Status of Regional Integration in Africa -*Focus on macroeconomic convergence*

Introduction

Macroeconomic convergence is one of the key instruments for successful regional integrating as well as economic growth. It plays an important role in providing efficiency, promoting public accountability, and paving the way for economic growth and sustainable development. It has been growing in popularity among many economists in developing regions, including those in Africa. Convergence among integrating African countries, particularly those at different levels of economic development, presents a platform for these countries to catch up through the narrowing down of their disparities. Deep regional integration cannot be realized unless there is sustainable macroeconomic convergence.

Five of the eight African Union recognized RECs[1] have set macroeconomic and monetary convergence targets aimed at harmonizing their economic indicators. However, countries within these RECs have not been able to sufficiently converge towards these indicators. There have been challenges in effectively coordinating the endorsed macroeconomic policy convergence programmes in a manner that would facilitate meeting targets.

Some facts about RECs efforts to achieve macroeconomic convergence & monetary/financial integration

SADC managed to decrease the average inflation to 9.4 per cent in 2017 and was anticipated to decline further to 7 per cent in 2018 due to bumper crop harvest and stabilized exchange rates among others. (Southern Africa Economic Outlook, 2018). However, within the same period, SADC missed some of the targets such as a common market by 2015, a monetary union by 2016, and a single currency by 2018. These targets were missed because they were too ambitious and a decision was taken by Heads of State and Government to reverse them.

ECOWAS realigned the ECOWAS convergence criteria in 2014 aimed at merging the goals of both the WAMZ[2] and WAEMU[3] countries into a single monetary zone by 2020. The new primary criteria require that member countries' budget deficits should not exceed 3% of GDP; average annual inflation should not be more than 5% by 2019; and gross reserves not be less than three months of imports. The secondary criteria require that the public debt to GDP ratio should not exceed 70%; Central Bank financing of budget deficits should not exceed 10% of previous year's tax revenue; and nominal exchange rate variation should be within +/-10%.

Figure below compares achievement of the convergence criteria by ECOWAS members in 2016 and 2017. The number of ECOWAS countries achieving the primary criteria on the average inflation rate and gross external reserves fell in 2017, while the number of countries satisfying the secondary criteria on ratio of public debt and exchange rate variation rose.

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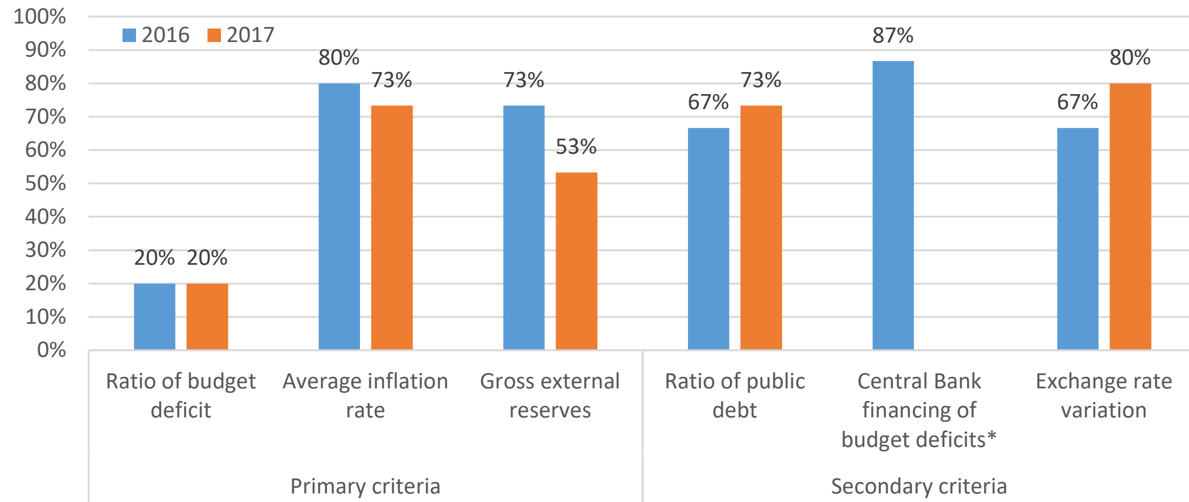
[1] These are SADC, COMESA, ECOWAS, EAC, and ECCAS
[2] WAMZ comprises Gambia, Ghana, Guinea, Nigeria, Liberia and Sierra Leone
[3] WAEMU comprises Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo

Proportion of ECOWAS member states achieving macroeconomic convergence criteria, 2017



Source: Compiled from various sources (ECOWAS website, 2017; IMF database, 2018; AfDB website, 2018; and UNCTAD, 2019. * 2017 data not yet available for Central Bank financing of budget deficits.

ECOWAS members have agreed that countries meeting the convergence criteria will adopt a new common currency, the Eco, from 2020 (ECOWAS, 2019). ECOWAS will conduct an official assessment of how many countries are meeting the criteria at the end of 2019. A presidential task force has been created to monitor creation of the single currency, headed by the Heads of State of Côte d'Ivoire, Ghana, Nigeria and the Committee of Central Bank governors (BBC, 2019). However, an economist with the West African Monetary Institute has cautioned that 2020 would be an unrealistic timeframe given that several other things are yet to be met.

The East African Community plans to introduce a common currency to replace the national currencies by 2024 which will be achieved, among others, through harmonization of monetary policy frameworks and exchange rate operations, rules and practices governing bank supervision, and integration of the payment systems and financial markets. The EAC members did relatively well in achieving the inflation target in both 2016 and 2017 but failed to achieve a greater record in fiscal deficit target, with only 17 per cent of EAC members achieving this in 2017.

The **ECCAS** region made little progress in macroeconomic convergence. Although the existing CEMAC Union has merged into the ECCAS configuration, expansion of the CEMAC monetary union to the rest of the ECCAS member States have been slow, partly because of the absence of a formal mechanism for macroeconomic policy convergence within ECCAS. CEMAC's macroeconomic convergence mechanism is expected to be broadened to embrace the wider ECCAS membership. Within CEMAC, member countries performed well in relation to convergence on the public debt ratio, but slightly better in the three other convergence criteria of maintaining a positive/zero-based budget balance; annual inflation rates less than 3 per cent; and no accumulation of domestic and external arrears.

COMESA continues to pursue the COMESA Monetary Cooperation Programme, adopted by 1992, aiming at accelerating the establishment of a Monetary Union by 2025. Achievements of the region include a Regional Payment and Settlement System (REPSS) providing end-of-day settlement in a single currency and a single gateway for Central Banks within the region to effect payment in a multi-currency environment. As of March 2017, nine countries were implementing REPSS. Importers and exporters are therefore able to pay and receive payments for goods and services through an efficient and cost-effective platform.

CEN-SAD- There is minimum articulation of objectives for financial and macroeconomic convergence or monetary integration in their 2013 Revised Treaty of the Community of Sahelian Sahara. Ten CEN-SAD member States are, however, party to either the WEAMU and CEMAC monetary unions whose West African CFA franc and Central African CFA franc have always been at parity and are effectively interchangeable, each being pegged to the Euro.[4] A further six CEN-SAD countries are members of COMESA and pursue therein the abovementioned COMESA macroeconomic convergence goals.

IGAD countries agreed in the treaty establishing IGAD to cooperate in the gradual harmonization of their fiscal and monetary policies[5]. However, the region is yet to established a macroeconomic convergence mechanism. The aims and objectives of the IGAD Treaty however, provide that its members shall promote and realize the objectives of the Common Market for Eastern and Southern Africa (COMESA). Accordingly, seven of the eight IGAD countries are party to the COMESA macroeconomic convergence goals.

AMU aims to establish a Maghreb Economic Union (AMU website, 2019); however, financial and macroeconomic convergence or the creation of a single currency is not articulated in its Treaty. Of the five AMU countries, Egypt and Tunisia are members of COMESA.

What needs to be done?

- Increased efforts by member States and RECs in achieving macroeconomic targets within the agreed time frames.
- Putting in place of effective mechanisms to monitor the benchmarks of macroeconomic convergence targets.
- Harmonization of macroeconomic frameworks of the RECs and the Action plans for the implementation of the AfCFTA.
- Domestication of RECs' agreed macroeconomic indicators into national development plans/strategies to enhance prospects of implementation.
- Proper coordination in the implementation of macroeconomic frameworks between the RECs and member States.

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[4] Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mai, Niger, Senegal and Togo are members of WAEMU while Central African Republic and Chad are members of CEMAC.

[5] Article 13.k of the Agreement Establishing the Inter-Governmental Authority on Development (IGAD)