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Challenges for Regional Integration in Sub-Saharan Africa: Macroeconomic Convergence and Monetary Coordination

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The majority of sub-Saharan African countries are members of one or more regional or sub-regional arrangements that seek to promote economic coordination, cooperation or integration among the member countries concerned. The various African regional economic blocs, and indeed the individual countries that comprise their membership, are at varying stages of development and implementation of their regional arrangements. The blocs' scope covers various socio-economic, developmental and political considerations, including the promotion of intra-regional trade, socio-economic policy coordination, and management or development of shared physical infrastructure and the environment. Some of the African regional arrangements also cover issues of common interest in the areas of public governance, defense and security, among other socio-economic and political dimensions (see Box 2 below).

Some of the many African sub-regional arrangements have a long history of existence, dating back to the pre-independence era, which has been punctuated by occasional stagnations or reversals in a few cases, and only modest achievements at best in others. Some African countries have only recently rekindled their interest in economic integration, but for different reasons from the initial decolonisation agenda and the desire to overcome the colonially imposed "artificial" boundaries. They have been inspired by the success of integration efforts in Europe and the Americas. They also need post-independence economic integration to

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gain bargaining power and survive economically against the threat of marginalisation in the globalisation process. Countries in the region have also pursued regional integration in the context of South-South cooperation, which was necessitated partly by the declining terms of trade and disappointment with the rejection of the New International Economic Order (NIEO) proposal in the 1970-80s. However, in order to translate the dreams about economic integration into reality, Africa's perceptions, approach and pace in this area will need to shift towards more pragmatism and meticulous implementation of the agreed agenda. It should be tackled in a way that can effectively address the challenges encountered in the process of regional integration.

In this context, this chapter focuses on the achievements, lessons, challenges and the way forward for one of the key components of regional integration process, which is macroeconomic convergence. The chapter looks at the case of Eastern and Southern African countries. The two economic blocs in question are the East African Community (EAC), and Southern African Development Community (SADC). The latter also encompasses the long-established but smaller sub-grouping of the Southern African Customs Union (SACU), along with its Common Monetary Area (CMA) of all but one SACU member state. EAC and SADC intersect with COMESA.

1 The Meaning of Regional Economic Integration

Goals of Economic Integration

The ultimate goal of regional integration is to merge some or all aspects of the economies concerned. This usually evolves from simple cooperation on and coordination of mutually agreed aspects amongst a given number of countries to full integration or merger of the economies in question.

Objectives of Economic Integration

The history of regional integration in Africa shows that the reasons or objectives for integrating have been evolving over time. These have shifted from the initial focus on the political decolonisation of Africa to the current emphasis on socio-economic integration in the post-independence era for stronger bargaining base in global fora and for mutual benefit in the form of accelerated growth and development.

Box 1 The Stages, Pros and Cons of Regional Economic Integration

By definition, regional integration entails the coming together of two or more states, normally through reciprocal preferential agreements, based on one of more of the following successively more integrating cooperation arrangements:

- Preferential Trade Area (PTA) or Agreement, where member states charge lower tariffs to imports produced by fellow member countries than they do for non-members;
- Free Trade Area (FTA), a PTA without any tariffs on fellow members' goods;
- Customs Union, an FTA using the same or common tariffs on imports from non-members;
- Common Market, a customs union with free movement of the factors of production;
- Economic Community, a single-currency common market or monetary union in which fiscal and monetary policies are unified. If political sovereignty is given up, an economic community becomes a federation or political union with common legislation and political structures.

Pros and Cons of Integration

Regional integration can foster competition, subsidiarity, access to wider market (via trade), larger and diversified investment and production, socio-economic and political stability and bargaining power for the countries involved. It can be multi-dimensional to cover the movement of goods and services (i.e. trade), capital and labour, socio-economic policy coordination and harmonisation, infrastructure development, environmental management, and reforms in other public goods such as governance, peace, defense and security.

However, integration can be complicated by perceived or real gains or losses among the members that may lead to disputes and a sense of "loss" of national sovereignty. For success, integration thus requires strong commitment in implementing the agreed arrangements, fair mechanisms to arbitrate disputes and equitable distribution of the gains and costs of integration.

The basic objectives that have underpinned the pursuit of regional integration are to merge economies, i.e. integrate them, and, as a derivative, thus form a monetary union. This requires a harmonisation of economic policies, to pave way for merger, hence convergence.

Other derivatives of integration objectives are the enlargement and diversification of market size, and tapping of related opportunities and the promotion of intra-regional trade and free movement of the factors of production, which also results in stronger member states' bargaining position in relation to other regional and international blocs and the fostering of socio-economic progress, political stability, as well as peace and security.

The varying emphasis placed on the objectives for the different African regional blocs is influenced by the specific stage of development of the integration process, including the expected benefits and costs (see Box 1). Given the fragmented and small sizes of its low-income economies, Africa needs to competitively participate in multilateralism from a regionalised standpoint, to negotiate more effectively for international market access and ward off marginalisation and unfair competition in the global arena.

Conditions for Effective Convergence

Much of African regional integration history shows that they initially arose from political rather than economic or developmental agendas, but more recently they have been re-launched with an economic focus. Some regional economic groupings have been shallow arrangements that have tended to "skip" the necessary sequencing (progression through the development stages). It is essential that the following conditions are fulfilled for successful macroeconomic convergence:

- efficient and non-distortionary markets for products and factors of production, including freer movement of capital notably labour;
- effective compensatory financing arrangements to make the domestic costs of adjustment affordable, and equitably share the costs and benefits of integration, and fully incorporate the effects of exogenous shocks such as adverse weather, terms of trade, disease, and external financing shocks including debt relief;
- proper timing and sequencing as well as consensus-based choice of a convergence anchor (whether rigid or flexible benchmarks and criteria);
- enabling policies that reduce risks;
- development and retention of expertise;
- focus on smaller sub-groupings for greater success, with provision for variable geometry and variable/multi-speed arrangements.

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Box 2 Overview of the Developments in African Regional Integration Blocs

Africa is not alone in aspiring for regional integration. With increasing globalisation and the advent of the World Trade Organization (WTO), other parts of the world have embraced the ideal. Among others, these include:

- The European Union, in which some members have opted for a single currency, a central bank and for all members free movement of factors of production;
- North American Free Trade Area (NAFTA) which brings together the US, Canada and Mexico;
- Latin American Integration Association (LAIA) and the Andean Common Market (ANCOM);
- Central American Common Market (CACM);
- Caribbean Community and Common Market (CARICOM); and,
- Council of Arab Economic Unity (CAEU) in the Middle East.

Overview of Review of Progress on African Integration

Apart from the African Union (AU), which, as the umbrella political Africa-wide body, envisages eventually having a common currency and central bank by 2025, the continent has various regional economic communities in all the four cardinal parts of the continent. Following the Lagos Plan of Action (1980) and Abuja Treaty (1991), various regional arrangements on policy coordination, cooperation or integration have been initiated, re-invigorated or re-aligned to continental aspiration on integration in the following sub-regional blocs:

Central Africa:

- Central African Economic and Monetary Community (CEMAC) in Central Africa aims to become an economic union: customs and monetary union and convergence have been achieved.
- Economic Community of Central African States (ECCAS) is considering implementation of free trade area with a view to eventually attaining full economic union status.

East Africa:

- The East African Community, comprising of Kenya, Tanzania and Uganda, has been resuscitated and has progressed on free trade

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Box 2 (continued)

area status and commenced a move towards a customs union with harmonised fiscal and monetary policies as agreed on 1 January 2005.

Southern Africa:

- Southern African Development Community (SADC) in Southern Africa (plus Tanzania from East Africa): Seychelles withdrew, while Madagascar may be interested in joining. SADC aims for full economic cooperation that includes a free trade area, to move towards monetary union. Mechanisms to cooperate on power, peace and security have been created.
- Southern African Customs Union (SACU), formed in early 1900s, comprises of Botswana, Lesotho, Namibia, South Africa and Swaziland. They also have a Common Monetary Area (CMA), which excludes only Botswana. Customs Union stage has actually been achieved, on the ground.

North Africa:

- Community of Sahel-Saharan States (CEN-SAD): has studied feasibility of free trade and pursues selected sectoral integration.
- Arab Maghreb Union (UMA) in North Africa, which envisages an economic union, has conventions relating to investment, payments and transportation. It is however yet to become a free trade area.

West Africa:

- Economic Community of West African States (ECOWAS) and its Monetary Union (UEMOA) in West Africa aim for an economic union through selected tariff reduction, macro-economic and monetary convergence. It has harmonised business laws, and also pursues peace and security issues.
- The Manor River Union (MRU) of West Africa seeks to integrate various sectors, but has been adversely affected by political factors.

Other Groupings:

- Common Market for Eastern and Southern Africa (COMESA): macroeconomic convergence criteria have been set. Integration has generally been slow. Most COMESA countries have been struggling to attain the 10 percent inflation regional target.

2 Progress on Integration: Dreams versus Reality

Intra-Regional Trade in Eastern and Southern Africa

African integration includes, as one of its objectives, the promotion of intra-regional trade, including preparing members for greater global competition and bargaining power. However, liberalisation in Africa's regional trade has been limited by, among other factors: costly overlapping memberships, including some bilateral agreements; different time horizons for full liberalisation of trade among member states and subregions implying that considerable trade barriers – both tariff and non-tariff barriers – continue to inhibit intra-regional trade and cross-border trade; delays by some member states in signing trade treaties and protocols, followed by additional delays in implementation.

There has been relatively more bias towards participation in international trade negotiations at the expense of efforts at the regional level, resulting in a decline of Africa's share of global trade from 5 percent in the 1980s to only 2 percent by 2002. Although some groupings have launched free trade areas enabled by trade protocols and other instruments and steering and overseeing committees, de facto substantial barriers to intra-regional trade still exist.

Overall, as a share of the continent's global trade, intra-regional trade in Africa is generally low (see Table 1), even where changes[1] in membership are taken into account. Trade is also constrained by lack of diversification, due to the high concentration on similar primary commodities and lack of value adding, as well as the exclusion of informal sector trade. Some countries face a difficult trade-off between public revenue losses from trade liberalisation and the long-term benefits from trade integration. This tends to delay the ratification of trade protocols and postpone their implementation. Also, some countries, e.g. South Africa in SADC, overwhelmingly dominate intra-regional trade.

It should be noted in Table 1 that regional integration in the above economic grouping became more active from the mid-1990s for SADC for which the key objective changed from mainly infrastructural development to reduce dependence on apartheid South Africa under the then Southern African Coordinating Conference (SADCC), to economic

[1] Yang and Gupta (2005) conclude that despite a proliferation in African regional trade arrangements (RTAs), time series data do not confirm a high intra-regional trade impact from the RTAs.

Table 1 Intra-Regional Arrangement Trade as Percentage of Total Trade (1970-2003)

	1970	1980	1990	1998	2003
Exports:					
COMESA	9.7	9.1	8.1	8.9	8.6
SADC	9.4	2.7	6.9	6.0	6.0
Imports:					
COMESA	6.7	2.8	3.4	3.9	5.8
SADC	4.9	3.8	6.0	6.1	6.3

Source: IMF Direction of Trade Statistics, cited in Y. Yang *et al.* (2005).

integration under SADC. The intra-regional trade data in the table thus also includes years that preceded the launch of economic groupings, to aid comparison between pre and post integration periods. It is also note-worthy that the membership was evolving over the period under review.

In EAC, Kenya has attained a 90 percent tariff reduction, while Tanzania and Uganda apply 80 percent. Non-tariff cross-border trade barriers are being removed, while studies are underway or have been completed on cross-border agriculture trade and establishment of an East African Trade Regime. For the SADC region, intra-regional trade has remained more or less the same as a percentage share of total trade.

Why the Quest for Macroeconomic Convergence?

The pursuit of macroeconomic converge, which by definition entails the setting of lower and/or upper limits for selected macroeconomic variables, is usually underpinned by the desire to guide certain key aspects of future economic and financial policy and its management among the member countries concerned. Macroeconomic convergence in this respect therefore serves an eligibility test whereby only those countries that attain the convergence benchmarks would qualify for membership to an economic grouping. Other reasons for seeking macroeconomic convergence are the advantages it confers to members, either individually or collectively. These may include attainment of macroeconomic stability, e.g. through sustainable fiscal deficits and public indebtedness, external current account deficit, as well as low and stable levels of inflation, which are among the key pre-conditions for achieving strong and sustainable economic growth.

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The Choice of Given Targets: Examples from Eastern and Southern Africa

Traditionally, macroeconomic convergence has focused on the maximum allowable levels for a few key indicators that have to do with fiscal discipline and monetary and financial stability, namely: rate of inflation, budget deficit and public debt, as well as external current account balance. In some cases, the primary criteria may be backed by a secondary set of indicators that are derivatives of the primary indicators, and are intended to monitor, for instance, the level of recurrent spending in government finances, external and interest rate stability, the level of foreign currency reserves and central bank lending to government.

Achievements of the East African Community in Macroeconomic Convergence

The East African Community (EAC) comprising of Kenya, Tanzania and Uganda has achieved free trade area status. EAC's long history started with the following efforts: building of a common service i.e. the Uganda Railway in 1895; establishment of the Customs Collection Centre in 1900; establishment of the East African currency board in 1905; the Court of Appeal of Eastern Africa was set up in 1909; the Customs Union came into force in 1919; the East African income tax board established in 1940; the Joint Economic Council was set up in 1940; formation of the East African high commission in 1948; establishment of the East African Common Services Organisation in 1961; establishment of the East African community in 1967-1977; collapse of the East African community in 1977; agreement to revive the East African cooperation treaty in 1992, which lasted for the period 1993-2000; establishment of the EAC Secretariat in Arusha in 1996; following the transformation of the Cooperation into a Community in 2000, the Community launched its first development strategy in April 2001; inauguration of the East African Assembly and Court of Appeal in December 2001; signing of the East African customs union protocol in March 2003.

After falling apart in 1977 and getting resuscitated in 2000, member states to the revised EAC treaty have agreed to establish an East African Community, and to start the process with a customs union. The coming into force of the Treaty establishing EAC in July 2000 created an organisation that did not fit any of the then existing regional arrangements listed earlier. Another unique feature of EAC is that even before becoming a customs union, it has already established institutions and is

Table 2 EAC Members' Performance: Macro-Convergence Criteria (2000-2004)

Indicator	EAC Target	Time Frame/ Deadline for Target	2000	2001	2002	2003	2004a
		Underlying Inflation					
Kenya			6.8	5.0	2.7	3.5	3.5
Tanzania	< 5% p.a.	2000	6.2	5.2	4.6	4.5	4.6
Uganda			4.5	-2.0	5.7	5.1	5.9
		Current Account Deficit (Exc. Grants)/GDP Ratio					
Kenya	Low/		-3.4	-4.3	-0.1	-1.1	-3.7
Tanzania	Sustain-able levels	–	-5.3	-5.3	-3.8	-2.4	-5.8
Uganda	(<5%)		-6.5	-5.6	-5.9	-6.2	-1.9
		Fiscal Deficit (Excl. Grants)/GDP					
Kenya			0.4	-4.8	-3.2	-3.9	-0.4
Tanzania	<5%	2000	--	--	-8.2	-7.2	-9.2
Uganda			--	--	-10.6	-10.1	-10.3

Notes:
[a] Estimates.

Source: Central Bank of Kenya, EAC website and IMF Statistics (website).

involved in areas of cooperation more advanced than those of a customs union. Examples include: establishment of East African Legislative Assembly; establishment of East African Court of Justice; cooperation in sectoral fields, such as trade, investment and industrial development, infrastructure, tourism and wildlife management, health, education, science and technology, agriculture and standardisation and quality assurance; coordination and harmonisation of macroeconomic, monetary and financial policies including free movement of capital; cooperation in defense and security matters.

The EAC has therefore not followed the traditional progression stages of regional arrangements. In addition, given the stage at which it will be by the time the Customs Union protocol comes into force, the efforts that will be required to establish the Common Market will be minimal. In this context, it would be realistic to suggest that the EAC Common Market is feasible within a period of two to four years counting from June 2004.

With respect to convergence, EAC member states are supposed to go through a process of monetary policy harmonisation with a view to achieving macroeconomic convergence. In order to assess progress towards this objective, a number of convergence criteria have to be formulated. In this way, obstacles can be detected that stand in the way of implementation. Remedial measures will allow member states to achieve macroeconomic convergence and set the stage for moving on to the Monetary Union.

The process of fiscal and monetary harmonisation in East Africa involves the attainment of the following set of macroeconomic convergence criteria targets, grouped into traditional criteria; derivatives; derivatives of derivatives and means to the end. These tend to be more elaborate and to go beyond the traditional minimum considerations. Traditional criteria include: a reduction of current account deficit to GDP to a sustainable level; reduction of budget deficit excluding grants to GDP ratio of less than 5 percent; and maintenance of stable competitively determined exchange rates. Derivative criteria include: maintenance of optimal market determined interest rates; maintenance of low underlying inflation to single digit rates of less than 5 percent; and building gross foreign exchange reserves to a level equivalent to 6 months of imports in the medium term. Derivatives of derivatives include high and sustainable rate of growth in real GDP of 7 percent as minimum target annually. Means to an end criteria include: raising national savings to GDP ratio at least to 20 percent in the medium term; pursuit of debt reduction initiatives both domestic and foreign debt; and maintenance of prudential norms, strict supervision, improved corporate governance and transparency of all financial transactions.

From Table 2 above, it is evident that the three member states of the EAC have been tending towards convergence at low and sustainable levels of the key macroeconomic convergence indicators, namely underlying annual rate of inflation, and the current and fiscal deficits as percentages of GDP. It is also noteworthy that the moving towards sustainable fiscal deficits that exclude external grant financing has been more difficult to achieve, given the relatively high donor dependence especially for Uganda and Tanzania. Kenya, which for many years has not received any substantial budgetary support from external donors, seems to perform better than the other two member states in the EAC.

Apart from achieving most of the above targets, undertaking ministerial pre- and post-budget consultations and presenting national budgets on the same day, the EAC has a working Committee on Fiscal and Monetary Policies that evaluates policy compliance twice a year. Marked progress has been achieved in harmonising fiscal and monetary policies, guided by a common macroeconomic framework, partner currency convertibility, harmonised banking regulations, value-added and double taxation, and pre-shipment requirements. Capital markets development, cross-listing policies and trading practices are also being harmonised through the East African Securities Regulatory Authorities (EASRA) and the Capital Markets Development Committee (CMDC).

Effective from 1 January 2005, the EAC commenced a customs union, with a standard single entry document and harmonised customs classification code. Other areas targeted for integration are industry, investment, transport, communication, energy, agriculture, natural resources, the environment, social sector, and the involvement of the private sector and civil society in the process of regional integration. The ultimate objective is to attain a monetary union under a single currency and central bank by 2010. Thereafter, a political federation would be contemplated.

Achievements of the Southern African Development Community (SADC)

Cooperation amongst SADC member states started in April 1980 as the Southern African Development Coordinating Conference (SADCC) of nine member countries that focused on common regional (mainly infrastructure) projects intended to reduce economic dependence on apartheid South Africa by forging member states links and mobilising resources. The SADCC had a Summit of Heads of State or Government, Council of Ministers, a Standing Committee of Officials and the Secretariat. Different sectors were decentralised to each member state. As Namibia and South Africa gained political independence in the early 1990s, SADCC was transformed into an institution that goes beyond mere cooperation, and began to pursue regional economic integration and development. Membership also grew from nine to fourteen, until Seychelles pulled out more recently.

The key objectives of SADC are to promote equitable, self-sustaining economic growth and socio-economic development with a view to alleviating poverty; cultivate common cultural, social and political values, as well as maintain democracy, peace, security and stability; achieve complementarity, and sustainable environmental and resource utilisation.

A Memorandum of Understanding (MOU) on macroeconomic convergence, which requires signature by at least two thirds of the membership to become effective, has been drawn. It sets out modalities, principles, institutional arrangements, monitoring and surveillance mechanisms, indicators/criteria, data requirements, and monetary and fiscal policy cooperation parameters for the member countries. The MOU is premised on the recognition by member countries of the need for financial and economic stability, soundness of institutional structures and policy frameworks. This is deemed critical in achieving fiscal balances that avoid the monetisation of deficits, unsustainably high or rising ratios of public debt to gross domestic product, wide external current account and financial imbalances and market distortions resulting in high rates of inflation and stifling of growth amongst SADC member countries.

Macroeconomic convergence in the SADC region is guided by the following criteria and benchmarks that have been specified by a Committee of Central Bank Governors and which focus on the key essential requirements for macroeconomic convergence: inflation rate to reach single digit by 2008; 5 percent by 2012; and 3 percent by year 2018; the ratio of budget deficit-to-GDP should not exceed 5 percent by 2008, and 3 percent as an anchor, within a 1 percent bank by 2012 through to 2018; and nominal public debt-to-GDP ratio should be less than 60 percent by 2008 and beyond to 2018.

Apart from various protocols that provide the legal framework for cooperation, SADC has set the following roadmap and milestones for tracking progress in harmonisation and convergence processes among its member States: elimination of exchange rate controls by 2005; establishment of a free trade area by 2006; establishment of a customs union by 2010; establishment of a common market by 2012; and establishment of a monetary union by 2016.

The membership of SADC is not homogenous. Institutional constraints have also limited the extent to which various political level commitments have been implemented and monitored in terms of concrete programmes of action. There are still significant disparities among many member states in terms of income levels and distribution; macroeconomic performance notably fiscal deficits and public debt as percentages of GDP thus leading to high rates of inflation; financial sector development and stability; human resources; infrastructure development; as well as peace, security and governance.

However, the encouraging positive lessons that could be replicated from the longstanding existence of the Southern African Customs Union (SACU) and Common Monetary Area (CMA), whose members are also in SADC, include the attainment of customs union and de facto

Table 3 Macroeconomic Convergence in SADC: Rate of Inflation (1997-2004)

Inflation (target: single digit by 2008)	2001	2002	2003	2004[a]
SACU (incl. CMA)				
Botswana	6.6	8.1	8.7	6.3
Lesotho	6.9	11.2	7.6	5.5
Namibia	9.3	11.3	7.2	5.5
South Africa	5.7	9.2	5.8	1.4
Swaziland	7.5	11.7	7.4	3.5
HIPCs				
Congo, DR	357.3	25.3	12.8	3.9
Malawi	27.2	14.9	9.6	11.6
Mozambique	9.0	16.8	13.4	12.6
Tanzania	5.2	4.6	4.5	4.6
Zambia	21.7	22.2	21.5	18.0
Post-Conflict / in-Crisis				
Angola	152.6	108.9	98.3	43.6
Congo, DR	357.3	25.3	12.8	3.9
Zimbabwe	76.7	140.0	431.7	282.4
Other				
Mauritius	4.8	5.9	5.2	4.4

Notes:
[a] Estimates.
Source: IMF (2004 and 2005).

monetary integration among four of the five members. There have also been recent efforts to reform and centralise the institutional arrangements of SADC both at the regional and national levels, so as to enhance efficiency and effectiveness as well as to improve policy coordination.

Table 3 shows that in the SADC group of countries, the SACU member states and Mauritius have been the most convergent using the annual underlying inflation rate. Post-conflict economies have also demonstrated a rapid move towards lower levels of inflation rates, although the 2004 levels still remained high. Zimbabwe, which is experiencing economic decline or stagnation has the highest level of inflation, and is therefore the least convergent using inflation trends. The SADC HIPCs are a mixed bag with regard to inflation reduction, with the Democratic Republic of Congo and Tanzania having succeeded in reaching the regional inflation targets. Overall, Angola, Malawi, Mozambique, Zambia, Zimbabwe are yet to achieve the single digit inflation rates, but some could do so by 2008 if the current inflation reduction trends are maintained, except for Zimbabwe which would have to halt and reverse the trend and make a much more marked progress in this regard.

SACU member States, Tanzania (influenced mainly by EAC target) and Mauritius have already achieved the targets ahead of the 2008 schedule, and so only need to maintain these inflation rates at current levels.

Other indicators of convergence, shown in the Annex Tables, generally follow a similar pattern as described above for the respective subcategories of EAC and SADC member states. For instance, HIPCs are generally above the target level for the fiscal deficit-to-GDP ratio, reflecting the fact that these countries are highly donor dependent and so their fiscal deficits excluding grants tend to be high and would be unsustainable if donor support were not available or drastically reduced. This point is much clearer for Malawi, which has an estimated deficit of over 20 percent of GDP, given the fact that the country has experienced delays in receiving HIPC debt relief. Swaziland (among the convergent SACU members) and Zimbabwe also portray high budget deficits, due to expansionary fiscal policy and economic crises, respectively. The impact of these fiscal positions is to influence the current account adversely and also to worsen debt ratios, which are almost equal to or greater than 60 percent for all SADC HIPCs and Zimbabwe.

The EAC and SADC blocs are also working on coordinating, cooperating on or integrating other sectors, such as peace and security, governance, health, agriculture, food security, training and education (human resources development), environment and conservation, transport and communication links, energy and freer movement of people.

3 Lessons and Challenges for African Integration

General Lessons and Challenges for African Integration

Many of the monetary harmonisation programmes in the different African integration sub-regional blocs have been slower or not in line with the African Monetary Cooperation Programme (AMCP) which aspires to have a single continental currency and central bank by the year 2025. The common monetary policy convergence criteria, which are to be implemented in six stages of successively tighter targets over time include: the budget deficit (excluding external grants) as a percentage of GDP of no more than 3 percent, with minimised budget financing from the central bank and sustainable public debt levels, and rate of inflation also not exceeding 3 percent; external reserves of at least 6 months of import cover (although this would be a derivative of other measures).

Other secondary criteria include: non-accumulation of domestic public sector debt service arrears; tax revenue-to-GDP ratio and also internally funded public investment-to-tax revenue ratio of 20 percent; wage bill-to-tax revenue ratio of no more than 35 percent; and maintenance of a stable exchange rate and positive real interest rates.

Given the slow progress among many sub-regional groupings, including COMESA, emphasis is being placed on "fast-tracking" the establishment of regional monetary unions ahead of the AU's 2025 continental target. For COMESA, it is hoped that monetary union status will be achieved by 2018. However, rushing prematurely to monetary union without adequate preparation could pose problems in the end. Some African blocs do not have macroeconomic convergence criteria, while many that do are still grappling to converge, partly due to differences in: socio-economic environment, governance and political will especially regarding the ceding of sovereignty to a supranational entity; policy implementation constraints, including lapses and reversals; perceived or real benefits and costs, which has adversely affected commitment to integration; regional and national financial markets that are generally not harmonised, are undeveloped or only just emerging, and so lack the depth, liquidity and currency convertibility required to fully fund the public and private sectors and cross-border investment in a pro-integration manner.

Overall, there are five African regional economic communities that have set macroeconomic convergence criteria as a precondition for realising monetary unions. These are: UEMOA, CEMAC, ECOWAS, COMESA and EAC. The convergence targets cover fiscal and monetary policies. UEMOA and CEMAC have had longer experiences of monetary integration through the CFA-franc that also involves consultations with the French authorities. Within COMESA, two countries, namely Namibia and Swaziland, also share a common currency under the Common Monetary Area (along with South Africa and Lesotho).

Without a common currency and faced with the risks from various floating exchange rates for currencies that are not convertible, many African regional blocs may require clearing houses, such as exists between

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ECOWAS and COMESA (and inside COMESA itself since 1984), to facilitate payments and so promote intra-and inter-regional trade. COMESA aims for full monetary union by year 2018 (if fast-tracking works), based on a convergence framework covering macro-policy, external debt and some adapted EU's Maastricht-type criteria.

Lessons from the experiences in Europe and elsewhere show that for macroeconomic convergence to work there must be key determinants in place, such as: building consensus in developing the convergence criteria and its implementation modalities, as well as commitment to agreed obligations; prioritisation in the design of policy objectives, strategies as well as the setting up of relevant institutions and assigning mandates at the national and regional levels; equitable, objective and transparent mechanisms for determining and allocating the costs, benefits and corrective measures that integration entails; an appropriate, independent supranational authority and requisite regional institutions (e.g. a single central bank), with a clear focus and realistic transition framework towards integration – such a supranational authority should be adequately empowered with rules for enforcing and penalising any errant behaviour by non-compliant members.

European Monetary Union experiences highlight the important role of institutions in influencing the level and distribution of costs and benefits of macroeconomic integration, especially when the region is affected by exogenous shocks. Thus, without proper institutional design and consistent policy objectives (as happens under a federation or political union), heterogeneity of policy preferences among members to a convergence agreement, e.g. choice in the employment-inflation trade-off, can affect the sustainability of monetary integration;

Convergence towards a monetary union can act as a regional agent of beneficial fiscal restraint that instils a culture of discipline among member states. The cost-reduction benefits include the removal of exchange rate risks that sometimes cause uncertainty to investors, and can court speculative attacks through reversals in capital flows and contagion effects.

Other lessons for Africa from the European Union experience include the need for a common central bank to focus on price stability as its primary objective and thus causing national fiscal compliance with this goal by all member states. The central monetary authority should be guided by clear and realistic parameters that are equally enforceable amongst all members.

The EU's Maastricht-approach also shows that transition may need to

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be gradual if there is vast asymmetry amongst member states at the beginning, while fast-tracking stands a chance of succeeding where stability and prudence has already taken root among the members. Thus, it would be appropriate for flexibility in progression to integration through allowing room for variable speed, variable geometry and variable depth.

Specific Lessons and Challenges for Macroeconomic Convergence

In spite of the existence of the above African blocs, that have secretariats and regular technical and ministerial level meetings and summits of heads of state and government, African integration efforts have had limited impact so far. Perhaps because reality on the ground does not match ideals in treaties, protocols and MOUs the degree of integration remains highly superficial. Thus results have been below expectations. This has been due to a number of constraints, including:

Membership issues. On a continental basis and also within sub-regions, many African countries belong to several groupings or sub-groupings that sometimes compete, conflict or overlap amongst themselves rather than complement each other. This adds to the burden of harmonisation and coordination, and is wasteful duplication in view of constrained resources.

Slow ratification of protocols and reluctant implementation of agreed plans. Due to low political commitment and/or perceived or real losses and sacrifices involved, a number of countries have been reluctant to fully implement integration programmes on a timely basis. This has been partly caused by the lack of prior cost-benefit analysis and broad internal consultations on the part of the member countries concerned. In some cases, changes in the socio-economic and political dynamics within the member states involved have also militated against implementation of regionally agreed programmes, especially where socio-economic sacrifices are concerned.

Socio-economic policy divergence. The inconsistency or incoherence at the macroeconomic level has also been a source of problems for the systematic implementation and "internalisation" of the regional integration agenda into national programmes. It has been impossible to integrate regionally where there has been continuously glaring policy, implementation and information inconsistencies at the national level. There is therefore need for an appropriate policy mix and coordination at the national level that targets low inflation and fiscal discipline.

Limited national and regional capacities. The lack of mechanisms and resources for effective planning, coordination, implementation, monitoring and pragmatic adjustment of programmes on the ground have been another constraint to regional integration.

In the area of trade and mobility of factors of production, African integration has been relatively more outward-looking at the expense of intra-regional trade. Xenophobia has partly hampered labour movement among members, while capital mobility has been constrained by largely undeveloped financial markets.

Domestic, regional and international financial and investment constraints have also hampered regional integration, which requires considerable resources to plan, coordinate, implement, and monitor progress in its implementation. There is low saving as a percentage of GDP, while foreign direct investment (FDI) remains elusive and eschew Africa. Furthermore, official development assistance (ODA) has also been dwindling.

Lack of full private sector involvement at both planning and implementation stage has not elicited maximum deliberate input from this important sector, which usually has the financial resources and owns productive capacity. In most countries the private sector remains weak and is sill not well organised. Civil society involvement has also been wanting.

There is also a high degree of vulnerability to exogenous shocks, including heavy and unsustainable external debt burdens (the majority of HIPCs are in Africa), inadequate and erratic external resource inflows, adverse weather patterns, natural disasters, unfavourable terms of trade (witness the current oil price shocks affecting non-oil exporting countries amidst declining primary commodity prices), while civil strife – itself a result of abject poverty and other forms of socio-economic – and political instability have also had their toll.

From the foregoing, it could be concluded that, on the whole, Africa's monetary and financial integration remains largely elusive, with marked variation among individual sub-regions and their respective member states.

4 The Way Forward: From Ideals to Action

Names given to most African regional groupings have tended to reflect the goal rather than stage of integration that has actually been reached. Some use the name "Community", others "Common Market" to indicate the destination aspired for. Elsewhere in the world the name of he grouping usually reflects the stage of integration which has actually been attained.

African experience so far seems to indicate that groupings with fewer members tend to be more successful and show better progress than large groups. The examples of EAC and SACU/CMA support this view. Initially, regional groupings in Africa came into being for political reasons. Now circumstances have forced that they be resuscitated but this time around for economic reasons. Much has been done already to raise awareness on the indispensability and viability of African sub-regional and regional integration in the face of the risks of marginalisation and the loss of opportunities offered by globalisation. Participation in the globalisation process should be increasingly realised from a regionalised African platform to enhance the bargaining power of countries or their regional groupings.

The benefits of regional economic integration are (i) benefits for all through synergy and symbiosis; (ii) bargaining bloc in international arena; (iii) viable size for foreign direct investment; and (iv) improved scope for diversification and its benefits of lowering risk.

Responding to Lessons Learnt: Challenges and Opportunities

Progress has been rather slow and reality has fallen far short of aspirations. So there is ample room for improvement when it comes to implementation. Practical measures could be geared towards:

Eradicating wasteful or costly duplication of multiple memberships and rationalising some overlapping sub-regional blocs. This should be based on priority needs and efficiency from comparative advantage. To deal with this challenge, the reasons for belonging to various groupings or forming sub-groups within the same groups should be carefully studied. There is need to rationalise the number of blocs and membership to them, based on thorough analysis of comparative advantages and cost and benefit. Inter-regional interaction should also be cultivated to "sell" the logic and benefits of rationalisation.

Securing irrevocable commitment beyond mere political rhetoric amongst member countries of the various sub-regional blocs to the ratification and meticulous and punctual implementation of treaties and protocols, without inefficiencies, lapses or reversals. Prior informed analysis and internal consultations, including bringing civil society and the private sector on board much earlier, should precede integration programmes to enhance ownership that motivates full implementation among all stakeholders. The process should be inclusive and participatory. At the national level, there should be coherent coordination, public awareness, engagement of private sector and civil society, whole-hearted political will, and rules-based implementation and accountability.

Strengthening technical capacity for conducting informative cost-benefit analysis and ensuring fair and equitable sharing of the costs and benefits of integration should be the starting point among member States. They should also plan for dealing with changes in country circumstances that may militate against implementation of integration programmes or diffuse their impact.

Capacity for comprehensive and consistent planning, policy formulation and implementation at the national level should be strengthened in the member countries to reduce the risks of conflicting policy objectives, and enhance synchrony and complementarity. Capacity also needs to be sharpened to effectively tackle all stages of integration: from planning, to coordination, implementation, monitoring and evaluation of impact. This calls for human and institutional capacity building covering planning, policy analysis/formulation, implementation and monitoring of programmes. Data availability and credibility and other information requirements should also be addressed. This is where African sub-regional and regional institutions, complemented by targeted and regionally coordinated international expertise that cross-pollinates regional capacities, can play a meaningful role.

Providing the necessary financial and technical resources, in part through international, regional and national private sector involvement at all stages of integration is important. Foreign direct investment, equity investment, development of financial markets and increased technical and financial support through Africa's international development partnerships should be mobilised for this purpose. African countries and sub-regional blocs, for their part, should create an enabling legal, institutional, socio-economic and political environment that supports and attract financing for integration. Member countries should pay fully the agreed financial contributions punctually. Considering that assessed contributions from member countries and external donor assistance may not be enough to fund integration, other non-traditional sources of funding need to be explored, including imposition of selected taxes or charging levies where feasible. Rationalisation also would have a cost-saving effect.

Development, harmonisation and integrating of national and regional financial markets, including elimination of barriers and reducing risks affecting the free movement of labour and capital, e.g. cross-border and foreign direct investment could be another step. Such markets would also help finance the integration process itself in other pertinent sectors. Harmonisation of financial markets also reduces risks of differences in the impact of monetary policy measures that may be taken by the common central bank under a monetary union.

Effective pooling of resources and expertise to tackle cross-cutting regional challenges, such as infrastructure, governance, gender, HIV/AIDS, peace, security and conflict prevention, can help reduce the average costs of delivery, and also assist to harmonise and raise standards.

Regional integration treaties, protocols, leadership and priorities should be unambiguous in providing binding rules-based frameworks and results-oriented milestones to guide national, sub-regional and regional actions required for envisaged eventual continental integration. Effective monitoring, follow-up and corrective mechanisms should be put in place and enforced. The regional and continental bodies should be adequately staffed and resourced, with authority to act as necessary.

Africa's negotiation capacity, especially in the area of multilateral trade, needs to be strengthened from a regionalised vantage point.

The rules for allocating the seignorage effects of centralised monetary union (via a common central bank) should be underpinned by an equitable compensation mechanism.

There is need to strengthen and empower the institutions that implement and monitor regional integration programmes both at the regional and country levels. Any central authority overseeing convergence and integration should be independent of all national authorities' influences. It should have a mandate that is well anchored on the agreed key objectives, such as ensuring price stability, with sufficient authority to enforce (and possibly supervise) compliance by all members for the attainment of the shared objectives. The roles for national central banks and the common central bank should also be clearly defined beforehand.

The time-frame for transition to macroeconomic and monetary convergence should be agreed to by consensus among all member countries: An amicable decision that is realistic for all members should be reached on whether the transition will be gradual or accelerated, based on analysis of the *pros* and *cons* and costs and benefits of either option as well as on ability of members to comply.

Applying variable geometry and variable speed, that accommodates the effects of different circumstances confronting member states and sectors, respectively, is a more pragmatic approach. This has worked well for EU.

Planning Process

It is critical that planning and implementation of the regional integration agenda becomes highly inclusive and participatory at all stages, including formulation of strategic frameworks, action plans, rolling programmes of action, monitoring, evaluation and reviews. There should be clear milestones, and enhanced coordination and management systems that incorporate results-based management at the regional, country and sectoral levels.

5 Conclusion

The benefits of regional integration, and indeed globalisation, remain a critical part of Africa's workable development strategy. The era of isolated tiny national economies has to give way to strategic alliances that harness knowledge-and-resource-based comparative advantages through integration. This however does not come effortlessly and at no cost: a lot of dedicated planning and hard work must be put in first. Some decent planning has already been going on. The next step should be to expedite implementation through greater resolve, speed and effectiveness in translating the good intentions into concrete, implementable, monitorable and results-oriented actions on the ground. This would hopefully see the African Union realising the continent's dream of a single currency and central bank by 2025 or soon thereafter, including halving poverty as envisaged.

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Annex Table 1 SADC and EAC Fiscal Deficits (excl. Grants) to GDP (1997-2004)

Fiscal Deficit/ GDP (target: <5%)	1997-2001 Average	2002	2003	2004[a]
SACU (incl. CMA)				
Botswana	-4.5	2.5	1.0	1.3
Lesotho[b]	-6.4	-8.1	-1.4	0.1
Namibia	-3.3	-3.1	-3.8	-2.3
South Africa	-2.5	-1.2	-2.1	-3.0
Swaziland	-1.3	-5.5	-8.1	-8.6
HIPCs				
Congo, DR	-5.0	-3.1	-6.7	-10.6
Malawi	-12.3	-14.3	-14.1	-22.8
Mozambique	-14.1	-19.9	-15.1	-13.1
Tanzania	-4.5	-8.2	-7.2	-9.2
Uganda	-8.1	-10.6	-10.1	-10.3
Zambia	-10.7	-13.4	-12.9	-8.6
Post-Conflict / in-Crisis				
Angola	-16.8	-9.3	-7.2	-5.4
Congo, DR	-5.0	-3.1	-6.7	-10.6
Zimbabwe	-10.5	-3.9	-0.3	-9.7
East African Community (EAC)				
Kenya	-2.2	-4.2	-4.3	-6.9
Tanzania	-4.5	-8.2	-7.2	-9.2
Uganda	-8.1	-10.6	-10.1	-10.3
Other:				
Mauritius	-5.0	-6.3	-6.3	-5.9

Notes:
[a] Estimates.
[b] Lesotho ratios are influenced by the difference between use of GDP and GNP, due to impact of workers' remittances.

Source: IMF, *World Economic Outlook*, 2005; IMF, *Sub-Saharan Africa Economic Outlook*, 2004.

Annex Table 2 SADC and EAC External Debt to GDP Ratio (1997-2004)

Debt/GDP (Target: <60%)	1997-2001 Average	2002	2003	2004[a]
SACU (incl. CMA)				
Botswana	21.9	23.6	17.8	16.1
Lesotho	71.2	71.0	47.0	43.2
Namibia	2.2	3.0	2.3	2.3
South Africa	28.2	30.7	23.2	22.6
Swaziland	21.7	31.9	28.2	26.4
HIPCs				
Congo, DR	267.1	192.4	187.4	160.6
Malawi	139.7	149.0	165.8	157.5
Mozambique	129.7	140.2	121.7	101.8
Tanzania	86.9	55.9	59.5	58.6
Uganda	53.2	54.1	60.6	58.8
Zambia	182.0	156.6	128.3	106.3
Post-Conflict / in-Crisis				
Angola	129.0	80.6	65.1	37.2
Congo, DR	267.1	192.4	187.4	160.6
Zimbabwe	58.1	20.0	55.3	90.3
East African Community (EAC)				
Kenya	50.3	42.1	38.7	37.9
Tanzania	86.9	55.9	59.5	58.6
Uganda	53.2	54.1	60.6	58.8
Other:				
Mauritius	26.7	21.8	19.3	17.8

Notes:
[a] Estimates.

Source: IMF, *World Economic Outlook*, 2005; IMF, *Sub-Saharan Africa Economic Outlook*, 2004.

Annex Table 3 SADC and EAC Countries' Current Account (incl. Grants)/GDP (2001-2004)

Current Account Balance/ GDP (target: <5%)	2001	2002	2003	2004[a]
SACU (incl. CMA)				
Botswana	11.5	2.2	6.5	6.3
Lesotho	-13.2	-16.9	-12.3	-1.0
Namibia	1.7	3.8	4.0	5.5
South Africa	–	0.6	-0.9	-2.5
Swaziland	-4.5	6.0	0.6	-0.6
HIPCs				
Congo, DR	-4.9	-2.8	-1.5	-2.5
Malawi	-6.8	-11.2	-10.3	-7.6
Mozambique	-21.4	-22.3	-16.8	-12.4
Tanzania	-5.3	-3.8	-2.4	-5.8
Uganda	-5.6	-5.9	-6.2	-1.9
Zambia	-20.0	-15.4	-15.2	-11.5
Post-Conflict / in-Crisis				
Angola	-14.8	-2.9	-5.2	6.5
Congo, DR	-4.9	-2.8	-1.5	-2.5
Zimbabwe	-3.5	-1.8	-5.0	-5.3
East African Community (EAC)				
Kenya	-3.5	2.4	-0.2	-3.7
Tanzania	-5.3	-3.8	-2.4	-5.8
Uganda	-5.6	-5.9	-6.2	-1.9
Other:				
Mauritius	-2.1	2.2	2.0	0.6

Notes:
[a] Estimates.

Source: IMF, *World Economic Outlook*, 2005; IMF, *Sub-Saharan Africa Economic Outlook*, 2004.