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THE IMPACT OF MULTILATERAL PAYMENTS ARRANGEMENTS AMONG DEVELOPING COUNTRIES ON AFRICAN ECONOMIC DEVELOPMENT

A note by ECA secretariat

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I. INTRODUCTION

1. During the past two decades or so, there has been a marked shift in development strategies of the developing countries towards south-south trade and co-operation. While the importance of south-north trade has not diminished, it is generally agreed among developing nations that their economic recovery and sustaining growth will depend largely on interchanges among the south itself. Within this new scenario, the problems of instituting an effective mechanism for ensuring a smooth functioning of multilateral payments and clearing arrangements has come to the forefront. It is generally held that clearing and payments arrangements among a group of countries, represent one of the channels for promoting monetary and financial co-operation. 1/ In fostering economic integration and co-operation, clearing and payments arrangements are generally viewed as economic policy instruments designed to encourage liberalization of trade and payments among participating countries. 2/ As an aspect of financial co-operation among African countries clearing and payments arrangements play an important role in promoting intra-African trade and collective self-reliance.

2. The Lagos Plan of Action fully recognized the need for an African payments arrangements and "each subregion should review whatever financial co-operation arrangements exist among member States, with a view to integrating them into one subregional multilateral clearing and payments arrangement not later than the end of 1984." It also provided that for those subregions where institutional payments arrangements did not exist, negotiations should be initiated to establish appropriate clearing and payments arrangements concurrently with the negotiations on the creation of preferential trade areas and not later than the end of 1984. Furthermore, following the establishment of clearing and payments arrangements in all subregions, member States should embark on negotiations for linking up such arrangements to form an African payments union before the end of this decade. 3/

3. At the south-south level, the purpose of multilateral clearing and payments arrangements particularly among developing countries is to facilitate the settlement of current transactions without using convertible currencies, except for the purpose of net debtor's balances registered in the course of periodic settlements. 4/ Various systems of settlement of transactions can be envisaged and "payments arrangements among groups of developing countries may range from simple clearing arrangements containing only minimal technical credit lines to payments arrangements containing mutual trade credits or even overall balance of payments support mechanisms". 5/

1/ See also resolution 139(vi) on UNCTAD activities in the field of economic co-operation among developing countries.

2/ See Alfonso Inostroza and Bahram Atefat, "The Role of Payments Arrangements in the Expansion of Trade with particular emphasis on the West African Clearing House", UNCTAD, March 1980.

3/ See Organization of African Unity, Lagos Plan of Action for the Economic Development of Africa 1980-2000, OAU, 1981, Chapter VII para. 253.

4/ See UNCTAD, "A review of the Plain Features of Clearing Arrangements Among Developing Countries" Doc. UNCTAD/ECDC/128, 22 November 1982.

5/ UNCTAD, "Economic Co-operation Among Developing Countries", Doc. UNCTAD/TDR/3 (Part II), 5 October 1983.

4. The purpose of this paper is to examine briefly the experience of African payments and claring arrangements with a view to assessing their impact on Africa's social and economic development especially within the context of Africa's Priority Programme for Economic Recovery 1986-1990 which envisages increased production of goods and services for the African market. The paper will also examine the situation and prospects for payments and clearing arrangements between Africa and other developing countries.

II. AFRICAN SUBREGIONAL PAYMENTS AND CLEARING ARRANGEMENTS

(a) Structure and objectives

5. African subregional payments and clearing arrangements are relatively new; the oldest of such institutions in Africa is the West African Clearing House established in 1975. The establishment of subregional clearing houses in Africa was in response to a much felt need and in support of the determination to facilitate the expansion of intra-subregional trade by providing a more convenient and economic machinery for the settlement of payments among member countries of each clearing house. At present, there are three subregional clearing and payments arrangements in Africa; the West African Clearing House (WACH) established in 1975 with a membership of fifteen countries 6/; the Central African Clearing House (CACH) established in 1979 with a membership of five central banks 7/; the Clearing House for the Preferential Trade Area for Eastern and Southern African States with a membership of fifteen central banks 8/. In addition there is also the Monetary Arrangement of the Economic Community of the Great Lakes Countries established in 1978 with a membership of three central banks 9/.

6. The objectives and functions of clearing and payments arrangements that have so far been established cover a wide area of monetary and financial co-operation in Africa. In particular, most of the objectives of existing clearing and payments arrangements include strengthening of co-operation among central banks of the participating countries with a view to harmonizing their monetary policies and co-ordinating economic policies; increasing co-operation among commercial banks and other financial institutions in the participating countries with a view to encouraging an increase in intra-subregional trade; reducing the amount of monetary reserves held for meeting subregional transaction payments; mutual acceptance of

6/ WACH members: Benin, Burkina Faso, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo. Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal and Togo joined WACH through their Banque Centrale des Etats de l'Afrique de l'Ouest.

7/ CACH members: Cameroon, Central African Republic, Congo, Equatorial Guinea and Zaire.

8/ PTA Clearing House members: Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

9/ CEPGL Monetary Arrangement members: Burundi, Rwanda and Zaire.

national currencies for the settlement of subregional transactions; and guaranteeing the convertibility of national currencies into established units of account for all eligible transactions that are channelled through the arrangements. 10/

7. Analysis of the objectives shows that pursuit of full multilateralization is a common characteristic of the clearing mechanisms in West Africa, Central Africa and Eastern and Southern Africa in so far as the clearing of eligible transactions, the settlement of net balances and the credit margins granted to and received from the facilities are concerned. Each clearing and payments arrangement requires that the net balances at the end of the transaction period be settled in convertible currency. The objectives of the Monetary Arrangement of the Economic Community of the Great Lakes Countries include the expansion of reciprocal trade relations and partial multilateral settlement after bilateral clearing. The arrangement is limited in scope in that bilateral accounts are denominated in local currencies and no multilateral compensation of bilateral balances takes place.

8. The attainment of the objectives is expected to result in the realization of a number of benefits including reduction in monetary reserves needed to meet subregional payments resulting from intra-subregional trade. It would also result in reduction in foreign exchange working balances held with banks in major international financial markets by commercial banks of the members of a subregional clearing and payments arrangement and the possible use of those balances in trade transactions with non-members of the arrangement. Another tangible result is the facilitation of intra-subregional trade in goods and services, promotion of the use of national currencies in intra-subregional trade transactions and the strengthening of economic and financial co-operation among members.

9. In addition to the advantages outlined in the preceding paragraph, there is the benefit of limited convertibility of national currencies into agreed units of accounts. 11/ This convertibility derives from the commitment by central banks to settle net balances in convertible currencies and enables some national currencies to be accepted for intra-African transactions. The use of convertible currencies for the settlement of net balances results in greater confidence and encourages exports among subregional members.

10/ See Article II of the Agreement Establishing the Central African Clearing House; Annex VI of the Treaty Establishing the Preferential Trade Area for Eastern and Southern African States; Agreement Establishing the West African Clearing House.

11/ For examples, the West African Clearing House converts national currencies into the West African Unit of Account (WAUA), the PTA Clearing House converts national currencies into the Unit of Accounts of the PTA (UAPTA) and the Central African Clearing House into the Central African Unit of Account (CAUA)

(b) Operations of subregional payments and clearing arrangements

10. The experience of subregional clearing houses in Africa shows that member States have not given them the necessary support in terms of channelling all intra-subregional trade transactions through the established clearing and payments facilities. The volume of trade transactions among members that is channelled through these facilities has been generally very low compared to total subregional trade transactions. For example, from February 1984 to February 1985 the value of intra PTA trade transactions channelled through the PTA clearing was only 48.4 million units of accounts of the PTA (UAPTA). 12/ Out of 15 member States of the Clearing House only nine countries had used the Clearing House since it began its operations in February 1984. It was also reported by the authorities of the Clearing House that the number of items being channelled through the facility was very limited.

11. This phenomenon is true even for the West African Clearing House which has been in operation for more than 10 years; also suffers from under-utilization by member States. That the situation has not improved much can be observed from the decision of the Tenth Ordinary Meeting of the Exchange and Clearing Committee of the West African Clearing House held in Niamey (Niger) on 20 May 1985 at which the Governors had this to say:

"Concerned over the State of affairs, the Governors made the following recommendations:

- It would be desirable to reduce the payments disequilibria within the clearing mechanism by working towards a more balanced level of trade expansion in the subregion;

- It would also be worthwhile to encourage the signatories to the Agreement to utilize the Clearing House mechanism for transfers to their embassies and international organizations located in the subregion." 13/

(c) Transactions period

12. The transactions period is an important feature in the operations of clearing houses in Africa; it is the period during which importers and exporters buy and sell goods among themselves and varies from institution to institution. During this period, transactions invoiced in local currencies of exporting countries are expressed in the Unit of Account of the clearing house of credit and debit entries against each member central bank of the corresponding exporting and importing countries. These credit and debit entries do not give rise to immediate payments except in cases where a debit entry results in a country exceeding its credit limits.

12/ Calculated from data provided by the PTA Clearing House in July 1985.

13/ See "The Report of the 10th Ordinary Meeting of the Exchange and Clearing Committee of the West African Clearing House", Niamey, Niger, 20 May 1985.

13. At the end of a transactions period (60 days in the case of the PTA Clearing House) the credits are offset against debits leaving only the net debit balances to be settled in convertible currencies. It is at this stage that the question of foreign exchange becomes crucial. The importance of the transactions period is that the system does not require frequent recourse to the use of foreign exchange by member central banks to settle the day-to-day trade transactions. In fact the longer the interval between settlements (i.e. the longer the transactions period), the more effective are the operations of a clearing facility as this provides an opportunity for the debit and credits of each participating bank with the other members to cancel out as much as possible thereby minimizing the net debit balances to be settled in convertible currencies. 14/

14. The lengthening of the transactions period improves the operations of clearing houses immensely particularly when account is taken of the fact that subregional clearing houses in Africa are not equipped to provide balance of payments support or adequate credit to their member central banks. Under existing arrangements each country is expected to conduct its trade with the group in such a manner that its exports finance imports. In fact, a transactions period of 90 to 120 days may be ideal as this would permit the system to work more efficiently and to the advantage of the members. This would also allow trading countries on the advice of their central banks to make efforts to stimulate both exports and imports in order to prevent accumulation of large surpluses or deficits on their accounts.

(c) Unit of Account

15. The determination of a Unit of Account has always been one of the most difficult aspects of a clearing house. The use of national currencies which are mostly inconvertible to promote intra-subregional trade in goods and services has also been a difficult feature of the operations of clearing houses in Africa. Within each clearing house, the unit of account is defined in terms of a convertible currency or currencies. For instance, the PTA Clearing House and the Central and West African Clearing Houses adopted a unit of account which is equivalent to one Special Drawing Right (SDR) of the International Monetary Fund. This made the transactions acquire an international characteristic and thereby generally acceptable. There is also a one-to-one relationship between the SDR and the Unit of Account which is based on the fact that the SDR is more stable than any single currency traded internationally and is universally recognized as such with a widely known and appreciated value. An important aspect to stress is that in defining the units of account in terms of the SDR rather than adopting the SDR as a Unit of Account, the clearing houses have given themselves the option to vary the one-to-one relationship should any thing drastically affect the value of the SDR at the international level.

14/ See "Monetary and Financial Obstacles to Trade Expansion and Possible Improvements in Payment Relations", study prepared for ECOWAS in June 1979. (mimeo)

16. The adoption of a common Unit of Account has basic advantages. Firstly, besides being useful for statistical and accounting purposes and being used in practice as a means of enforcing the guarantee of maintenance of the value of the creditors' claim, it also establishes firm relationships between the national currencies. The net debit balances which are expressed in the Unit of Account are paid in convertible currencies. This operation therefore provides limited convertibility of national currencies concerned. Another advantage arising from the use of a common Unit of Account is a reduction in the cost of servicing intra-subregional trade. Ordinarily commissions are paid to foreign banks in international exchange markets such as transfer charges, fees for letters of credit and charges on exchange costs. These costs are often high and prohibitive. Therefore, the agreement between clearing houses and member central banks to deal in one anothers currencies enables importers and exporters avoid payment of these costs, as well as those arising from the spread between purchase and sale rates of the convertible currencies and other charges related to the purchase and sale of foreign exchange.

(e) The value of transactions

17. A quick survey of the functioning of the African subregional payment and clearing arrangements shows that a common factor is the low volume of transactions being channelled through them. Part of this low volume can be explained by two somewhat distinct but related factors. These are: (i) the eligibility; and (ii) the credit limits. These are briefly examined below.

(i) Eligible transactions

The concept of "eligible transactions" is an essential aspect of payments and clearing arrangements and simply refers to an agreed list of goods and services which may be transacted by the payments and clearing house. This may be determined in the Agreement establishing the clearing house or may be defined later through a protocol. By definition, therefore, some goods may be transacted outside the arrangements. For instance in the case of the PTA Clearing House, "eligible transactions" refers to "all monetary and financial transactions between the member States relating to trade in all goods and services affected by the provisions of the Treaty". 15/ The agreement establishing the West African Clearing House says that eligible transactions are payments relating to "current account transactions" and such other transactions agreed upon by the Exchange and Clearing Committee of the West African Clearing House are eligible to pass through the Clearing House. 16/

15/ See Article 1 of Annex VI: "Protocol on Clearing and Payments Arrangements" of the Treaty for the Establishment of the Preferential Trade Area for Eastern and Southern African States, 21 December 1981.

16/ See Article VII of the Articles of Agreement of the West African Clearing House.

18. In general, objectives of clearing houses aim at covering both current and capital balance of payments transactions but in practice the member countries impose some restrictions on eligibility for a number of reasons. Some feel that certain commodities are of great importance to their economies in the sense that they fetch the much needed foreign exchange. If such commodities are channelled through the clearing house, foreign exchange earnings are lost, they contend. There is therefore no uniformity among the different subregional clearing houses for determining the eligibility of transactions. The absence of any clearly defined criteria for determining eligibility of transactions has given rise to problems in so far as the private and public sectors of the participating countries are free to use or not to use clearing facilities.

(ii) Credit Limits

19. Like the eligibility criteria, credit plays an important part in determining the volume of transactions in a clearing house as was pointed earlier, during any transactions period, no actual payments are made for imports, each clearing house sets limits as to the accumulation of debts and the granting of credits. The purpose of credit and debit limits or "interim finance" as it is sometimes called, is to avoid frequent settlement payments among central bank members of a clearing house which would naturally require the use of more foreign exchange.

20. The credit limits also differ from house to house. For the Central African Clearing House, the level of interim credit to be received by each participant is limited to one-sixth of the annual value of imports plus exports recorded with the other partners, and limit of credit granted by each central bank to the group is limited to one-fifth of the combined value of imports and exports. 17/ It is also reported that the West African Clearing House began operations by applying a similar creterion for credit and debit limits. 18/ In the PTA Clearing House, the net debit and credit limits of each central bank during a transactions period are fixed at 20 per cent of the average of its annual exports in goods and services within the Preferential Trade Area during the previous three years for net debit limits while the net credit limits are at 25 per cent of the average of such trade. 19/

21. There is also some flexibility in the application of these limits, for instance, each partner may voluntarily increase the limit of credit that it extends to another partner. If, however, a central bank member exceeds its prescribed debit line, the clearing house is expected to request it to make immediate payment of the amount in excess of its prescribed debit limits to the creditor banks concerned so as to remain within the approved limits.

17/ See "A Review of the Main Features of Clearing Arrangements of Developing Countries", UNCTAD/ECDC/128, 22 November 1982.

18/ Ibid.

19/ See "Report of the Third Meeting of the PTA Council of Ministers", PTA/CM/III/2, 16-18 December 1983.

III. HARMONIZATION OF AFRICAN SUBREGIONAL CLEARING AND PAYMENTS ARRANGEMENTS

22. The establishment of clearing and payments arrangements at the subregional level in Africa, has provided the necessary breakthrough in addressing the problem of subregional trade. However, this has been confined only to member States. The problem still arises in settling transactions with other subregions. Therefore, the Lagos Plan of Action urged member States to embark on negotiations on linking up such arrangements to form an African Payments Union before the end of this decade. The next important step is therefore the agreement on the modality to achieve such co-ordination and harmonization.

23. The idea of linking up payments arrangements has widely been endorsed and what is important now is how these linkages should be made and what should be the new structure of relationship. In the preceding sections it was pointed out that the operation of African subregional clearing houses has been limited and continues to be plagued by a number of serious technical problems and operational bottle-necks. 20/ Therefore, an essential aspect of this harmonization is that consideration should be given to strengthening the existing clearing houses as a matter of the highest priority.

24. One of the problems to be encountered in the harmonization of activities of subregional clearing houses will be the application of "eligibility" of transactions, and the problems arising out of frequent settlements. This requirement generally limits the volume of transactions to be channelled through the clearing houses. Consequently in linking up subregional clearing houses, there is need to address the problem with a view to introducing more flexibility in definition and application of eligible transactions so as to encompass a wider range of goods and services which have the potential of being traded among members of the clearing houses.

25. A related problem that also needs to be carefully examined is the determination and application of credit and debit lines or limits, letters of credit, interim finance, transactions and settlement periods. One view of the different approaches to these elements is the need to analyse them with a view to harmonizing them so as to widen the scope of the clearing houses.

20/ The establishment of some form of collaboration at regional and inter-regional levels has been the subject of discussion at a number of fora. For example, the group of 77 is in the forefront of all organizations in searching for ways and means of facilitating linkages among clearing and payments arrangements of different regions. One of the recommendations included in the Arusha Programme of Action for collective self-reliance was the linking up of regional clearing and payments arrangements. See UNCTAD Reports of the third and fourth meetings of the co-ordination committee on multilateral payments arrangements among developing countries, 1980 and 1981.

26. The establishment of a regional clearing and payments arrangement is indeed very complex requiring a high degree of perception by the policy-makers. Therefore, it would be prudent to envisage its establishment through stages as indicated below:

(i) Stage I: Harmonization of Rules and Procedures

27. Attempts should be made to harmonize the rules and procedures of the existing subregional clearing and payments arrangements. There should also be a systematic and regular exchange of information by the clearing houses. This should apply more particularly to the determination of transactions periods, settlement periods, credit and debit limits, interim finance arrangements, eligible transactions, methods of payments, rules governing the role of commercial banks and public/private enterprises differ from one subregional clearing house to another. Efforts should be intensified to increase visits by heads of the clearing houses as well as officials at other levels to other subregional payments and clearing houses in order to learn on the spot the operations of these clearing houses. There should also be regular meetings of all clearing houses to exchange views and information on how best the activities can be harmonized. This stage should take 2-3 years to accomplish.

(ii) Stage II: Expansion of Contractual Obligations between Subregions

28. The second stage which could stretch over a period of 3-5 years, should involve expanded contractual obligations between two or more payments and clearing houses (e.g. between the PTA clearing house and the EACH etc.). During this stage, a thorough analysis should be made about the level of inter-subregional trade and how this should be promoted. An agreement would be reached between the two subregional clearing arrangements which would provide for mechanisms to facilitate not only the reporting and recording of trade transactions, but more importantly the settlement of such transactions based on agreed period and the final payments of net debit balances in acceptable currencies to the creditor clearing house following the national practice. The arrangements would be similar to those at the subregional level although the rules and regulations governing inter-subregional clearing and payments arrangements would be different in so far as this would involve the settlement of balances between the clearing houses themselves. In other words, inter-subregional trade would be conducted through each subregional payments and clearing house. In this way, it would be possible for traders in, say, West Africa to conduct normal business with their counterparts in, say, Eastern and Southern Africa without requiring huge amounts of convertible currencies.

(iii) Stage III: Multiple Membership

29. If the second stage is successfully implemented, this would easily lead into the third stage, namely, that of multiple membership. This implies that any given Central Bank can become a member of more than one subregional clearing house. Such a process could take between 5-7 years. The immediate obvious cases would be those countries belonging to more than one subregion (e.g. Rwanda and Burundi or Zaire). However, any country should have the liberty to belong to more than one clearing house if its trade warrants such dual or multiple membership. The existing agreements establishing the subregional payments and clearing houses would have to be interpreted in a more flexible manner to allow for such membership. The established rules and regulations of the clearing houses would apply subject to any harmonization that may have already been agreed. This stage should witness an increased flow of intra-African goods and services.

(iv) Stage IV - The African Payment Union

30. The stage of multiple membership would not only have introduced the need for greater policy co-ordination by the subregional payments and clearing arrangements but would have laid firm foundations for the establishment of an African Payments Union. Such a process of integrating the subregional clearing houses should last for 7-10 years. At this stage, each African country would have become a member of one or more subregional clearing houses. The establishment of the African Payments Union would imply either of two alternatives. The first alternative would be to dissolve all existing subregional clearing arrangements into one regional arrangements. The second alternative would be to retain the subregional clearing houses as branches of the African Payments Union. This would ensure the autonomy of the existing clearing houses at the subregional level. The decision on which option to take would depend upon the intra-African trade and economic co-operation environment that will prevail at the time. It is, however, possible to envisage the creation of the African Payments Union by the year 2000.

IV. INTER-REGIONAL CLEARING AND PAYMENTS ARRANGEMENTS AMONG DEVELOPING COUNTRIES

31. Recent shifts in the financial and economic situations of developing countries calls for a new set of inter-regional trade relations between Africa and other regions. As trade between developing countries expands, the problems of payments will come to the forefront in much the same way as those at the subregional and regional levels. Consequently, mechanisms will have to be found to ensure availability of payments and clearing arrangements to support such trade. There is, however, a general consensus of the need to articulate this problem further. For instance, Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation which was convened by UNCTAD agreed that a pragmatic approach should prevail in considering the subject, and that due regard should be given to the following:

(i) It was essential to preserve the independence and autonomy of individual clearing arrangements involved in any linkages;

(ii) In any attempt to identify possible links, existing or potential, meaningful trade flows should be taken into account; and

(iii) Efforts aimed at setting up any kind of links should be developed in a gradual and selective manner so that pragmatic ways and means could be explained, as it had been the experience of various clearing arrangements that amendments became necessary once operations began". 21/

21/ See UNCTAD Report of the Fourth Meeting of the Co-ordination Committee on Payments Arrangements among Developing Countries Bridgetown, Barbados, November 1981 (UNCTAD/ST/ECDC/15).

32. From the present stage of consultations reached, it does not appear that the time is opportune for the establishment of an international payments arrangement outside the existing mechanism. In fact, the Co-ordination Committee further concluded that: the idea of establishing a global payments arrangement among developing countries was too ambitious at present, although the merits of the scheme were recognized. 22/ For this reason, it would be fruitful for individual developing countries belonging to an existing payment arrangement to consider becoming a member of more than one clearing arrangement. Similarly, the linking up of two or more clearing arrangements would not necessarily require the alteration of the basic internal features of any arrangement. In other words, it is possible to achieve a certain degree of co-operation between payments houses in more than one region without giving up regional autonomy. In that case, only a new set of rules and regulations might apply to the external relations among the clearing arrangements concerned and not the transactions within each arrangement.

V. MEASURES FOR ENHANCING THE CONTRIBUTION OF PAYMENTS AND CLEARING ARRANGEMENTS TOWARDS ECONOMIC DEVELOPMENT

33. From the preceeding sections, it is possible to draw up a number of policy measures to strengthen the role of African subregional payments and clearing arrangements towards social and economic development. A major problem that has to be tackled is to increase the volume of transactions channelled through these arrangements. It is evident that this is the result of factors such as the short transactions periods, inadequacy of debit and credit lines, inadequacy of methods of effecting payments, insufficient participation in the operations of clearing houses by commercial banks and private traders, restrictiveness of the concept of eligible transactions and the failure of most governments to use their political power to encourage or persuade traders and their financial agents to utilize the clearing houses.

34. Subregional clearing and payments arrangements play a vital role in enhancing African economic development and economic integration. There is therefore a strong case for directing more efforts towards strengthening the existing clearing and payments arrangements by eliminating the identified bottlenecks to the smooth functioning of these facilities. While short-run benefits may not always be clear to member States, there is a strong argument that during the next 10-15 years, the benefits derived from improved operations of individual subregional clearing and payments arrangements would far much outweigh the shortcomings.

35. To the extent that the volume of intra-subregional trade transactions channelled through subregional clearing houses is adversely affected by conceptual and operational bottlenecks which are identifiable, remedial measures need to be taken with a view to facilitating an increase in the volume of transactions channelled through the subregional clearing houses. Among such measures are:

22/ See the Report of the Fourth Meeting of the Co-ordination Committee on Payments Arrangements Among Developing Countries, Ibid.

(i) Each government which is a signatory to the payments agreement should intensify its efforts to encourage the business community to channel its intra-subregional trade transactions through the clearing houses. As a means of preserving foreign exchange, the governments should consider giving directives requiring all intra-subregional trade transactions to be channelled through clearing houses. This should, where necessary, be supported by legislations that foreign exchange would be available for intra-subregional trade if such transactions were channelled through a clearing house;

(ii) Each subregional clearing house should review and define criteria for determining the appropriateness of the rules, and regulations governing their operations. For example, consideration should be given to lengthening the transactions periods in each clearing to 120 days; the definition of eligibility needs to be broadened with a view to embracing in the list as many subregionally tradable products as possible; and, debit and credit limits should be reviewed at regular intervals with a view to adjusting them in line with the volume of trade transactions channelled through the clearing houses;

(iii) Trade and foreign exchange control regulations such as import licence should be substantially relaxed and/or removed altogether in respect of intra-subregional trade transactions so as to facilitate increased trade flows;

(iv) Governments should consider the utilization of financial agents or correspondent banks in each country to facilitate trade;

(v) Consideration should be given to the introduction and use of subregional travellers cheques based on the subregion's unit of account with a view to facilitating intra-subregional business travel;

(vi) Efforts should be made to intensify the exchange of information. To this end, brochures should be prepared on the operations of the clearing houses to be widely distributed to all agents involved in intra-subregional trade. In addition, seminars, workshops and roundtables for bankers and business operators should be held regularly.

VI. CONCLUSIONS

36. The experience of African subregional payments and clearing arrangements has not been long enough to enable a full assessment of their role in socio-economic development. The situation is even less clear with regards to inter-regional payments and clearing arrangements i.e. between Africa and other developing regions. There can be no doubt about the member States political support and commitment to subregional clearing and payments arrangements. This has been demonstrated only in terms of annual subscriptions which are used to meet the operating costs of the Clearing Houses. However, while this support is critical it cannot in itself guarantee the success of of the arrangements.

37. There is a number of policy proposals that African governments need to take in order to enhance the contribution of payments and clearing arrangements to the economic growth of the countries concerned. Here only a few are listed:

(a) Governments need to encourage and persuade the parastatal organizations, private enterprises and agencies as well as commercial banks to channel their transactions through the clearing facilities which they have created.

(b) The small volume of trade transactions channelled through Clearing Houses by members is partly explained by the inadequacy of foreign exchange for intra-African trade. An important aspect of these clearing facilities is that an allocation of foreign exchange for intra-subregional trade enables importers to obtain the goods with the understanding that at the end of a given transaction period, the amount of foreign exchange to be actually paid out by the central bank would be available. Similarly for net exporters, they are guaranteed that they would receive foreign exchange net of imports from the subregion.

In conclusion, it is important to stress that the functioning of the payments and clearing houses should be linked to actual production of goods and services for intra-subregional trade. It is expected that with the implementation of Africa's priority programme for economic recovery 1986-1990, more goods and services will be available for the subregional markets. Therefore, it is essential that policy reforms must be introduced to restructure production and distribution to promote intra-African trade. At the same time, customs, rules, regulations governing intra-African trade should be modified to suit new situations. Alongside these measures, the attitudes of consumers towards Africa-made goods need to be changed by special policies and campaigns. A clearing house without goods and services to clear is more harmful to the morale of the nations concerned than without it.