate within a narrow margin (sometimes zero margin) and has a strong degree of coordination among central banks. In Africa, the Common Monetary Area (CMA) is an example. Here, the currencies of Lesotho, Namibia and Swaziland are linked one for one with the South Africa Rand.

**Full Monetary Union**
A full monetary union involves a single currency and a central bank. The Euro zone and both CFA franc zones in Africa are examples of full monetary unions.

Masson and Patillo identify two other forms of currency unions.

**Adoption of another country’s currency**
This is often known as dollarization or eurozisation. Here, there is only a single currency but not a monetary union. The country issuing the currency does not take into account the goals of the country adopting it (the dollarizing country). Examples of dollarized countries include Panama,
Ecuador and El Salvador. In Africa, several countries used other countries currencies temporarily before issuing their own. For instance, Botswana used the rand upon independence but in 1976 it issued its own currency, the pula. Also, Eritrea used the Ethiopian birr for a period after independence. Most recently, Zimbabwe announced it was going to discard its currency and adopt the dollar.

**Currency Boards**

A currency board refers to a monetary authority that makes decisions about the valuation of a country’s currency, specifically whether to peg the exchange rate of the local currency to a foreign currency, an equal amount of which is kept in reserves. This limits the money in supply in the currency board country to the quantity of reserves held in the other currency. Countries operating on currency boards include Bulgaria, Estonia and Djibouti. Africa has had history with currency boards. For instance, the East African shilling was fixed against the pound sterling from 1921 to 1969. Also, the British West African pound was fixed against the pound sterling from 1913 to 1964.23

**2.13 History of Monetary Integration in Africa**

The earliest form of currency unification in Africa was during colonial times when the French and British colonial masters instituted currency boards that issued and managed currencies in their respective colonies. After the colonized nations gained independence, the former British colonies disbanded the currency boards. The French colonies however maintained them and over the years these have taken new forms and have progressively led to what we have today as the
two CFA franc zones, the CEMAC and UEMOA. These two represent the best working monetary unions in Africa now.\textsuperscript{24}

The experience of pre-colonial times shows that most countries on the continent had currencies that were closely linked to the currencies of their colonial masters. Also neighboring colonies shared the same African currencies. This seems to support the argument that re-establishing the monetary unions could be feasible and desirable. However, these monetary unions in question were dissolved shortly after most African countries gained independence. Since gaining independence, most of the African countries have their own individual currencies and independent monetary policies to manage them. This would make monetary integration now quite problematic. Only the two CFA franc zones in West Africa and Central Africa have successfully succeeded in instituting a common currency. These zones consist mainly of former French colonies. The Common Market Area is also centered on the South African Rand.\textsuperscript{25}

In 1945, France introduced new currencies for its colonies after it had previously circulated the French franc in those areas. In its African colonies the currency was called the CFA franc. Later in 1948, the CFA franc was pegged to the French franc at one CFA franc to two French francs. The CFA franc served as the currency for both the French West Africa and the French Central or Equatorial Africa. Certain private banks in those regions were given the right to issue bank notes. Later in 1955, two new public institutions were given the responsibility to issue bank notes in West and Central Africa albeit these were based in France and were under the control of the French government. These monetary institutions issued a distinct bank note that was unique to each of the regions (the West Africa CFA franc zone and the Central Africa CFA franc zone).\textsuperscript{26}
The British grouped their colonies into three currency boards. They had the West African Currency Board, the Southern Rhodesia Currency Board (now Zimbabwe) and the East Africa Currency Board. The quantity of money in each of these groupings was linked to the amount of sterling assets held by the currency board. The West African Currency Board included countries like Gambia, Gold Coast (now Ghana), Nigeria, Sierra Leone and the British Cameroons. The South Rhodesia Currency Board had Southern Rhodesia (now Zimbabwe), Northern Rhodesia and Nyasaland. The Eastern Africa Currency board had Kenya, Tangayika, Uganda and later Zanzibar, Aden, Somalia and Ethiopia.  

Spain, Belgium and Portugal had similar arrangements with their colonies as well. In their respective colonies, the local currencies were linked to the metropolitan currencies. For instance, in the Belgian colonies of Congo and Rwanda-Urundi, a monetary union was formed where the Congolese franc was the currency used by the union. The Congolese franc was pegged to the Belgian franc. The Portuguese colonies used the Portuguese currency the escudo and the Spanish colonies used the peseta.

2.14 Existing Monetary Unions in Africa

A renewal of interest in regional monetary arrangements in Africa has seen countries embark on several initiatives to promote monetary union in their various regions. There have been propositions to form new monetary unions and to enlarge or broaden the scope of existing ones. Evidence from the past has shown that African countries that have participated in regional monetary unions have often been characterized by sound and credible monetary policies even in the context of widespread political instability. There is evidence that a monetary union will help
formalize the huge informal cross-border trade and increase the overall trade within a region. Presently, there are two successful African monetary arrangements; these are the CFA franc monetary union of both Central Africa and West Africa and the Common Monetary Area (CMA) of Southern Africa.

2.14.1 The CFA franc zone

The CFA franc zone is composed of two zones of mainly francophone countries in West and Central Africa. The West African CFA zone is known as the West African Economic and Monetary Union (WAEMU). It has a central bank known as the “Banque Centrale des Etats de l’Afrique de l’Ouest” (BCEAO). The Central African zone is the Central African Economic and Monetary Community (CAEMC). It has a central bank known as the “Banque des Etats de l’Afrique Centrale” (BEAC). Members of WAEMU are Benin, Burkina Faso, Cote D’Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon are the members of CAEMC.

Each zone issues its own CFA franc but they are exchangeable one-for-one against each other. The two CFA francs were designed to be pegged to the French franc at the same rate. The convertibility of the CFA franc at its parity against the French franc was provided by the French Treasury through an operation account, where overdrafts were potentially unlimited. It is generally recognized that the CFA franc zone does not meet the conventional criteria for the formation of an Optimum Currency Area even though it has been in existence for about fifty years. In 1994, the CFA franc countries decided to devalue their currency by fifty percent and implement broadly restrictive incomes and credit policies and a range of structural and institutional reforms. This policy package with the devaluation as the critical element has
contributed to a resumption of growth in real per capita incomes in the CFA zones and its inflation rate was brought down to single digit level by the end of 1996.\textsuperscript{30}

2.14.2 The Common Monetary Area (CMA)

This is also known as the Rand Monetary Area. The present close monetary area between South Africa, Lesotho, Namibia and Swaziland is based on the multilateral monetary agreement (MMA), creating a common monetary area between these countries. This agreement has had a very long historical development which started even before the union of South Africa was embarked on in 1910. After the establishment of the South African Reserve Bank (SARB) in 1921, the South African pound became the sole circulating medium and legal tender in the geographical area that is today called the CMA but that included Bechuanaland (Botswana).\textsuperscript{31}

After protracted negotiations, a formal agreement was signed in 1974 between South Africa, Swaziland and Lesotho known as the Rand Monetary Area Agreement, and the rand remained legal tender in all these countries. The CMA replaced the RMA in July 1986 under the terms of a Trilateral Monetary Area Agreement between the three countries, accommodating changes in the position of Swaziland. This agreement was replaced by the present MMA in 1992, when Namibia formally joined the CMA of which it has been a de facto member from the beginning.

2.15 Proposed Monetary Unions in Africa

With the success of the existing monetary unions in Africa, some RECs have embarked on initiatives to expand the existing monetary unions in their region or create new ones where none exist. In West Africa, plans are in place to launch a second monetary union known as the West African Monetary Zone. The idea is to launch a second common currency in the ECOWAS sub
region and eventually merge it with the CFA franc currency to form a single currency for the whole of ECOWAS. The EAC also has plans in place to establish a monetary union in the next ten years.

2.15.1 The African Monetary Union

The African Union plans to create an economic monetary union for its member states. This would be known as the African Monetary Union. The proposed monetary union would be administered by the proposed African Central Bank which would be the sole issuer of the proposed single currency. Through the Abuja Treaty the AEC was created. The Treaty also calls for the creation of an African Central Bank. It aims to establish the single currency by 2025. Before the continental single currency is introduced though, regional monetary unions must be created if five existing RECs. These are ECOWAS, CEMAC, AMU, SADC and EAC. The currency for ECOWAS is expected to be introduced by 2020, that of the East African Monetary Union (EAMU) by 2024 and the SADC by 2018. The first three economies for each of the five RECs to meet the convergence criteria set would be the pioneers to begin the use of the single currency. The others will join as and when they meet the criteria. Some countries are against the introduction of a single currency for the continent while others encourage it.\textsuperscript{32} Those that disapprove the single currency find it unworkable because African countries have different economic backgrounds, history and culture which would make it difficult to merge them.

2.15.2 The East African Monetary Union (EAMU)

Negotiations for the East African Monetary Union (EAMU) protocol started in January 2011. A High Level Task Force (HLTF) has held six negotiation meetings during which a number of articles of the protocol have been negotiated.\textsuperscript{33} The Heads of State of EAC member states decided to fast track the establishment of the monetary union by 2012. To this end, a study on the
preparedness of the EAC for a monetary union was conducted by experts from both the European Central Bank and the central banks of EAC member states. Furthermore, the EAC central banks’ Governors Monetary Affairs Committee (MAC) has made efforts to harmonize banking regulations, payment systems and monetary and exchange rate policies.\footnote{34}

Finance ministers of EAC member states conduct both pre-budget and post-budget consultations and also share budget information regularly. Budgetary statements are now released on the same day throughout the EAC region. A Fiscal Affairs Committee has been created to provide input on provisions related to fiscal issues.

The EAC member states saw the need to sign a protocol to establish the EAMU because they acknowledged that the forming of the actual monetary union will take some time given the institutional and structural transformation required. They realized that the forming of a monetary union would require careful planning. It was therefore necessary that they put in place adequate pre-conditions for forming the EAMU to ensure that the benefits of creating the EAMU will exceed the cost. The prerequisites include economic, political, and institutional requirements.

**2.15.3 The West African Monetary Union (WAMU)**

WAMZ was formed in 2000 and has six countries within ECOWAS and plans to introduce a common currency by the year 2015. WAMZ was instituted as a fast-track approach toward the establishment of a single common currency for the whole of the ECOWAS sub region. Members of WAMZ include Gambia, Ghana, Guinea, Nigeria, Sierra Leone and Liberia. Liberia only joined in 2010 after having an observer status for a decade. Guinea is the only francophone country among them. It opted out of the CFA franc currency shared by all other French colonies in West and Central Africa along with Mauritius.
WAMZ intends to establish a strong stable currency to rival the CFA franc whose exchange rate is tied to the Euro and is guaranteed by the French Treasury. The eventual goal is for the ECO and CFA franc to merge, giving all of West and Central Africa a single, stable currency. The launch of the ECO is being developed by the West African Monetary Institute in Accra. The initial date for the launch on the currency was on 1st January, 2003 but was postponed to July 1, 2005 due to member states inability to comply with all the four primary criteria simultaneously and on a sustainable basis. The zone witnessed two further postponements of the launch dates in 2005 and on December 1, 2009. The new date for the launch of the ECO was on or before first January 1, 2015 but that has also passed. The WAMZ had ten convergence criteria, four primary criteria and six secondary criteria.\(^3^5\)

The four primary convergence criteria of WAMZ

1. Single digit inflation rate at the end of each year.
2. A fiscal deficit of no more than 4% of GDP.
3. A central bank deficit-financing of no more than 10% of the previous year’s tax revenue.
4. Gross external reserves that can give import cover for a minimum of three months.

By 2011, only Ghana had been able to achieve all four criteria in a single fiscal year.

The six Secondary Criteria of WAMZ

1. Prohibition of new domestic default payments and liquidation of existing ones
2. Tax revenue should be greater than twenty percent of Gross Domestic Product (GDP)
3. Wage bill to tax revenue should be equal to or less than thirty five percent
4. Public investment to tax should be equal to or greater than twenty percent
5. A stable real exchange rate
6. A positive real interest rate

2.15.4 Southern African Development Community (SADC)

Member states of SADC have expressed their interest in creating a monetary union in Southern Africa. The initial goal of the SADC was to form a common market but subsequently, monetary integration was included in as an objective. This led to a proposal at a meeting of central bank governors of member states in February 2005. It was proposed that

1. There should be a monetary union which would involve an irrevocably fixed exchange rate among participating countries’ currencies, the coordination of monetary policies and full capital account convertibility.

2. There should be a common SADC currency and a regional SADC central bank.

These initiatives were to be achieved by the year 2018. Even though there already exist a monetary union in the form of the CMA, it only consists of four countries: South Africa, Lesotho, Namibia and Swaziland. The CMA is a fixed exchange rate arrangement between the four countries. Since the CMA is not a full monetary union, each participating country has its own central bank and there is no common regional bank to which standard instruments of monetary policy have also been consigned. There is no pooling of reserves and no regional surveillance mechanism. The proposed monetary union would cover all the areas left out by the CMA.

2.16 The implementation of a monetary union

There have been some discussions on how monetary unions should be implemented. The general view is that it would be best if a monetary union is established on the basis of a treaty. This
would make countries make changes to their national legislation. Such a treaty should clearly lay down the basic functional and institutional arrangements as well as provisions for the governing of its implementation.

An economic and monetary union would form two integral parts of a whole and in the sense that monetary integration contributed towards total economic integration. The principal features of an economic union will depend significantly on the agreed monetary arrangement and constraints just as the process of achieving a monetary union is only conceivable if a high degree of economic convergence is achieved.

The creation of a monetary union must be viewed as a process which is set out in stages to guide progressive movement toward the final objective. This means the decision to enter a monetary union upon the first stage should be a decision to embark on the whole process. The process of implementing a monetary union would have to be divided into a limited number of clearly defined stages for member states to follow. Each stage would have to represent a significant change with respect to the preceding one. New arrangements coming into force at the beginning of each stage would gradually develop their effects and bring about a change in economic circumstances in order to pave the way for the next stage.

A monetary union without a significant degree of convergence of monetary policies is unlikely to be durable. Simultaneous advancement in economic and monetary integration of countries would be indispensible in order to avoid imbalances which would cause economic trains and loss of political support for developing the region further into a monetary union. However, perfect unison of efforts at each point in time would be impossible and could even be counterproductive.
Some temporary deviations from parallelism are part of the dynamic process. Parallelism would have to be maintained in the medium term and also before proceeding to the next stage.

The conditions for moving from one stage to another cannot be defined precisely in advance nor is it possible to foresee today when conditions will be realized. The setting of explicit deadlines is therefore not advisable. There should however be a clear indication of suitable timing for moving from one stage to another, most importantly, regarding the move to irrevocably fixed exchange rates. An example of failure in the calendar is the ECOWAS objective to form a monetary union with WAEMU by January 2014 which they was not achieved by that time.

Before embarking on a project to establish monetary union, there is an intention by members of a REC to form a monetary union. Although not all members will be able participate fully in all aspects of from the beginning. A consensus on the final objectives of the union, as well as participation in the same set of institutions should be maintained, while allowing a degree of flexibility concerning the date and conditions on which some member states could join certain arrangements. This way of managing the transition to a monetary union would have to keep in mind the need to facilitate the integration of other members.

2.17 Introducing a Common Currency

A common currency can be introduced in a number of ways. For instance, a regional body can announce on a particular day that the national currency would be abolished and replaced by the new common currency. On that day, citizens of member states of the union will have to convert all their holdings of national currencies into the new currency at a given conversion rate. The new currency would then be a legal tender in all the countries of the union. Another method is to
ensure that all national currencies are converted into new national currencies so that they are all at par. The national currencies will then be declared legal tender in each country.

2.18 Establishing a Central Bank

In establishing a central bank in a monetary union, there is widespread consensus among economists that two conditions have to be satisfied to ensure that the central bank in the monetary union will pursue a non-inflationary policy. First, the primary objective of the central bank should be price stability. This means any reference to high employment as an objective of monetary policy should be avoided. Second, the central bank should be institutionally independent of the political authorities. Many economists have argued that a high level of central banks independence, coupled with some explicit mandate for the bank to restrain inflation, is an important institutional device to assure price stability.

Generally, monetarists are of the view that the monetary authorities charged with the execution of monetary policy should be independent of the legislative and executive branches of government. Central banks should therefore have enough freedom from government interference to allow them to determine and implement monetary policy for a substantial length of time, without concerns that their authority might be undermined. Central bank independence must be seen in three areas where the influence of government must be excluded or drastically curtailed. These areas include personnel matters, fiscal autonomy and policy formation.

2.18.1 Personnel matters

It is not feasible to exclude government influence completely when appointments are made to such important public institutions as central banks. Personnel independence here refers to the
influence that governments exert on the appointment procedures, the term of office of senior employees and procedures governing the dismissal of the board of the bank.

2.18.2 Fiscal autonomy

Governments can influence the central bank if they are the ones that finance the bank’s expenditure either directly or indirectly through central bank credits. If that happens there is no financial independence. Direct access to central bank credits implies that monetary policy is subordinated to fiscal policy. Indirect access may come about if the central bank is the cashier of the government or if it handles the management of government debt. In these cases restrictions may be necessary to prevent government interference with monetary policy.

2.18.3 Policy independence

This is related to the management room, given to the Central Bank regarding the formulation and execution of monetary policy. As said previously, the primary objective of a central bank is to maintain price stability. Fundamentally this objective is given two different interpretations: price level constancy versus zero inflation. Research has shown that to gain a long term price level constancy, there must be a strategy for monetary policy that provides low uncertainty with regards to price level for the long run but comparatively high uncertainty for the short term. Objectives of zero inflation on the other hand yield lower price level uncertainty for the short term but high and rising uncertainty for the long term. So there is room to manoeuvre for the central banks with respect to the goal of monetary policy.

A central bank must also wield effective instruments in order to defend its objectives. A bank that has instrument independence is free to choose the means by which it seeks to achieve its goals. If government approval is required of the central banks about policy instruments then no
instrument independence exist. Effective central bank independence implies that the national legislation of various countries will have to be changed before the implementation of such independence.
Endnotes

4 Ibid
5 Ibid
6 Ibid
7 UNECA, Assessing Regional Integration in Africa, Addis-Abeba, 2004, p.10
8 Ibid
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18 Ibid
23 Ibid
26 Ibid
27 Ibid
28 Ibid
34 Ibid
CHAPTER 3: PROBLEMS AND PROSPECTS

3.0 Introduction

This chapter examines the prospects of a monetary union in Africa. It discusses the problems and challenges that Africa would face or is facing in its quest to achieve currency unification. The costs and benefits of a monetary union to Africa would also be examined.

African leaders have shown great commitment towards achieving integration on the continent. This can be seen in the various regional integration initiatives that they have embarked on. In their efforts to achieve economic integration, most of their focus has been on currency unification. Research and experience has however shown that a monetary union would not necessarily ensure economic development. It should be embarked upon after all other economic unification measures have been achieved and perfected.

The experience Africa has had with monetary union both during and after colonialism has been varied and has served them well as they have a lot example to draw on. The monetary integration arrangements of the various RECs are geared toward establishing a common monetary area with a greater measure of monetary stability in order to facilitate economic integration and development among member states. To facilitate a seamless transition into a monetary union, some of the RECs have instituted certain measures and policies for their member states. Some of these measures include the harmonization of monetary, economic and fiscal policies of member states. To this end, the RECs have established consultative and coordinative institutions to help member states. The harmonization of monetary, fiscal and economic policies would make the eventual creation of a monetary union easier because the member states of a particular REC would then be having similar monetary policy arrangements. The RECs have also sought to
reduce the cost of exchanging currencies in trade within their respective regions and improve the transparency of prices in order to boost intra-REC trade and investment flows. Some RECs have also sought to improve price stability and resource allocation within their regions by developing coordinated management strategies.

3.1 Prospects of Monetary Integration in Africa

Africa already has two working monetary unions: countries using the CFA franc in both Central Africa (CEMAC) and West Africa (UEMOA) and the Common Monetary Area (CMA) in Southern Africa which involves South Africa, Lesotho, Namibia and Swaziland. With these two monetary unions being generally considered as successful, it would seem the prospects of a continent wide monetary union is high if the experience of the existing monetary unions on the continent can be expanded or replicated in other regions in Africa. There are many benefits to be accrued from the forming of a monetary union in Africa. Some RECs have already started initiatives for the establishment of monetary unions. ECOWAS, SADC, COMESA and EAC all have plans to form a monetary union.

As mentioned above, there are already some existing monetary unions on the continent like the UEMOA and CEMAC. The Central Bank of Central African States which is a regional central bank coordinates all monetary programmes in the zone. It oversees the macroeconomic and financial stability of the zone. Certain macroeconomic convergence criteria have been set for member states to achieve in order to ensure the effectiveness of the monetary union.

The UEMOA like CEMAC is a single monetary zone that is backed by a convertible currency, the CFA franc. The Central Bank of West African States (BCEAO) which is the common central
bank of the union issues the CFA franc. UEMOA member states adopted the Convergence, Stability, Growth and Solidarity Pact which establishes a multilateral surveillance system to ensure greater economic cohesiveness among its members. It also sets out certain key macroeconomic criteria that member states have to achieve. The multilateral surveillance system would coordinate the macroeconomic policies of member states. Member states began recording low levels of inflation which further enhances the growth of the monetary union.

3.1.1 Prospects of a Monetary Union in the East African Community (EAC)

The treaty establishing the EAC which was signed in 1999 and entered into force in 2000 paved the way for the establishment of a monetary union in the community. Article 5(2) of the treaty states that “…the partner states undertake to establish among themselves and in accordance with the provisions of this Treaty, a customs union, a common market, subsequently a monetary union and a political union…”

Efforts to achieve the above objectives saw member states agree on certain macroeconomic convergence criteria to integrate their economies. These macroeconomic convergence criteria included measures to achieve low inflation rates, a low current account deficit-to-GDP ratio among others. Member states have since implemented policy reform programmes to help them achieve the set criteria. As a result of such programmes, the Kenyan, Tanzanian and Ugandan shillings are freely convertible within the region. This has reduced transaction costs and boosted the flow of trade and investment. Furthermore, macroeconomic policies have been harmonised; especially, in exchange rate, interest rate and monetary and fiscal policies. The central banks of member states meet regularly to share experiences and information about these macroeconomic policies. The EAC also studied other sub regions like the rand zone and the CFA franc zone to draw from their experiences and improve the macroeconomic performance of member states.
Negotiations for the East African Monetary Union (EAMU) protocol started in January 2011. A High Level Task Force (HLTF) has held six negotiation meetings during which a number of articles of the protocol have been negotiated. The Heads of State of EAC member states decided to fast track the establishment of the monetary union by 2012. To this end, a study on the preparedness of the EAC for a monetary union was conducted by experts from both the European Central Bank and the central banks of EAC member states. Furthermore, the EAC central banks’ Governors Monetary Affairs Committee (MAC) has made efforts to harmonize banking regulations, payment systems and monetary and exchange rate policies.

Finance ministers of EAC member states conduct both pre-budget and post-budget consultations and also share budget information regularly. Budgetary statements are now released on the same day throughout the EAC region. A Fiscal Affairs Committee has been created to provide input on provisions related to fiscal issues.

The EAC member states saw the need to sign a protocol to establish the EAMU because they acknowledged that the forming of the actual monetary union will take some time given the institutional and structural transformation required. They realized that the forming of a monetary union would require careful planning. It was therefore necessary that they put in place adequate pre-conditions for forming the EAMU to ensure that the benefits of creating the EAMU will exceed the cost. The prerequisites include economic, political, and institutional requirements. All these measures in the EAC would pave the way for a smooth transition to a single currency in the community.
3.1.2 Prospects of a Monetary Union in the West African Monetary Zone (WAMZ)

Since ECOWAS established a second monetary zone in the region as a fast-track approach to the establishment of a single currency for the whole of ECOWAS, several initiatives have been taken to ensure that the second monetary zone is successful. Institutions like the West African Monetary Institute (WAMI) which is tasked to prepare the countries for the single West African Monetary Union and carry out various studies regarding the establishment of a monetary union. WAMI has also set out to design exchange rate mechanism; a foreign exchange reserve management system; a payment system all in preparation for a common currency and a common central bank for WAMZ.\textsuperscript{12}

Although the first phase of the WAMZ programme from 2001 to 2003 did not achieve its set goals with member states performing abysmally, the second phase from 2004 to 2005 saw an improvement but this was still not enough to launch the common currency.\textsuperscript{13} The WAMZ has seen several postponements for the launch of the common currency with the recent one being January 2015.

The Banjul Declaration of 2005 set out specific structural benchmarks in addition to the primary and secondary convergence criteria set by WAMZ. For the first time since the establishment of WAMZ, Gambia and Nigeria met all four primary convergence criteria in 2006.\textsuperscript{14} Progress was also made by other countries in the union as there was a general improvement in meeting the convergence criteria set.

The West African Central Bank (WACB), the WAMZ and the WAMZ secretariat statuses have all been signed by the leaders of member states and the government of WAMZ. Individual
countries now need to ratify it and apply it in their countries.\textsuperscript{15} Generally, the WAMZ project is growing steadily and countries are putting in efforts meet the set criteria.

### 3.1.3 Prospects of a Monetary Union in the Arab Maghreb Union (AMU)

Efforts are in place in the AMU to establish a set of convergence criteria for its member states. This is in a bid to harmonize laws and regulations regarding the payment systems within the union. Inflation in the union is very low and the economic performance of countries in the region is very strong.\textsuperscript{16} Trends in the AMU gives optimism that the union is drawing nearer and nearer towards a monetary union even though the issue is not being considered presently.

### 3.1.4 Prospects of a Monetary Union in SADC

The SADC has plans to establish a common currency for its member states. There already exist a monetary union in the SADC region in the form of the CMA but this only involves four countries: South Africa, Lesotho, Namibia and Swaziland.\textsuperscript{17} Also, there is no common central bank and no pooling of reserves. The planned monetary union that would include other countries in the SADC region would involve the coordination of monetary policies and the creation of a common central bank.

### 3.1.5 Prospects of a Monetary Union in COMESA

COMESA also has plans to form monetary union. It aims to establish a common monetary zone to support its integration and economic growth agenda. Member states of COMESA adopted a Monetary and Fiscal Policies Harmonization Programme which is a four-step programme expected to take thirty years to complete.\textsuperscript{18}

To ensure that they achieve their aim of establishing a monetary union, the RECs have some macroeconomic convergence criteria that their member states have to adhere to. Surveillance
mechanisms have therefore been put in place to ensure that member states adhere to the convergence criteria set by their respective RECs. The convergence criteria include certain targets for key macroeconomic variables like budgetary balance, inflation and public debt. These targets are agreed on by member states and are often divided into primary and secondary criteria for most of the RECs. Although the principles are the same, the criteria may differ from REC to REC. Furthermore, the RECs have established certain institutions or organs that with responsibilities for monitoring the macroeconomic convergence activities within their respective regions.

As mentioned above, the success of the long standing monetary union in the CFA franc zones of West and Central Africa gives hope that the proposed continent-wide monetary union would be a success if the experience from the CFA franc zones and the CMA can be garnered to ensure that it can be replicated in other regions within the continent. African leaders generally view the CFA franc monetary union as a success. In fact the proposed West African Monetary Union is being modelled to be similar to the CFA franc. However, there may be the need for modifications as the conditions within the CFA franc zones may not be the same. Conditions in the various regions would need to be factored into any plans for a monetary union to suit countries within the various regions.

Also, the creation of a continent wide monetary union is one of the main reasons why the various regional blocs were created in the first place and why these regional blocks have all embarked on various economic integration initiatives. All the economic integration initiatives would eventually lead to the creation of a monetary union in the various RECs so it is important that the RECs start looking into the possibility of a monetary union. The sooner the RECs establish their monetary unions, the sooner the continent wide monetary union would be established.
A monetary union is often seen as a way of perfecting a single market, especially for countries in Africa who all belong to regional trading blocs. Monetary integration is seen as a tool to boost trade in the various RECs. Trade among African countries is rather low as African countries tend to trade with countries outside the continent who have a bigger market.

### 3.2 Problems of Monetary Integration in Africa

There are some challenges that existing monetary unions in Africa have faced and are continuing to face that question the viability of a monetary union in Africa. Also some RECs have faced some challenges in their efforts to implement monetary integration arrangements in their regions. Some of these challenges are discussed below.

#### 3.2.1 Unrealistic deadlines

One of the major problems Africa faces in its quest for monetary integration is the setting of unrealistic deadlines. This problem runs through the various RECs. The various RECs are so eager to achieve their aim of monetary integration that they end up setting unrealistic deadlines that member states are unable to meet. A look at the six-stage strategy set by the Abuja treaty for instance would show that almost all the deadlines set for all six stages were not met. Stage one which was focused on strengthening the existing RECs and creating new ones if needed was given a 5-year time frame but it took more than five years to achieve that. Stage two which was to stabilize barriers and other barriers to trade among other sectorial integration agendas was expected to take eight years but has not been achieved to date. The coordination and harmonization of tariff and non-tariff systems among the RECs, the fourth stage projected to last for two years has not been achieved and the proposed continental customs union has also not
been established. The establishment of an African Common Market and the adoption of common policies in stage five have not been achieved. And finally the sixth stage which involves the integration of all sectors, the establishment of an African Central Bank and a single African currency setting up of an African Economic and Monetary Union among others have not been achieved.

In 2001, the non-WAEMU members of ECOWAS expressed their intention to establish a second monetary union and consequently work towards merging it with the CFA franc into a single ECOWAS currency by 2004. To this end, a convergence criteria was established that member states were to achieve by the end of 2003. This deadline elapsed with none of the member states being able to meet the set goal. The initial date for the launch of the single currency for WAMZ was 1st January, 2003 but was postponed to 1st July, 2005 due to member states inability to comply with all the four primary criteria simultaneously and on a sustainable basis. WAMZ witnessed two further postponements of the launch dates in 2005 and on 1st December, 2009. The new date for the launch of the ECO was on or before 1st January, 2015. That date has also passed with the launch not done.

3.2.2 Inability of Countries to meet Convergence Criteria

Owing to the unrealistic deadlines set by the various RECs, member states usually struggle to meet the convergence criteria. Currency unification is a complex initiative and needs time to accomplish. However, the efforts by the various RECs seem rushed and this makes it difficult for the member states to meet the convergence criteria of their respective RECs. The convergence criteria set by ECOWAS, SADC, ECCAS, COMESA and SADC have all not been met by their member states.
Furthermore, the convergence criteria for the various RECs differ from each other. This begs the question of how this will be merged eventually. With all the RECs issuing convergence criteria that are not similar, the eventual merging of efforts for a continent wide common currency would prove problematic.

3.2.3 Overlapping membership

One problem which hinders the progress of monetary integration on the African continent is the overlapping membership of the various RECs. Of the fifty four countries of the continent, only six belong to one REC, twenty six countries are members of two RECs, twenty are members of three and the Democratic Republic of Congo has four. Multiple and overlapping memberships result in a waste of resource and effort due to duplication and multiplication of actions. It would be very difficult for a country to meet two different set of convergence criteria for the creation of a common currency. In the end it would hinder harmonization and coordination among member states.
3.2.4 Inability of one monetary policy to fit the needs of all countries

Even though countries may belong to one regional grouping, they face different economic problems and as such the monetary policy one country would need to solve its financial problems would differ from what another country would need. This begs the question of whether it is feasible to develop a monetary policy that would cater to the needs of all countries in the region. It seems impossible for there to be a policy to cater for all the needs of all countries in a region. If it is difficult finding a policy to fit the needs of countries belonging to one REC, imagine bringing all the RECs together and trying to use a single monetary policy to meet the
needs of the entire continent. This is an arduous task and seems almost impossible given the nature of the financial problems countries on the continent face.

3.2.5 Central Banks in Africa do not have autonomy

Another challenge of monetary integration in Africa is that most Central Banks are not independent in their respective countries. Central banks in high inflation countries are forced by their governments to finance public debts during tough periods. For a monetary union to work with a common central bank, the central bank must be independent of political influence so that it can carry out policies in the best interest of the union and not to please leaders of various states.

3.2.6 Instability in most parts of Africa.

African countries are often plagued with instability which often hinders integration efforts. Conflicts in African countries bring about instability which hinders economic growth. Instability in African countries makes it difficult for them to focus on meeting objectives to foster monetary integration. They have to spend resources and time in ensuring stability. In a monetary union when there is instability in one country it would affect the whole union and this tends to disrupt progress. Countries are also sceptical about committing to monetary unions because they fear instability in one country would affect them and resources would have to be pooled to sort out issues.

3.2.7 Disparities in levels of economic development

Most African countries are in varying stages of economic development. This poses a challenge to monetary integration because it becomes difficult to develop a monetary policy that would meet the needs of all countries. The economic difficulty each country faces is different and they
develop various policies to help them deal with the problems. Because of the varying nature of problems that countries face it is almost impossible to suggest a single policy to help deal with the issues they face. Also, countries that are ahead of others in economic development would be reluctant to join a monetary union because they think that joining a monetary union with countries with low economic development would be a step down. There are huge disparities between the economies of member states of the various RECs in terms of income levels and distribution, inflation rates, fiscal deficits, public debt-to-GDP ratio, human resources and infrastructural development.

3.2.8 Low level of trade

Low level of intra-African trade is a major challenge to monetary integration in Africa. Africa is a very fragmented continent with fifty four countries and even more border crossings. The level of trade among African countries is very low as compared to other regions in the world. Most of the RECs in Africa have been unable to achieve the stage of Free Trade Area in quest towards economic integration. This can be attributed to the fact that most of the countries in African produce similar goods so they have very little to trade in. Africa’s share of world trade is also very small. There are so views on why Africa has low level of trade. One of the reasons given by scholars to explain why Africa has low level of trade is colonialism. In colonial times, African economies were set up to supply cheap raw materials to their colonial masters. After attaining independence, African countries have failed to move away from that system. This has resulted in very little diversification in terms of products for exports. For instance, Ghana and Cote D’Ivoire produced cocoa and still do, Zimbabwe and Malawi are known for tobacco and Kenya and Tanzania are known for coffee and tea. The low level of trade among African countries has led to a high vulnerability to external shocks. This is because African countries are very dependent
on trade with the outside world and this exposed them to external shocks.\textsuperscript{31} The level of intra-African trade remains low when compared to other developing regions. Intra-African exports account for just under ten percent of the regions total exports.\textsuperscript{32} Some of the reasons that account for the low level of intra-African trade are the slow implementation of Regional Trade Agreements (RTAs), poor cross-border infrastructure, rising transport and freight costs, poor telecommunications service and erratic supply of energy.\textsuperscript{33}

\textbf{3.2.9 Asymmetry of shocks}

African countries face varying degrees of shocks because shocks often come about in relation to world price of commodities. In most parts of Africa countries exports different primary products so they are likely to experience different kinds of shocks at different times. This makes the shocks they experience asymmetric. According to the OCA theory, for a monetary union to be successful, there must be symmetry of shocks. While some commodities are common to a number of countries, others are often found in one or two countries.\textsuperscript{34}

\textbf{3.2.10 Fiscal transfers}

In West Africa, the six non-WAEMU countries have announced their intention to set up a compensation fund to make transfers among countries of the WAMU as part of the plans to form a monetary union.\textsuperscript{35} However, experiences in the past and in other parts of Africa have shown that countries have not paid their dues to ECOWAS and other RECs for many years. Such a compensation fund would prove problematic for ECOWAS in particular given the size of Nigeria relative to its neighbours. Fiscal transfers to smaller countries if they get into trouble would likely be insignificant but if transfers were to be made to Nigeria, it would most quickly exhaust available resources of the fund.
The various RECs need to find a way to deal with the numerous problems they face in their efforts to establish monetary unions if they are to move forward. The RECs have done well in trying to harmonise the policies of the countries in their respective regions. What needs to be done now is to find a way to harmonize the policies of the various RECs to ensure that there would be a smooth transition into a continent wide common currency.

3.3 The Costs and Benefits of a Monetary Union

The role of a single currency in a region is simply the well known role of money in general economic activity which is it being used as a means of exchange and a store of value. To decide whether to embark on a currency union or not it would be important to look at the benefits of a monetary union to a nation, a regional body and the continent at large. If the benefits outweigh the costs then it would be high efficient to form a monetary union. If the costs outweigh the benefits it would be important to determine if a monetary union can work in spite of the costs.

3.3.1 The Costs of a Monetary Union

- To form a monetary union, national authorities like central banks would have to lose their independence to a supranational authority. African leaders are reluctant to give up their sovereignty over monetary policies and their control over their central banks. A monetary union would mean that member states would lose their sovereignty over the determination of monetary policy. African governments are used to having influence over central banks and monetary policies that it would be difficult for them to give up that power to a supernatural authority. However, for a monetary union to be successful there must be a regional monetary authority which must have autonomy as it performs its...
functions. This means African leaders must be willing to give up their power over the determination of monetary policies and their influence over central banks.

- There is the possibility that if participating countries do not harmonize and coordinate effectively in implementing economic policies, the very existence of the union would be threatened. Development can occur at any time that would push the relative costs of participating countries high and this must be managed carefully. A challenge that most of the RECs face is the reluctance or the inability of its member states to pay their dues. Dues which can be used in the implementation of policies in a union. African leaders must realise that embarking on a monetary union is a process that is unpredictable, developments can occur at any time that can increase the cost of it to participating countries. African leaders must be ready to bear that cost to ensure that the process continues in order not to bear further cost and reap the benefits of a successful monetary union in the long run.

- Participating countries would have to give up their alternative uses of the exchange rate as a policy tool. Most governments in Africa use the exchange rate as a monetary tool to stimulate their economies and deal with inflation. Joining a monetary union would mean that they would have to give up these measures to supernatural authorities.

- Participating countries would be vulnerable to any disturbances or unrest in any part of the union. Joining a monetary union would mean that participating countries expose themselves to any form of disturbance in any part of the region. Africa is often plagued with disturbances and instability. Some few countries in Africa are stable with very little disturbance and such countries would be reluctant to join a monetary union because they fear that they open themselves up to disturbances from other parts of the union.
Furthermore, participating countries would also have to commit resources to resolving conflicts if and when they occur within monetary unions. This means that they would have to commit more resources to resolving conflict that they used to individually because they belong to a monetary union.

### 3.3.2 The Benefits of a Monetary Union

- A single currency makes transactions between countries easier and more efficient as it eliminates conversion costs and uncertainty about exchange rates between national currencies. A single currency also enhances the usefulness of money as a medium of exchange and as a store of value.\(^{40}\) Africa has many currencies and this often poses a problem during trade as there is uncertainty about exchange rates between countries and they end up trading in foreign currencies. A monetary union would eliminate the conversion costs between the numerous countries in Africa.

- The liquidity of a common currency increases with the volume of the transaction it is used in, or the size of the area it covers.\(^ {41}\) Africa is a very large continent which means that it would benefit greatly from the use of a common currency in such a wide area because the currency would be used in all transactions within the continent which would increase the liquidity of the currency. Individual African currencies often lose their value as money to foreign currencies in a floating exchange rate regime. A single currency for Africa would curb this.

- It is believed that a common currency reduces the need for external reserves. This is because when two countries form a monetary union, they do not need foreign reserves to do transactions with each other. Then, the larger the currency area, the greater the reserve saving.\(^ {42}\) Africa is a large continent so forming a single monetary union in Africa would
mean that Africa would be a very large currency area with a very large reserve savings. Also, because they would use a common currency, member states would not need foreign reserves to do trade with each other.

- Finally, a monetary union enhances the shock absorbing role of foreign reserves. The pooling of reserves by member countries is an application of the well-known principle of risk pooling which would help countries absorb shocks better. African countries individually are not able to deal with external shocks and as a result are affected negatively by them. The forming of a monetary union would enable them absorb shocks better as they would have a very large reserve. Forming a monetary union in Africa would allow them form a greater reserve saving which would help them absorb shocks better.
Endnotes

2 Ibid
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6 Ibid, p.222-230
7
9 Ibid, p.214-217
11 Ibid
13 Ibid, p.231
14 Ibid, p.231
15 Ibid, p.231
16 Ibid, p.236
31 Ibid


CHAPTER FOUR: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

4.0 Introduction

With two working monetary unions in Africa, monetary integration is not new to Africa. This work sought to examine the efforts of the various RECs at achieving monetary integration in their respective regions. It also set out to examine the challenges and prospects of forming a continent wide monetary union on the continent. This chapter would summarize findings of the study, conclude and suggest recommendations.

4.1 Summary of findings

During the research the following challenges that pose a challenge to monetary integration and would hinder future efforts at monetary integration were found.

- A major problem that Africa faces in the monetary integration agenda is the setting of unrealistic deadlines. Research has shown that the deadlines set by the various RECs and the African Unions are largely unrealistic. This causes the countries to rush to meet the deadlines and they end up not applying the measures appropriately.

- Another challenge found is that the member states of the various RECs are usually unable to meet the convergence criteria set. With countries unable to meet the convergence criteria set by their RECs, there is often little progress made.

- Another problem that hinders monetary integration is the issue of overlapping membership. Multiple and overlapping memberships result in a waste of resource and effort due to duplication and multiplication of actions.
• Even though countries may belong to one regional grouping, they face different economic problems and as such the monetary policy one country would need to solve its financial problems would differ from what another country would need.

• Another challenge of monetary integration in Africa is that most Central Banks are not independent in their respective countries.

• In a monetary union when there is instability in one country it would affect the whole union and this tends to disrupt progress. Countries are also skeptical about committing to monetary unions because they fear instability in one country would affect them and resources would have to be pooled to sort out issues.

• Also, countries face different economic problems. Some countries in Africa have reached a certain level of economic development that others have not reached and the countries that have made progress in economic development would be reluctant to join a monetary union with less developed countries because they feel it would draw them back.

• There is low level of trade among African countries which would prevent them from enjoying the full benefits of a monetary union. Also the low level of trade among African countries leads to high vulnerability to external shocks.

• In most parts of Africa countries exports different primary products so they are likely to experience different kinds of shocks at different times. This makes the shocks they experience asymmetric.

• African countries have struggled to pay their dues to their respective RECs. This makes it difficult for the RECs to raise funds to embark on their projects. Also, in making fiscal transfers, transfers to larger countries would largely diminish available resources. Transfers to smaller countries on the other hand would most likely be insignificant.
Establishing a continent wide monetary union with a single currency is achievable. The RECs which were established is building blocks, to pave the way for the eventual launch of the monetary union in Africa have made progress in establishing monetary unions in their respective regions. SADC, COMESA and EAC all have plans to form a monetary union.

4.2 Conclusion

The findings of the research show that despite the challenges faced by the existing monetary unions on the continent, they have still been successful. Although Mundell’s OCA theory shows that Africa is not ready for a monetary union, the same was said of the EU and yet the EU still launched the monetary union.

Africa has a lot to learn from the experience of the CFA countries in the area of monetary union. Although a high degree of economic integration can be achieved without a monetary union, a well designed and well implemented monetary union can be very helpful. Monetary union would be very beneficial if progress has been made in other economic integration arrangements.

When adopted, a single currency policy should be implemented with caution so that it does not hamper macroeconomic performance and economic development.

4.3 Recommendations

What is needed for African countries to achieve their aim of a monetary union on the continent is a strong and lasting political will to deal with all the challenges they face. They must show commitment to achieve their objectives otherwise they would be discouraged by the problems
they face along the way. They must show commitment to remove barriers to intra-African trade. They must also show commitment to meeting the convergence criteria set by the RECs in order to make progress. Also they must be committed to achieving other stages of economic development so that they would benefit fully from the gains of a monetary union.

The efforts of the various RECs must be coordinated by the AU so that when the time comes for the transition to a continent wide monetary union, it would be an easy process. Currently the RECs are at different stages of economic integration and monetary union. Because of the diverse nature of the continent, the RECs use different strategies to achieve their aims. The RECs must find a way to harmonize their policies to make the transition into the continent wide monetary union easy.

In setting deadlines, the various RECs and the AU must consider the economic difficulties the member states face and any unforeseen circumstances. This would give enough room for the countries to achieve goals set. It is impossible to predict what will happen in the future so unforeseen circumstances must be factored in when setting deadlines.

Priority should be placed on the implementation of agreed reforms at the national, regional and continental level. Governments must make a conscious effort to implement reforms agreed at the continental level and the AU and the RECs must put in place a monitoring mechanism to pressure governments to implement such reforms. If policies and reforms are agreed upon, it is important that they are implemented as quickly as possible in order to keep momentum. Delay in implementing policies and reforms show a lack of commitment and will to achieve objectives.

The RECs must set up institution to effectively monitor member states and evaluate the progress made towards achieving set objectives. To ensure that countries are committed to achieving set
goals, they must be monitored and evaluated regularly to keep them on toes. Such institutions must be well resources so that they can do their work effectively.

A definite plan of action must be set up with details on how the continent wide monetary union would be achieved to remove any doubt about it. It is well known that the African Union want to establish a continent wide monetary union and a central back to boost integration efforts on the continent. It is also known that there is an arrangement to use the RECs as a foundation to achieve these objectives but as it stands now how the efforts of the RECs would be harmonized is not known and how the transition into a continent wide monetary union will be done is also not known.
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