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PRELIMINARY EVALUATION OF IMPLICATIONS OF AFRICA'S PARTICIPATION IN
MULTILATERAL PAYMENTS AND CLEARING ARRANGEMENTS
AMONG DEVELOPING COUNTRIES

A Note by the ECA Secretariat

The initial preparation of this study was with the assistance
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CHAPTER I

INTRODUCTION: SCOPE OF THE STUDY

1. According to the terms of reference based on the Lagos Plan of Action, this study was intended to:

"study the implications of African participation in multilateral payments arrangements, to examine the operations of existing African payment arrangements and to study the implications that are likely to arise for African countries or African economic groupings from participation in multilateral payment arrangements with other developing countries or regions."

2. This preliminary evaluation of implications of African participation in multilateral payments and clearing arrangements among developing countries relied in part as its main source of information, published books and documents, in particular, resource material of the IMF, annual reports of the IBRD papers prepared by the UNCTAD and UNECA secretariats. The study also drew heavily on other published materials of the West African Clearing House and the African Centre for Monetary Studies. Consideration of the main features, the role and common objectives and operational procedure of issues on multilateral clearing and payments arrangements among developing countries, both in terms of negative and positive implications is the subject of the six chapters of this study.

3. Attention is focused on the impact of these arrangements on the economies of the member countries dealing with existing clearing and payments arrangements such as the West African Clearing House, the Central African Clearing House and the Great Lakes Economic Community Payments System. Similarly for arrangements envisaged to be created in due course in other African subregions. The state of trade as a possible root cause of some of the problems which have so far led to the inability of the multilateral clearing and payments arrangements to attain their main objectives of reducing expenditure on the scarce convertible currencies, and for not facilitating a more rapid expansion of trade among the member countries is examined along other hinderances experienced by these institutions.

4. The present analysis takes account of the proposal to establish an African Monetary Fund. The establishment of the Fund would play an important role in generating resources needed to finance current account deficits of the member countries. It would also supplement those resources obtained from such sources as the IMF, ODA and other international organizations. The issue of the African Monetary Fund is receiving careful consideration in terms of a thorough assessment of both the sources and availability of adequate operating capital.

5. The issue of establishing links among multilateral clearing and payments arrangements is discussed in detail in Chapter 4. Technicalities of links, the willingness of the participating countries, questions relating to gradualism, step by step and pragmatic approaches are considered from an African stand point. The study makes an attempt of proposing possible stages and linkage combinations on the basis of the most recent international trade figures. The main stages include the establishment of multilateral clearing and payments arrangements in each of the major sub-regions. Secondly, the creation of links among the subregional

payments arrangements. Thirdly, the possibilities of subregional payments arrangements establishing external links with their counterparts in the developing regions of Asia, Latin America and the Caribbeans. Fourthly, subregional payments arrangements forming a regional inter-connexion to establish an African payments Union. Fifthly, regional payments Union having the responsibility of linking up with its counterparts in Asia, Latin America and the Caribbean. These separate stages are not mutually exclusive and this action can proceed in parallel at each of these stages except perhaps for the fifth category.

6. The general conclusion brings together some of the observed important cornerstones needed for the payments arrangements to achieve their objectives. They included the need for structural changes in the production sector, introduction of diversification and expansion of the export base so as to increase intra-trade and exports to the other developing regions, and to effect inter-dependence of the economies within the African countries.

7. Some of the historical trends scenario of the African region by the year 2008 are provided in a document prepared by ECA entitled "ECA and Africa's Development 1983-2008". It makes reference to the present African export performance, deteriorating terms of trade, deteriorating balance of payments, the rise in debt and debt service, the burden of African countries etc. This trend of scenario is likely to raise great doubts in the minds of those considering possibilities of linking existing African multilateral clearing and payments arrangements with those in the other developing regions.

8. It is however important not to overlook other equally important aspects which have accounted for some of the above. For instance, Africa's poor export performance was partly due to protectionist measures (both tariff and non-tariff barriers) which continue to increase in the traditional export markets. Perhaps one of the means to promote Africa's trade with other developing regions would be to link the existing multilateral clearing and payments arrangements with those in Asia, the Caribbean and Latin America.

CHAPTER II

MAIN FEATURES AND ROLE OF EXISTING ARRANGEMENTS

9. Multilateral clearing arrangements should essentially provide the facility to clear current transactions using national currencies except when settling debtors' balances. The system is useful in conserving the use of scarce convertible currencies and it leads to a saving in foreign exchange. Consequently, as larger amounts of national currencies are used in intra-regional trade transactions, the cost of money transfers is reduced which in turn facilitates the mobilization of international reserves to the advantage of the participating countries.

10. The analysis briefly analyses general types of multilateral payments which includes clearing and credit arrangements as well as monetary unions. The distinction between these arrangements should not be regarded as absolute nor mutually exclusive.

(a) Clearing arrangements

11. Clearing arrangements are established with the aim of covering participants' mutual trade. They involve a minimum of interim credit which is just enough to permit periodic settlements. The chief objective of a multilateral clearing arrangement is to clear current transactions without using convertible currencies, except in settling debtor's balance arising from the periodic settlement. However, the saving of convertible currencies will only be significant if the volume of intra-trade forms a high ratio of the total trade of the participating members. This type of arrangement requires the Central Banks of the respective countries to guarantee interim credits accruing between the settlement periods.

12. Clearing arrangements play an important role in the expansion of trade and strengthening the production capacity of the participating countries. Some of the most important benefits derived from establishing clearing arrangements include:

- (i) a reduction in the monetary reserves that must be held abroad by central banks of members in order to meet regional payments;
- (ii) a reduction in the amount of working balances held with banks in major international financial markets by the commercial banks of the countries of the region and the possible use of those balances in trade transactions with third parties.

13. It is clear from the above that a properly functioning clearing facility would result in savings on such trade transactions costs as commissions and fees for effecting payments which are normally made to and through foreign banks. Furthermore, it would foster speed in intraregional payments as collection periods for exporters is reduced to a minimum and settlements among commercial banks of the region become more prompt.

14. Administrative relationships between the monetary authorities and central banks and commercial banks correspondences become closer as a result of the creation of a clearing facility. This apart, they also contribute to strengthening the banking community in the region.

15. Operation features of clearing arrangements among developing countries which have been in existence for some time now show that their features have evolved with time while others have been adapted to suit new developments. For instance the degree of multilateralization, the units of account, interim finance, the period of settlement, and the eligibility of transactions.

16. It is common practice of the clearing system like in the West African Clearing House (WACH) and the Central African Clearing House (CACH) that payments are on a multilateral basis. In other words, clearing arrangements are on a pool basis. A similar situation also obtains with clearing arrangements in Asia, Central America and the Caribbean where multilateral clearing covers all the eligible transactions, the settlement of net balances and the credit margins granted to and received from the facilities. However, the Great Lakes Economic Community Payments System (CEPGL) operates rather differently. For a while clearing arrangements are multilateral, settlements of balances are bilateral.

17. The next important operational feature concerns aspects of the unit of account. As a general rule, country groupings which have agreed to participate in a clearing arrangement while using their national currencies for payments and transfers have had to adopt a common unit of account. The unit of account is used for valuation of clearing operations and outstanding balances. The unit of account also serves as a means of guaranteeing or maintenance of the value of the creditor's claim. Different groupings use different denominations. Tendencies recently by a majority is tying their unit of account to the Special Drawing Right (SDR) of the IMF. Thus the West African Unit of Account (WAUA) is equivalent to one SDR of the IMF. However, others like those in Latin America and the CARICOM use the United States dollar as their unit of account in recording transactions. Some others like the Central American Clearing House (CACH) use the Central America Peso as the unit of account but this also is equivalent to the US dollar.

18. The rate of exchange of each member's currency in terms of the unit of account is arrived at by multiplying the middle of the banks spot buying and selling rates for its intervention currency and intervention currency's rate in terms of the SDR as calculated and notified by the IMF. Stability in the rates in the case of the West African Clearing House is ensured by supplying through rates a month for each member's currency based on the average daily rates for each half of the month commonly known as "Rate determination".

19. Another important feature of the operations of most multilateral clearing systems has been the setting up of a mechanism of interim finance to avoid frequent settlement payments among central banks of members of the co-operating group. Several modalities for determining the interim credit and finance are in existence. The level of interim credit to be received by each participant in the CACH is limited to 1/6 of the annual value of imports plus exports recorded with the other partners. The limit of credit granted by each central bank to the group is 1/5 of the combined value of imports and exports. Each partner may, however, voluntarily increase its credit limit.

20. Within the West African Clearing House (WACH), calculations are based on transactions cleared in the previous year. Net debit and net credit lines are established for each bank of the participating country at the beginning of each year. A bank's net debit position during the interim period is limited to 10 per cent of the arithmetic average of its exports (f.o.b.) and imports (c.i.f.) with all other member banks for three years with a credit ceiling of 20 per cent of that average.

21. In the Great Lakes Economic Community Payments Arrangements (CEPGL), ^{1//} system, provision is made for the channelling of payments originating from trade of goods and their associated payments including freight, insurance, commissions as well as for such services as buying and selling bank notes etc. Each Central Bank opens a convertible account in its own currency in the name of the other two banks.

^{1//}The Monetary Agreement signed on 7th June, 1978 between central banks of Burundi, Rwanda and Zaire did not become operational. It was replaced by another agreement signed on 13th March, 1981 fostering of mutual trade being the primary objective.

22. On the other hand, the CEPGL system does not provide for interim credit. However if a member state should devalue its currency, it is obliged to cover any difference in respect of the exchange rates agreed upon at the time of signature of the agreement. In other words, there is no provision to compensate multilaterally the balances arising from the multilateral arrangements. Such balances are settled bilaterally.

23. It should be noted however that although net credit lines are fixed for operational purposes, members have the freedom to increase the amount of credit granted to their partners beyond the statutory maximum.

24. Modalities with respect to payment of interest on outstanding net balances, vary from arrangement to arrangement. Payment of interest is however, generally accepted. Payment of interest in the West African Clearing House is not charged on outstanding debtor balance below the credit limit. When a balance exceeds the credit ceiling an interest equal to the arithmetic average of rediscount rates applied by Central Bank Members will be charged. A similar criterion is followed by the Central African Clearing House.

25. With regard to the settlement of net balances, participating central banks as a general rule, settle their net balances in mutually acceptable convertible currencies. Existing African arrangements accept the use of the United States dollars, pound sterling, French franc, Deutch Mark and Swiss francs. So far only the first three currencies are the ones in common use in the African region. Every clearing arrangement has a set of regulations and periods for effective settlement. Settlements in the WACH are made on monthly basis. Each bank in a net debtor position is obliged to settle its net debt position by the 15th of the following month, otherwise a penalty interest rate is charged from the 16th. This rate is then twice the normal interest rate and it is the arithmetic mean of the rediscount rates of the member banks.

26. Some clearing arrangements but not those in the African region have inscribed special clauses enabling a participating central bank experiencing balance of payments problems or a reduction in its monetary reserves, under certain circumstances, to apply to the facility to draw the required amount to settle the balance outstanding after compensation.

27. Experience with existing clearing arrangements also reveals that each has adopted ways of dealing with the issue of eligibility of transactions. This springs from a variety of reasons. Among which is the level of economic relationships among the participating countries, exchange control regulations, bilateral commitments or multilateral agreements signed with other countries within and outside the region etc. Essentially, criterion for dealing with eligibility are voluntary in nature. Both private and public sectors have the option of making use of the available facilities or paying through the traditional international banking channels. It is expected, however, that most, if not all, official transfers should be made through the multilateral clearing mechanisms.

28. In the West African Clearing House, all payments relating to current account transactions between the participating banks are required to be channelled through the clearing house with the exception of payments for petroleum and petroleum products. Similarly payments for re-export of finished goods originating in countries which do not participate in the clearing arrangement are also specifically excluded.

It should also be noted that petroleum and petroleum products are also excluded by other clearing arrangements like the Asian Clearing Union. Exceptions to this rule include the Latin American Integration Association (LAIA) payment system, the Central American Clearing House and CARICOM Multilateral Clearing Facility (CMCF) which have no restrictions. They permit the channelling of all current accounts and capital transactions.

(b) Credit Arrangements

29. A credit arrangement is normally designed to provide short or medium term balance of payments finance to individual member countries. These credit lines could be financed either exclusively by the countries running a net surplus with the arrangement or partly by the surplus countries and partly from the arrangements' own working capital, in the form of a specially constituted reserve fund. Regional credit arrangements contribute towards the expansion of trade by financing transitional imbalances arising in the course of trade liberalization. The only credit arrangements of some importance to Africa is the Arab Monetary Fund which associates Algeria, Egypt, Libya, Mauritania, Morocco, Sudan and Tunisia by virtue of being members of the Arab League.

(c) Monetary Unions

30. A monetary union involves the complete integration of the financial systems of the member countries with the following two vital characteristics:

- (i) the issuance of a single common currency, the flow of which is unrestricted among its member countries; and
- (ii) the establishment of one monetary authority which pools all foreign exchange reserves on behalf of all its member countries. It also decides on the union's monetary policy. A monetary union can contribute to the stability of foreign exchange, reduction in foreign exchange reserves, trade liberalization and to general improvement in the patterns of resource allocation of the member countries.

31. Examples of monetary unions in the African region are provided by the arrangement of existing institutions. There is one in the West African subregion and the other in the Central African subregion. Both Unions are closely linked with the French Treasury in the Franc zone. The West African Monetary Union dates back to May 12, 1962, the year of the establishment of the Banque Centrale des Etats de L'Afrique de L'Ouest (BCEAO). It consists of six countries: Benin, Niger, Senegal, Togo, Upper Volta and Ivory Coast who are also members of the Economic Community of West African States (ECOWAS) and also participate in the West African Clearing House. The Central African Monetary Union was established in 1972 as Banque des Etats de L'Afrique Centrale (BEAC) and consists of five countries: The United Republic of Cameroon; The Central African Republic; The People's Republic of Congo; The Gabonese Republic; and The Republic of Chad.

CHAPTER III

EXISTING AND POTENTIAL AFRICAN PAYMENTS ARRANGEMENTS

32. Perhaps this section should be prefixed by recalling past trends in the field of monetary and financial co-operation in the African region, especially in some West African countries. Prior to the establishment of the West African Clearing House, countries such as Nigeria and Niger, Nigeria and Sierra Leone, Upper Volta and Ghana, Sierra Leone and Guinea, The Gambia and Senegal had maintained bilateral co-operation. However multilateral clearing and payments arrangements in Africa are a relatively new development. It has been established in the early part of this analysis that there already exists three clearing and payments arrangements, the oldest being the West African Clearing House (WACH) established in 1975 followed in 1979 by the Central African Clearing House (CACH) and the Great Lakes Economic Community Payments System (CEPGL) in 1981. In addition to the two monetary unions described above, there are eight African countries that belong to the Arab Monetary Fund (AMF). This Fund was created chiefly as a credit rather than as a multilateral payments arrangement.

33. On the other hand, some other clearing and payments arrangement groupings are in the process of being set up, especially within the Eastern and Southern African Preferential Trade Area (PTA).

34. In the last analysis, all the clearing and payments arrangements are designed to facilitate the expansion of trade and other current transactions among participants. Most salient features of clearing and payments arrangements have been surveyed in the previous chapter. Consequently this chapter will only make brief mention of objectives and structures in an attempt to assess the achievements of existing clearing and payments arrangements in the light of these objectives. The central questions are whether the volume of transactions channelled through these clearing houses is increasing. Secondly, whether trade is expanding among the participants or whether there has been any appreciable reduction in the requirements of the use of foreign exchange in payments for intra-subregional trade transactions.

35. Clearing houses in both the West and Central African subregions have almost the same main objectives:

- (i) to promote subregional trade and other transactions;
- (ii) to bring about economies in the use of foreign reserves of the members of the Clearing House;
- (iii) to encourage the members of the Clearing House to liberalize trade among their respective countries; and
- (iv) to promote monetary co-operation and consultations among members of the Clearing House.

36. An Agreement establishing the Central African Clearing House (CACH) was signed in January 1979 by the Central Bank of Zaire and the Central Bank of Central African States (BEAC). Membership of this arrangement includes Congo, Gabon, Central African Republic, Cameroon, Chad and Zaire. The Executive Secretariat of the CACH is situated in Kinshasa where the Bank of Zaire serves as the Agent Bank.

37. The three countries of the Great Lakes Economic Co-operation consisting of Burundi, Rwanda and Zaire, which used one currency, the Franc, issued by the Belgian colonial regime, signed a Monetary Agreement in June 1978 even though it was never implemented. In March 1981 the three countries got together once again and signed an agreement which established the Great Lakes Service Community Payments System. The CEPGL provides a facility for payments originating from trade of goods and their associated payments including freight, insurance, commissions etc. Also for payments corresponding to services, buying and selling bank notes and any other transactions accepted by the Central Banks. Unlike most other multilateral clearing arrangements, the CEPGL has no provision for interim credit. It does not provide for compensation of the balances arising from the multilateral arrangements. However there is a provision that when any one of the three currencies is devalued the devaluing country is committed to cover the resulting difference in respect of the exchange rates agreed at the time of signature of the Agreement.

38. All existing clearing and payments arrangements are administered respectively by a governing body composed of experienced personnel from the participating Central Banks. Below this governing body or Board of Directors, is an Executive Secretary and professional staff responsible for the day-to-day administration of the organisation. The West African Clearing House for example, is under the Exchange and Clearing Committee composed of Central Banks' Governors of the Member Banks or their Alternates. The Committee meets twice annually. Under the Exchange Clearing Committee is a sub-committee whose responsibility is to review the operations and other matters of the Clearing House. An Executive Secretary, who is the principal officer is charged with the management of the Clearing House and he is directly responsible to the Exchange Clearing Committee.

39. Clearing and payments arrangements established in Africa have so far recorded some operational success. For instance, they have encouraged the use of national currencies within their respective borders; no defaults have been recorded in any of the arrangements; and they have actually operated smoothly as well as uninterrupted with a certain amount of flexibility in regulations. Clearing and payments arrangements are also encouraging the banking institutions to participate more actively in regional trade and in the process of disseminating information on trade and investment opportunities among the participating countries.

(a) Channelling of transactions

40. Tables 1 and 2 attempts to show the volume of transactions channelled through clearing arrangements in the period under review. It is clear that these transactions have been on the increase particularly in the Latin American, the Caribbean and the Asian regions. The ALDI handled about 4 million US dollars in 1977 and more than twice the amount in 1981. The CARICOM handled US\$275 million in 1978. The volume increased to about US\$500 million in 1981. Similar trends were shown by the ACU which handled US\$85 million in 1977 and up to US\$300 million in 1981. The West African Clearing House too has shown an appreciable performance and handled just over US\$63 million in 1977 which had almost tripled its volume of transactions.

(b) Foreign exchange savings

41. It is one of the key objectives of clearing and payments arrangements to make savings in the use of convertible currencies. This can be revealed by assessing the extent to which member States' transactions offset one another in comparison to the members' total transactions within the groupings. Clearing transactions ratio has been fluctuating between about 20 per cent in 1980 and 32.4 per cent in 1978 as can be seen in Table 2 in case of WAFCH. This index is relatively low. It is an indication that a great deal of the scarce foreign exchange still has to be spent on settlement of trade transactions within the payments' arrangements. While appreciable transactions were channelled through the WACH in 1980 over 80 per cent of the total transactions had to be settled in convertible currencies. The Latin American Clearing and payments arrangements appear to be doing better than the African ones. In the latter, the larger bulk of transactions are settled in national currencies and the amount dispersed in foreign exchange is in the range of 20 - 30 per cent.

42. The low clearing transactions index may be explained by the factor that the degree of interdependence of the economies of the participants of the WAFCH is still low. Due partly to the colonial heritage and a production structure that is competitive rather than complimentary. One other explanation for the low index may be the short interim allowed for settlement of transactions. The WAFCH allows only one month after which balances have to be settled in foreign convertible currencies. However, if the transactions presently excluded were included the present volume of trade would not be so depressing. On the other hand, the Latin American groupings allow for an interim period of six months and longer. The other course for the seemingly low volume of transactions is the unrecorded trade transactions that go on along the borders of the member states in West Africa and much of it is settled outside the banking system.

(c) Intra-regional and intra-subregional trade

43. The overall success of clearing and payments arrangements in Africa will largely depend on the interdependence of the economies of the participating countries. In other words, the volume of transactions channelled through multi-lateral clearing and payments arrangements will increase as their intra-regional trade increases. One fact which partly contributes to this state of affairs is the exclusion of certain transactions as stated at paragraph 28 above. A lot of efforts have already been made within the West African subregion at harmonizing trade liberalization, especially in ECOWAS, CEAO and the Mano River Union.

45. Data in Table 4 of the participants in the WafCH confirms the trade pattern among the developing countries and that it is far below their trade with the industrialized market economies. Only in a few cases has there been an active increase with respect to export merchandise directed to other developing countries. Mention of the fact that multilateral clearing and payments arrangements are a relatively new development and as such their impact can not be expected to be significant. However, this is one reason why efforts must be redoubled in order that this mechanism can facilitate a rapid development of intra-trade, especially in non-traditional products.

(d) The question of balance of payments

46. The operation of multilateral clearing arrangements is expected to facilitate the national use of exchange reserves and to contribute towards a more efficient foreign exchange and balance-of-payment policies. While the West African Clearing House does not directly provide for balance of payments support, it is nevertheless important to note whether or not there has been an improvement since the launching of the clearing arrangements in the sub-region. Table 5 shows some of the current account balance of payments on external public debt for the WafCH, the CafCH and the CEPGL member countries before and after the establishment of clearing and payments arrangements. With the exception of Nigeria and Rwanda balance of payments situation for most countries experienced rapid deterioration instead of improving. The dramatic improvements in the case of Nigeria and Rwanda cannot be attributed to the introduction of the clearing arrangements, rather it was because of the oil and coffee boom in Nigeria and Rwanda respectively.

(e) The question of the external debt burden

47. As it has been noted above, the balance of payments for African countries has been deteriorating since the 1970's. This problem springs in part from poor export performance, deteriorating terms of trade, the increase in external debt burden and the consequent drain of foreign exchange reserves. The existence of multilateral payments arrangements have not yet made a major positive impact in ameliorating these problems. In fact the debt service ratio has been rising sharply from 6 per cent in 1970 to 12 per cent in 1979 and it was recorded at 14 per cent in 1989. The sharp rises in the debt service ratio reflect violent fluctuations in export earnings and are indicative of the factor that the African countries cannot effectively plan optimal use of their foreign exchange earnings.

48. The ratio of the debt service payment on external public debt as a percentage of exports of goods and service for the member countries of the three existing multilateral payments and clearing arrangements indicates a rapidly growing trend. Consistent deterioration of the balance of payments and sharp rise of external debt service ratio can have indirect and important effects on the impact of multilateral clearing and payments arrangements. These are some of the factors which contribute to reducing the ability of member countries to import industrial raw material inputs, capital and intermediate goods and services needed for strengthening the production sector. It in turn curbs the capacity of member countries in their efforts to diversify their economies so as to increase the volume of intra-subregional and regional trade.

(f) Monetary co-operation

49. The emergence of the African Development Bank and the origins of such institutions as the BCEAO and BEAO referred to in the earlier chapter have been favourable trends. Most monetary decisions in both BCEAO and BEAO prior to 1979 were made in France. However, the renewed Treaty now incorporates a number of important changes. For instance, government financing increased from 10 per cent to 20 per cent of the fiscal revenue, the foreign asset portfolio is diversified so that only 65 per cent instead of 100 per cent of the external assets of the BCEAO excluding gold tranche position in IMF and SDR holdings are maintained with the French Treasury guaranteed against French Franc devaluation. The two Central Banks place their holdings of foreign currencies in an exchange reserve fund which takes the form of a current account termed OPERATIONS ACCOUNT at the French Treasury.

50. Member countries of these two monetary unions apply similar exchange control regulations and also pool their foreign assets. This practice has an implicit automatic credit mechanism for a member with an adverse external position to benefit from the surplus position of the other member countries. The provision has also a stabilising effect in that the union's central banks register surplus of external balances even though individual member States may register deficits reflecting fluctuations in their economic performance.

(g) The emergence of new multilateral arrangements

51. Two new clearing and payments arrangements are in the process of being established at subregional level. The work programme of ECA includes the establishment of a clearing and payments system for the Tangiers MULOPOC countries. And in this connexion a feasibility study has been completed for this purpose in 1980. The Lagos Plan of Action recommendations on monetary co-operation includes inter alia a call to the member States to negotiate and establish clearing and payments arrangements at subregional levels with a view to eventually linking them into an African Payments Union. The Lagos Plan of Action also calls for the establishment of an African Monetary Fund.

52. The PTA of Eastern and Southern African States comprises countries with a population of close to 171.2 million people and covering over 10.0 million square miles.^{4/} So far the majority of the prospective member countries have signed the Treaty, and a Secretariat is already working at its headquarters in Lusaka, Zambia.

53. Ever since the attainment of political independence the whole subregion has been without any form of multilateral clearing facility. The bulk of intra subregion payments was channelled through overseas correspondent banks. The share of intra-subregional trade in total trade has been declining since 1975 from over 10 per cent to about 3 per cent in 1980. It is expected that the trend should be reversed with the establishment of the Preferential Trade Area and the Multilateral Clearing House.

^{4/}Original countries were 13 but Rwanda became the 19th when she signed the Treaty early in 1983.

54. Annex VI of the Treaty establishing the Eastern and Southern African Preferential Trade Area (ESAPTA) is a protocol on clearing and payments arrangements. Preparations are underway towards the launching of the Eastern and Southern Africa Clearing House. The member States undertake to promote trade in goods and services within the Preferential Trade Area in accordance with the provisions of this Protocol by:

- (a) promoting the use of national currencies expressed in the unit of account of the Preferential Trade Area (UAPTA) in the settlement of eligible transactions between the Member States;
- (b) providing machinery for the multilateral settlement of payments among the Member States;
- (c) undertaking regular consultations among themselves on monetary and financial matters.

55. The member States have also agreed to cooperate in specific fields of fiscal and monetary matters among themselves and with other African countries. The protocol has a wide scope as it applied to all eligible transactions among its member States with possibilities for extension to include other transactions.

56. Many central banks in the subregion in recent years have established on bilateral basis with each other to avoid channelling payments through overseas banks. Reciprocal Accounts have been established between Kenya and Zambia, Kenya and Swaziland, Kenya and Tanzania, Kenya and Uganda, Kenya and Ethiopia, Zambia and Malawi, Zambia and Botswana, Zambia and Tanzania, Zambia and Swaziland, Tanzania and Ethiopia, Tanzania and Uganda, Tanzania and Somalia, Malawi and Swaziland.

57. The operational structure of this arrangement means that a Central Bank in country A maintains its books on external account denominated in A's currency in the name of Central Bank in Country B and vice versa. Each of these accounts is considered a non-resident external account for the purposes of exchange control. The balances are therefore eligible for payment to residents in that country in which the account is held in settlement for goods and services imported for transfer to similar non-resident accounts, for direct payments on government expenses, and for the purchase of foreign exchange. Most reciprocal accounts have specified minimum and agreed balance by the parties concerned. The excess balance is adjusted by the sale of dollars to the creditor. Each country has the right to call for settlement of any creditor balance in excess of the minimum limit in convertible currencies at any time. The operations of the Reciprocal Accounts or bilateral clearing arrangement should have served as a valuable forerunner for the proposed Eastern and Southern Africa Clearing and Payments Arrangements.

58. This system of reciprocal accounts has the following main advantages:-

- (i) it provides an important link and framework for more frequent contracts and consultations between the Central Banks and in some cases it facilitates prompt payment to exporters during periods of scarcity;

- (ii) the reciprocal accounts may, in some cases provide the needed flexibility in bilateral trade relations. A country which has built up balance in the account of the other, can pay off its exporters with local currencies thus giving a longer term of repayment facility to the other.

(h) The emergence of the African Monetary Fund

59. In compliance with the decision of the Heads of State and Government of Africa, ECA convened a meeting of a high-level group of experts from the Ministries of Finance and Central Banks in Addis Ababa from 4 to 7 October 1982 who discussed and agreed on the modalities for the establishment of the proposed African Monetary Fund.

60. The Expert Group was of the opinion that the main objectives of the AfMF would be to further the socio-economic development of member States, through the promotion of financial and monetary co-operation among them. In this regard, they felt that this could be achieved not only through the provision of financial assistance for balance of payments purposes, which would be additional to and not a substitute for that already provided by the IMF, but also through other forms of monetary and financial assistance. As a result, the Experts Group decided that the broad objectives of the AfMF should inter-alia be:

- (a) to assist in providing finance for balance of payments deficits on current accounts and for structural adjustment in the economies of member States to improve their balance of payments positions;
- (b) to promote the liberalization of trade and work towards the eventual elimination of payments restrictions among countries of the region and to facilitate the linkage of all the subregional clearing and payments arrangements into an African Clearing and Payments Union which may constitute a window within the AfMF; and
- (c) to promote co-operation in monetary policies among countries of the region and work towards the development and eventual establishment of an African common currency.

61. After deciding that the feasibility study on the establishment of the proposed AfMF should be undertaken by such African institutions as UNECA, OAU, ADB, African Institute of Economic Development and Planning and African Centre for Monetary studies, the meeting adopted with some amendments, the terms of reference on the feasibility study on the establishment of an AfMF, guidelines for the feasibility study and a tentative work schedule for the implementation of the AfMF project. Currently the co-operating secretariats are engaged in the feasibility study which is expected to be completed by March 1984.

62. The main objectives of the proposed African Monetary Fund, will include support for balance of payments deficits on current accounts of member countries. It could no doubt play the double role of intermediation and mobilization of resources. Especially if it was to facilitate in the harmonization of exchange control legislations as well as in the removal of monetary obstacles and barriers of expansion of trade among the member countries. In this regard also could be its anticipated support in promoting national currencies for intra-regional trade

and in fostering the establishment of an African common currency. There is no doubt that the role of the Fund will be vital in the efforts to promote closer monetary co-operation in the African region and its success should lead to expansion of intra-trade co-operation with the other developing regions.

CHAPTER IV

THE ISSUE OF LINKAGES AMONG ARRANGEMENTS

63. The creation of links among multilateral clearing and payments arrangements among developing countries has been an important topic in a number of international forums. The need for such a course of action has been extensively discussed. It was also one of the key recommendations included in the Arusha Programme of Action for Collective Self-Reliance approved by the Group of 77 in February 1979. In the same view, the Lagos Plan of Action called for the establishment of sub-regional payments arrangements with regional and external linkages among multilateral clearing and payments arrangements of developing countries.

64. This chapter attempts to review some of the technical problems, obstacles and feasibilities of establishing links among multilateral clearing payments arrangements. Special attention is focussed on the issue of creating links between African payments arrangements and their counterparts in the other developing regions.

65. Some of the most important steps taken and which are relevant to the subject of linkages among multilateral payments arrangements include the establishment on a permanent basis of the Association of Central Banks in Africa and the Co-ordination Committee on Multilateral Payments and Monetary Co-operation among Developing Countries.

66. The Association of African Central Banks and its four Sub-regional Committees meet regularly. These meetings afford the Governors of Central Banks with the opportunity to discuss monetary and financial problems of the African continent. The Governors also have a chance to make some direct contribution to the ultimate objective of monetary integration in the continent. The Association provides a forum through which the Central Bank Governors become more aware of monetary problems at the regional level as they address themselves to solutions of a global nature.

67. The Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries is an inter-regional forum which meets regularly. It has since its inception extensively explored a number of technical and operational issues involved in fostering monetary co-operation and the establishment of links among payments arrangements. It has also made some practical recommendations for consideration by appropriate institution of developing countries. For example at the first meeting in 1978, the Committee gave prominence to "the consideration of ways and means to improve existing monetary arrangements, to assist emerging multilateral arrangements, and to establish links among such arrangements".^{5/}

^{5/} UNCTAD: Report of the first meeting of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries. UNCTAD/ECDC/14 July, 1978.

(a) Technicalities and operational issues

68. The fourth meeting of the Co-ordination Committee on Payments Arrangements and Monetary Co-operation among Developing Countries recommended among other things, the importance of a gradual and pragmatic approach when considering the possibility of linkages. It also warned against rushing to the establishment of a global payments arrangements but rather that individual payments arrangements should be encouraged to establish linkages with each other taking account of meaningful trade flows.

69. In this connexion, the Committee stressed the usefulness of preserving the autonomy of the regional payments arrangements and that the new arrangements would not have to supersede any of the existing mechanism nor change their character. According to the Committee's proposal, countries would be in a position to join an inter-regional mechanism while at the same time maintaining the independence of their respective regional clearing facilities. The aspect of trade relationship was singled out as an element which deserves great attention. It was therefore "stressed that every effort should be made to foster trade relations among developing countries at the regional and inter-regional levels and that the extension of facilities to settle payments arising from the trade transactions concerned should receive the highest priority".^{6/}

70. Against the above background, the Committee proceeded to make suggestions in respect of the issue of:

- (i) interim finance to be based on credit lines agreed upon bilaterally between pairs of participants in different regional arrangements without excluding the possibility of global credit lines granted by a single country to all countries or to groups of countries participating in other regional systems;
- (ii) the unit of account, preferably to be the SDR or any other freely usable currency agreed upon;
- (iii) the settlement period, initially to be from one to three months which could be extended if necessary by the governing boards when considering the possibility of linkages;
- (iv) the settlement currency to be any freely usable international currency or currencies acceptable to the parties involved;
- (v) eligible items for clearing, could be bilaterally agreed, on the basis of a list of instruments by which eligible current and/or capital transactions are carried out;
- (vi) interest charges on debtor balances, could be in line with market interest rates and be acceptable to all parties involved;
- (vii) financial agent of the link agreement, could preferably be one of the central banks or other institutions already acting as financial agents to one of the regional arrangements to be linked.

^{6/} Final report of the fourth meeting of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Development Countries
Brigetown, Barbados, November 1981 UNCTAD/ST/ECDC/15.

71. Clearing arrangements and links between two or several clearing arrangements can be achieved in different ways. However the actual operation of a link can be simplified provided that the parties involved accept certain basic rules. Firstly, eligible transactions for clearing would have to be recorded in special accounts by the fiscal agents of each multilateral arrangement. Secondly, the amount of net positions between each pair of clearing arrangements would have to be calculated exclusively by the two fiscal agents concerned at the agreed settlement date. Thirdly, the transfer of funds would have to take place, through the local banks or in third parties of other developing countries, named by the recipient fiscal agent, in the international currency agreed upon. Fourthly, the records concerning cleared transactions, interest charges, claims, rejected items, financial adjustments etc. would have to be handled by the fiscal agent of each clearing arrangement, provided that the participants concerned would be kept fully informed.

72. As studies and discussions on monetary co-operation and multilateral payments arrangements continue it has become more and more understandable that links among existing clearing arrangements are not only feasible but can be practical. For instance, the working group which convened in Panama City in September 1981 identified three possible cases. ^{7/} Classification based on detectable trade flows between two geographical regions and the latest information available on the regulations governing clearing systems revealed the following possibilities.

- (i) Link between the Latin American Integration Association payment system (LAIA) and the Central American Clearing House (CACH); on the grounds of substantial economic transactions which takes place between the member countries of the two groupings;
- (ii) Latin America Integration Association (LAIA) payments system and the West African Clearing House, based in part on the recently observed growing trade between Brazil and some West African Countries;
- (iii) A possible link between the LAIA payment system with the Caricom Multilateral Clearing Facility to reflect the growing volume of economic transactions between the Caribbean countries and the Latin American countries.

73. It should however be noted that although criterion and suitable operating principles have been identified yet no linkages have to date been established.

(b) Creation of external linkages

74. The creation of external linkages in payments arrangements for the African region can best be approached on a gradual or step by step basis. Account has to be taken of the fact that multilateral payments arrangements are a new phenomena in the region. The region is vast in area with many independent sovereign States whose economic policy orientation differ considerably. While their levels of

^{7/} Fourth Meeting of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Co-operation among Developing Countries, Barbados 9-12 November 1981.

economic development may not be so far apart, some are, according to the United Nations categorization listed as least developed, others are in a slightly higher bracket by virtue of their exports. Some others are prone to frequent devastating economic disasters. No doubt some of these factors initiate in the initial stages, against the envisaged linkages but such linkages could be one of the means of promoting Africa's trade with other developing regions, especially through the linking of some of the existing multilateral clearing and payments arrangements. And because their long run benefits are doubted, it is important that there is careful planning in creating them in order to ensure their ultimate success.

75. The establishment of links among the subregional payment arrangements at the regional level should be a logical sequence of those at subregional level. This will initially be determined by the volume of economic transactions between the countries belonging to different subregional payments. On the basis of available trade statistics, links at the regional level could be contemplated between the West African Clearing House and the Multilateral Settlement Mechanism for Arab Countries; the Central African Clearing House and the Great Lakes Economic Community Payments System; the Eastern and Southern African Payments Arrangement and the Great Lakes Economic Community Payments System; the Eastern and Southern African Payments Arrangement and Multilateral Settlement Mechanism for Arab Countries.

76. One interesting factor to note is that some element of informal link already exists. Zaire for instance is a founder member of both the Great Lakes Economic Community Payments System (CEPGL) and the Central African Clearing House. Theoretically, it can also be said that the members of the West African Monetary Union can utilize the West African Clearing House as all of them are members of the Economic Community for West African States (ECOWAS). The Republic of Rwanda which is a founder member of the CEPGL recently signed and become a member of the Eastern and Southern African Preferential Trade Area. Once the Eastern and Southern African Payments Arrangements is established Rwanda will automatically belong to both payments arrangements. There is already ample evidence to support the view that there exists significant political will given the existence of some of these arrangements to suppose the proposed links. This aspect could facilitate negotiations for the establishment of closer monetary co-operation among the subregional payments arrangements.

77. In the light of the above developments it would seem that the establishment of external links between individual subregional payments arrangements and their counter-parts in the other developing regions is also quite feasible. Once again on the basis of recent international trade figures and taking account of direction of trade of some of the member countries, the following combinations should deserve some encouragement:

- (1) The West African Clearing House (WAFCH) with the LAIA Payments and Reciprocal Credits System; 1/
- (2) West African Clearing House with CARICOM Multilateral Clearing Facility; 2/

^{1/} LAIA Payments and Reciprocal Credits System includes: Argentina, Bolivia, Brazil, Colombia, Chile, Cominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

^{2/} Membership of CARICOM Multilateral Facility includes: Barbados, Belize, East Caribbean Currency Authority, Guyana, Jamaica and Trinidad and Tobago.

- (3) The Eastern and Southern African Payments Arrangement with the Asian Clearing Union;
- (4) The Multilateral Settlement Mechanism for Arab Countries with Asian Clearing Union. 10/

78. The establishment of these proposed linkage combinations need not take place at the same time or wait until all the subregions have had payments arrangements. A pragmatic and realistic course should be followed guided by the mutuality of interests of the member States.

79. Along side the above would be for the subregional payments arrangements to form a connecting network and establish an African payments union. The "Union" would gradually take over the responsibility for external links and negotiate, on behalf of the whole region, in forming links with payments arrangements with other regional groupings. This would be in conformity with paragraph 253(c) of the Lagos Plan of Action which states that:

"Following the establishment of institutional clearing and payments arrangements in all subregions, member States should embark on negotiations for linking up arrangements to form an African Payments Union before the end of this decade".11/

CHAPTER V

LINKING OF EXISTING ARRANGEMENTS

80. Finding ways and initiating the process of linking the African arrangements to those in the other developing regions is the heart of the problem in this field. It also accounts for most of the obstacles likely to be faced in the efforts to establish linkages between African multilateral payments arrangements and their counterparts in developing countries of Asia and Latin America as well as the Caribbean. Not only is the volume of exports small, about 10 per cent of the total exports but it is also predominantly composed of agricultural raw materials whose terms of trade have been deteriorating in the last two decades. The volume of imports from within the Third World is also quite small although it is showing signs of growing. It is characterised by positive elements of considerable significance. Africa as a region sustains continuous trade deficits with other developing regions. Table 6 shows that although the region's exports to the other developing regions show a substantially statistical increase between 1979 and 1980 yet the level of trade deficits remained high throughout the period 1975 to 1980.

10/ Membership of the Asian Clearing Union includes: Bangladesh, Burma, India, Iran, Nepal, Pakistan and Sri Lanka.

11/ OAU: The Lagos Plan of Action

(a) Links with Developing Asia

31. The establishment of payments links between the countries of these two regions is intended to foster more expansion of trade. The crucial problem, however, is that Africa exports are much smaller than their imports from the Asian developing region (including the Middle East). Africa's trade deficit with the Asian region has been large and has also been growing in recent years. From data in table 6 it can be observed that Africa's deficit with Asia grew by 24.8 per cent as of 1980. The actual amount had reached \$4,673 billion as against \$3,745 billion for the previous year.

32. This sort of state of affairs is likely to hinder progress and operation of payments links between the two regions. Concluding of links agreement will require an acceptable unit of account and the need to preserve the transactions values both in the short and long term. The concerned parties on both sides should agree on settlement of trade balances in convertible currencies. In addition the fact that exports from most African countries have either stagnated or are declining considering that African exports, except oil, are losing their purchasing power against industrial manufactured goods and that African balances of payments are unfavourable adds to their increasing debt service burdens and the consequent drainage of foreign exchange resources. It is quite likely that cases of defaulting on international commitments may not be avoided and could eventually have detrimental effects to the success of external linkages between the African and the Asian payments arrangements.

(b) Links with developing America

33. The case is slightly different as regards linkages between African payments arrangements and their counterparts in developing America. The volume of trade between these two regions on the basis of data in table 6 is smaller than that between Africa and Asia (\$10,215 billion for Asia and Africa compared to \$7 436 billion for Africa and Developing America in 1980). Africa has only statistical positive balances with developing America. The African region had a trade surplus with Latin America of about 180.5 per cent, from \$1,230 million in 1979 to \$3,450 million in 1980. On a more sectoral basis the African region had a trade deficit of \$248 million in 1979 with LAFTA countries although it achieved a surplus in 1980 of \$92 million. One of the main causes for the positive balance lies in the fact that the Caribbean countries have been importing large quantities of mineral fuels from Africa. Under the circumstances and since the gap is not that wide, it is possible that payment links would provide reciprocal benefits to the participating countries in both regions.

34. Other African exports to the region are mainly composed of agricultural raw materials. Developing America on the other hand exports to Africa manufactured goods which include machinery, intermediate and capital goods. In this, with the exception of the oil exporters, the African region is likely to experience large trade deficits with its developing Latin American counterpart and could give rise to difficulties in settling the periodic balances in convertible currencies.

85. Just as the commodities which form the bulk of trade between the African region and the developing America are few so are the countries which maintain significant volume of trade between the two regions. They comprise of Algeria, Angola, Nigeria and Zaire on the African side and Argentina, Brazil, Mexico and Venezuela and some few Caribbean countries on the American side

86. Argentina, Brazil, Mexico and Venezuela are members of the LAIA Payments and Reciprocal Credits System and the Caribbean countries form the membership of the CARICOM Multilateral Clearing Facility. African countries which trade with Latin America do not belong to a common arrangement. For instance Nigeria is a member of the West African Clearing House (WACH), Zaire is a member of the Central African Clearing House (CACH) and CEPGL. Algeria and Angola could belong to the proposed Multilateral Settlement Mechanism for Arab Countries, the Eastern and Southern Africa Payments Arrangements when it is established respectively.

87. Institutional problems in the African region are unlike those in the Latin American region regarding a whole payments and clearing house having to serve the interests of one country in case external links are established. This is because a sizeable number of countries in the latter, particularly those already participating in payments arrangements maintain substantial trade volume with African countries have already created payments and reciprocal credits systems serving their members' exports to and imports from African countries. This is particularly true of LAIA and the CARICOM Multilateral Clearing Facility which serves all the Caribbean countries.

88. However more detailed research is required in order to establish a sound economic case for establishing linkages between existing African subregional payments and clearing arrangements on the one hand and those of the Latin American and the Caribbean subregions on the other.

CHAPTER VI

PROSPECTS AND IMPLICATIONS

(a) External trade

(i) Exports

89. Though the external trade of developing countries has been showing discouraging trends during the past decade, the FAO projections ^{12/} for the export of cash crops point to a marked acceleration in the growth rates of selected agricultural commodities. This is because of investment in commodity development, aimed at enhancing export earnings. It is also assumed that there will be reduced trade barriers in agricultural commodities, increased trade with other developing countries and faster growth in the world economy. Overall exports of selected agricultural commodities are projected to grow at the higher rate than total exports, thus implying that their relative weight in the total exports of the region as a

^{12/} FAO Agriculture towards 2000; ECA and Africa's Development 1983-2008: A Preliminary Prospective Study, pp. 81-85.

whole by year 2008 will increase significantly. Assuming therefore that the African region will achieve a higher level of processing of its agricultural raw materials for exports, the export earnings from this commodity group would then increase. This would however require that the semi-processed products would be competitive in the world market so as to reverse the tendency of the region being a price taker. Furthermore efforts to reduce price fluctuations for agricultural primary products will have to yield results, especially in the area of Integrated Programme for Commodities (IPC) under the international commodity agreements and buffer-stocks schemes.

90. Prospects in the case of exports of minerals and mineral fuels might not be as good as with agricultural products. The average annual growth in selected minerals, copper, iron ore and bauxite during the period 1983 - 2008 according to ECA projection would be 1.6%, 0.9% and 0.7% respectively but that of crude oil would be about -0.3%. The case of natural gas is anticipated to grow at an average annual growth rate of 6.2%.

91. With regard to Africa's total exports of goods and services, the ECA projections point to major changes in the structure since the selected 10 export commodities will by 2008 account for 40 per cent of total exports outside the region as against 75% in 1980. This implies that the next 25 years will witness a diversification in exports with increased exports of semi-processed products and manufactured goods. Overall exports outside the region are projected to grow at an average annual rate of about 3.4 per cent.

92. In line with the Lagos Plan of Action, the ECA projection, under the normative scenario aims at changing the African region's economic structure. Thus in the field of exports, it is assumed that the region as a whole should move away from undue dependence on exports outside the region as the engine of growth. In this respect it is anticipated that intra-African trade will account for about 30 per cent of the total trade of the region, thus allowing for more expansion of productive capacities in individual countries. Similarly for the expansion of processing activities through the establishment of African multinational production corporations and joint ventures, which will allow for a greater flow of primary resources and products among the countries.

(ii) Imports

93. The ECA projections also reviews Africa's imports under the normative scenario. It is assumed that by the year 2008, Africa will have substantially improved its self sufficiency ratios in food, energy, capital goods, intermediate goods and basic manufactured consumer goods. Consequently total imports of goods and services from outside the region are projected to grow at an average annual rate of about 4.5 per cent. Of course this growth rate will result from gradual slow down in imports from outside the region in conformity with the expansion of the region's productive capacity and intra-African trade over the next 25 years. The share of imported cereals in total imports of goods and services from outside the region would be much lower than it is at present. Capital goods on the other hand would continue to account for a very large proportion of the region's imports. The normative scenario for agricultural machinery, however, envisages a dramatic increase in domestic production, thus reducing the amount of imported agricultural equipment like tractors to about one third of the requirement by the year 2008 and also a substantial reduction in the volume of imports of intermediate and manufactured goods.

94. The above projections of total imports assumes a substantial drop in import elasticity with respect to GDP. It implies that the African region as a whole needs to vigorously restructure its import substitution programmes. Specifically, import substitution programmes should be envisaged at the subregional and regional levels in order to avoid duplication among countries and ensure greater efficiency and competitiveness in price and quality of regional industries. Another area in which the African region would have to make a major breakthrough is that of the import of services. In this regard it is of paramount importance for the region to pool its resources in the development of skilled manpower including consultancy services, technology, shipping and air transport, insurance and banking. African countries individually and collectively should also embark on negotiations aimed at rationalizing procurement procedures with a view to minimizing foreign exchange leakages. If African countries can allow free movement of goods and services and also relax or abolish exchange controls the volume of trade will increase tremendously to the mutual benefits of the countries of the region. Consequently, the importance of establishing and linking payments and clearing arrangements is of vital importance in fostering co-operation of Africa with other developing regions.

(b) Debt and debt service burden

95. From the foregoing projections of imports and exports it can be seen that a substantial reduction in trade gap by year 2008 is therefore quite possible.

96. The external debt of the non oil developing countries of Africa ^{13/} increased from US\$14.2 billion in 1973 to US\$75 billion in 1983, the ratio of external debt to exports increased from 71.5% to 148.6%, the ratio of external debt to GDP increased from 19.4% to 35.1% and the debt service ratio increased from 8.8% to 18.4% during the same period. But the multilateral clearing and payments arrangements could not be considered as an exclusively panacea for the entire external debt problems of African countries. When the existing and envisaged multilateral clearing and payments arrangements will become fully operational, these arrangements would mitigate some of the problems to some extent by reducing the use of scarce foreign exchange reserves for intra subregional and intra-regional trade. Furthermore, periodical settlements of 1 to 6 months could have a built in credit mechanism within the system by which transfers and costs connected therewith are minimized. While this is not a balance of payments financing arrangements there is no doubt that the credit facility according to the settlement period will be of immense help to debtor countries in having time to make adequate arrangements to meet their obligations. With expected trade flows being reciprocated within as well as outside the region, by linking them internally and externally, some of the payments could balance out and the ratios of settlements to clearings will be reduced, thus savings in scarce foreign exchange could be achieved.

97. The success of the clearing and payments system depends on how effectively the commercial banks participate in the system, since they have an important role to play. In order to make them effective they should establish either branches or correspondent relationships among themselves outside their subregions and regions

^{13/} IMF World Economic outlook 1983, Table 32, 33, and 35.

and particularly with those in Asia, the Caribbean and Latin America. They should also divert their attention from looking into the metropolitan countries for transactions within the subregion, region and at inter-regional levels.

98. However to achieve these objectives African countries will need to make concerted efforts in reorienting their production and trade structures. They should endeavour to mobilize and pool resources with a view to themselves bearing the primary responsibility for financing their respective development efforts within the context of national and collective self reliance. Similarly domestic efforts will undoubtedly need to be supplemented by external assistance and aid. For the African region, it might be useful to consider some of the proposals outlined by the Brandt Commission report in the field of financial co-operation among developing countries which include "strengthening regional payments arrangements, expansion of developing countries financial facilities (including both African Central and Commercial Banks etc.) in such a way as to integrate them better in the development objectives of each country". ^{14/}

(c) Conclusion

99. Establishment of external links between the African payments arrangements and their counterparts in Asia may be faced with the general problem of low volume of economic transactions and large and growing trade deficits unfavourable to the African countries. But these problems are not insurmountable given the optimistic picture of the African region for the remainder of the century referred to in this chapter.

100. The fact that the African region is faced with serious problems arising from poor performance of the export sector should not militate against forging external links. Over and above, the small rations of intra-region trade, declining exports, deteriorating terms of trade, unfavourable balance-of-payments and chronic current accounts deficits, increasing debt service burden and consistent drain of foreign exchange reserves underlines the importance of ensuring the success of linking payments arrangements. It could in itself allow for periodic trade balance settlements to be made in acceptable convertible currencies from a much bigger pool of combined resource earnings. Developing countries, especially those in the African region are already experiencing difficulties in increasing the flow of resources from international capital markets. Many others are also likely to find difficulties in meeting their international obligations and this could also be the case under these proposed Third World arrangements. A combination of such eventualities could prove detrimental to the success but also in establishing multilateral clearing and payments arrangements.

101. However, efforts aimed at creating and establishing linkages among payments arrangements in the developing world are not only desirable but are technically feasible.

^{14/} ECA, ECA and Africa's Development 1983-2008 A Preliminary Perspective Study, Addis Ababa, 1983, P. 84.

**TABLE 1: Transactions Channelled through Clearing Arrangements
1971 - 1981 (In millions of US Dollars)**

YEAR	ALADI*	CACH*	CARICOM*	ACU*	WAFCH*
1977	3,936	898	---	85	63
1978	4,459	971	275	138	54
1979	6,421	1,037	322	156	93
1980	8,663	1,256	442	176	135
1981	9,290	979	496	286	210

SOURCE: UNCTAD: A Review of the Main Features of Clearing Arrangements of Developing Countries, UNCTAD/ECDC/128, 22 November 1982.

- * ALADI = ALADI Payments and Reciprocal Credit System
 CACH = Central American Clearing House
 CARICOM = CARICOM Multilateral Clearing Facility
 ACU = Asian Clearing Union
 WAFCH = West African Clearing House

**TABLE 2: Transactions, Settlements and Clearing in the WAFCH 1976 - 1980
Amounts in Millions of WAUA (WAUA = 1 SDR)**

(1) Period	(2) Transactions	(3) Settlements	(4) Clearing	(5) = (4/2)% Clearing- Transaction
June 76-Aug. 77	50.7	36.0	12.7	25.0
Sept 77-Aug. 78	43.7	29.5	14.1	32.4
Sept 78-Aug. 79	74.3	58.7	15.6	21.0
Sept 70-Aug. 80	108.3	87.0	21.3	19.7

SOURCE: Progress Report of Recent Developments on Monetary Cooperation among Developing Countries.

BARBADOS W.I. 1981, P.10

TABLE 3: Intra-African Trade as percentage of the Total Trade
(1967 - 1978)

Year	Imports	Exports	Total
1967	5.8	5.4	5.6
1968	6.4	5.5	5.9
1969	5.6	5.1	5.8
1970	6.5	5.2	5.8
1971	5.7	5.5	5.6
1972	5.5	5.4	5.4
1973	5.2	5.1	5.2
1974	5.3	4.2	4.7
1975	4.3	5.2	4.7
1976	3.9	3.4	3.7
1977	3.6	4.0	3.8
1978	3.7	4.0	3.9

SOURCE: UNECA: African Trade, Vol. 4, No 9 February 1981.

TABLE 4: Destination of Merchandise Exports for CAFCO Members Percentage
of Total Merchandise Exports

Origin	Industrial market economies		Developing Countries		Non-market Industrial Economies		Capital Surplus Oil Exporters	
	1960	1979	1960	1979	1960	1979	1960	1979
	Mali	93	68	7	32	0	(.)	(.)
Upper Volta	4	75	96	25	0	(.)	0	(.)
Benin	90	89	8	10	2	1	0	(.)
Sierra Leone	99	98	1	2	0	..	0	(.)
Niger	74	97	26	1	0	..	0	2
Guinea	63	69	19	29	18	..	(.)	2
Mauritania	89	88	11	11	0	..	0	1
Togo	74	67	26	25	0	8	0	..
Ghana	88	70	5	17	7	13	(.)	(.)
Senegal	89	59	11	41	0	(.)	0	(.)
Liberia	100	86	(.)	14	0	(.)	0	(.)
Nigeria	95	87	4	13	1	(.)	0	(.)
Ivory Coast	84	78	16	17	0	5	0	(.)

SOURCE: World Bank - World Development Report 1981

(.) = Less than half the unit cost

.. = Not available.

TABLE 5: Current Account Balance before interest Payments on External Public Debt for the WAfCH, CAfCH and CEPGL Member Countries (US\$ million)

Country	1970	1979
Mali	(-2)	(-64)
Upper Volta	(9)	(-68)
Benin	(-1)	(-87)
Sierra Leone	(-14)	(-109)
Niger	(1)	(-96)
Mauritania	(-5)	(-70)
Togo	(4)	(-219)
Ghana	(-56)	(292)
Senegal	(-14)	(-394)
Liberia	(n.a.)	(191)
Nigeria	(-348)	(1,429)
Ivory Coast	(-25)	(1,560)
Burundi	(2)	(-38)
Rwanda	(6)	(44)
Zaire	(-55)	(-463)
Central African Republic	(-11)	(-9)
Cameroon	(- 26)	(-290)
Cong, Peoples's Republic	(n.a.)	(-144)

SOURCE: World Development Report 1981, pp.158

TABLE 6: Africa's trade with developing countries (US\$ mm)

	African Exports				African Imports			
	1975	1978	1979	1980	1975	1978	1979	1980
All developing countries	4,964	4,611	7,283	12,417	6,089	7,342	9,797	13,639
Developing Asia	806	144	1,510	2,771	3,165	4,219	5,255	7,444
Middle East	450	724	900	2,003	1,741	1,762	2,464	3,519
Other Asia	365	240	610	768	1,424	2,457	2,781	3,925
Developing America	2,227	1,860	2,872	5,443	1,000	1,517	1,642	1,993
Lafta	567	590	788	1,348	631	988	1,036	1,256
Other Latin America	1,660	1,270	2,084	4,095	369	529	606	737
Developing Oceania	6	2	1	1	0	0	0	0
Intra-African Trade	1,925	1,606	2,900	4,202	1,925	1,606	2,900	4,202

SOURCE: Monthly Bulletin of Statistic, Vol. XXXV, No. 7, July 1981.