

CONFERENCE OF AFRICAN MONETARY AUTHORITIES

GENERAL REPORT BY THE SECRETARIAT  
PRESENTED BY MR. O. A. SPENCER (E.C.A. SECRETARIAT)

Mr. Chairman, Your Excellencies and Distinguished Delegates:

Our agenda this morning requires that the Secretariat should submit to this meeting a general report which will provide a background to subsequent discussion by delegations. As you are aware, the introduction of this item into our agenda derives from the discussion which took place at our first meeting on Saturday in the course of which the view was expressed, on behalf of the West African Monetary Union and by some other delegations that it was not possible to proceed to satisfactory discussion solely on the basis of the documentation previously circulated and referred to on the agenda. It was decided therefore that it would be preferable to proceed by way of a general report by the Secretariat. It is now my responsibility to present this report to you. In view of the very limited time that has been available, I hope Honourable Delegates will understand if this submission is necessarily oral and will extend their customary indulgence for the inevitable shortcomings which must attend it.

In view of the general character of the observations which have been made at our first meeting, I trust Honourable Delegates will also agree that the Secretariat will be interpreting their views correctly if this report is designed to provide a framework for a discussion of general problems of African monetary cooperation. To this end it appears to the Secretariat that it will be most useful if I divide my remarks into four sections. First, the historical background of events which have led to the present meeting; second: the role of monetary cooperation in relation to economic development in Africa; third: various aspects of monetary cooperation which have been discussed, or attracted attention prior to the convening of this meeting and which it is felt by the Secretariat should be discussed by the Honourable Delegates present here to provide the Secretariat with guidance regarding further study and action, and lastly, of course, some summary and conclusions drawing together the main threads in the preceding remarks.

As to the historical background, there are two major starting points from which have derived the various steps which have brought us all here today. They are: Resolution 87 of the Fifth 1963 Session of the Economic Commission for Africa and a parallel Resolution adopted at the first summit conference of the African Heads of State. Both of these have been referred to by speakers at our first meeting and are quoted in Document ECN/14/262 which was laid on the table for this Conference. In view of their importance in relation to this meeting I take the liberty of quoting from the relevant text. The ECA Resolution reads: "The Economic Commission for Africa, recognizing the existence in Africa of different monetary zones and payments systems, bearing in mind that there should be harmonization of these monetary zones and payments systems to promote inter-African trade, requests the Executive Secretary to undertake a study of the possibilities of establishing a clearing system within a payments union between African countries and to submit the study to the Commission at its Seventh Session." The Resolution of the Heads of African States was more comprehensive. It invited ECA "to request its Executive Secretary to give all the necessary support and assistance which it may require" to a Commission of Experts "charged to study in collaboration with governments and in consultation with the Economic Commission for Africa, inter alia, the following questions; and to submit their findings to member states.

- (f.) The establishment of an African Payments and Clearing Union.
- (g.) Progressive freeing of national currencies from all nontechnical external attachments and the establishment of a Pan African Monetary Zone."

In addition to these ~~which~~ I may call foundation Resolutions, I may add that the creation of an African Payments and Clearing Union was also proposed by the Economic and Social Commission of the Organization for African Unity at its first meeting in Niamey in December 1963.

As a result, ECA convened an expert group in Tangier, which met from the 13th to the 17th of January this year. Among the documents which this meeting had before it was one of particular importance: that submitted by Professor Triffin at the request of the Executive Secretary. I believe this is the document to which the Honorable Delegate of the United Republic of Tanganyika was referring to when he addressed the meeting on Saturday. It was entitled: "Report on the Possibilities of Establishing a Clearing and Payments Union in Africa, and it is reproduced as the 6th Annex to the document the reference number of which ends with 262, which I have already mentioned.

Professor Triffin's suggestions were very comprehensive. On the general subjects they included proposals for a Charter of African Monetary Cooperation, the establishment of an African Monetary Council, and a Center of African Monetary Studies. Under the title-subject it embraced the discussion of a variety of possible developments in the payments field, extending from a simple scheme for voluntary compensations to more ambitious forms of payments union, with discretionary or automatic credit provisions and even some common pooling of a portion of national reserves. I assume delegates would not wish me to recapitulate in further detail the substance of that paper since it is so well known.

The Expert Group endorsed the general proposals leading to the Charter, Monetary Council and Study Center, and also "agreed that it would be feasible to set up in the near future a Union for the Clearing of Payments among African Countries". This Union was to be voluntary. The Group also endorsed generally the viability of the more comprehensive forms of monetary cooperation outlined by Professor Triffin which they recommended should be given detailed study, but did not propose any specific timetable therefor, and emphasized that they should be accompanied by "appropriate harmonization of policy in other fields".

Now although the original Resolution of the 1963 Session of the Commission, to which I have referred, called for a report to the 7th Session, i.e. the session which will be held in 1965, the Executive Secretary considered that the results of the Tangier Group justified further reference to the 6th Session which was held in February of this year.

As a result, the plenary session of the Commission in Resolution No. 95 which was quoted in Document ECN/14/STC/APU/7, paragraph 5, invited the Executive Secretary to prepare "a complete and accurate survey, showing the monetary institutions of Member Countries, the difficulties experienced in effecting their financial settlements and means of remedying the situation." It requested the Secretariat "to arrange this year for a first meeting of all African governmental monetary authorities, in order to submit to them the studies and conclusions reached in the course of the Secretariat's work." It also asked the Executive Secretary "to undertake a study on the possibilities of overcoming obstacles to progress and the promotion of intra-African trade, resulting from payments difficulties between African countries."

This meeting derives, as Honorable Delegates are aware, directly from this Resolution.

Following this Resolution, the Executive Secretary initiated the steps necessary to proceed with the studies and surveys which had been requested. Various enquiries were made of Member Governments and reference was, of course, made to relevant published documents on this subject. It is perhaps important to add that this work was a necessity undertaken concurrently with preparation for the United Nations Conference on Trade and Development.

In fact, mainly for this Conference the Secretariat prepared a paper, which has the principal reference 46/83, entitled "Trade problems between countries with similar level of development" which Member Governments will already have received but which, in view of its obvious relevance to problems of monetary collaboration has also been made available again at this meeting. Perhaps I might also take the opportunity of inviting the attention of Honorable Delegates to some other studies which have been undertaken by the Secretariat and which provide background to or are relevant to problems of African monetary collaboration. Of these, one of the most important is a major study entitled "Bilateral Trade and Payments Agreements in Africa" which was circulated at the Sixth Session

and bears the reference ECN/14/STC/24. There are a large number of other papers relating to various aspects of this subject or to corresponding experience of Latin America or Europe, which Delegates will find summarized in Annex 2 to ECN/14/262. Some of these were entitled, for example, "Regional Payments Problems and Central Banking Cooperation in Latin America," "Central American Trade and Payments," and "Financial information available in the IMF on African countries"—a paper which was prepared for us by the IMF. There is also a background paper, of which I think most Delegations are aware, on the "establishment of an African Common Market," under sub-reference STC/20 and a supplementary paper on "intra-African Trade." There are documents on the convention of association between <sup>the</sup> European Economic Community and African states. There was the bilateral trade and payments agreement paper which I have already mentioned and there were supplementary papers on the Sterling area and the Franc zone submitted by the metropolitan territories concerned and there were, of course, various other papers including a reproduction of reports by ECE on the operations of their multilateral compensation procedures.

Whilst, therefore, the Secretariat would be the first to agree that much further study still remains to be done before substantive decisions can be taken on the subject of a Payments Union, for example, it feels that delegates will not deny that a very useful start has been made.

It was in this context that it was necessary to determine the agenda for the first meeting of African Monetary Authorities. The Secretariat infers that some delegations at least may have felt that it would have been preferable to have waited for this meeting until all the basic studies, including in particular the comprehensive one on the subject of exchange difficulties, had been completed. But this, to put the matter quite frankly, was not possible. The Resolution of the Sixth Session of the Commission regarding the convening of this meeting was quite mandatory in requiring that it be held this year.

I must also add that despite the inevitable absence of this study of exchange problems which has been mentioned particularly, and to which I will revert in a moment, the Executive Secretary felt that there were real and

positive advantages in having this meeting this year notwithstanding the fact that all the documentation and studies could not be completed. The convening of the annual meeting of the IMF and the IBRD provides a unique opportunity for assembling in one place the widest body of authoritative experience in African monetary matters. Even if, therefore, delegates could not be provided by the Secretariat with, for example, this particular and comprehensive study of African exchange problems it was our view that delegates would be able to provide the Secretariat - and other delegations too -- with an authoritative appreciation of the potentialities and problems of African monetary collaboration, including, of course, subjects as the Payments Union as seen from their respective points of view. In the judgment of the Secretariat such contributions would be uniquely valuable in ensuring that work already in progress and further studies were conducted with the right perspectives and that attention was focused on the correct priorities.

It was these considerations which prompted the Executive Secretary to proceed with the meeting as required by the Commission and to focus attention not merely on the general topic of African monetary collaboration (which was perhaps taken for granted) and the machinery by which this should be pursued, but also on the specific subject of an African Payments Union which had been specifically referred to in the foundation resolutions to which I have referred.

With regard to the African Payments Union the paper APU/7 should be regarded, as the Deputy Executive Secretary stated on Saturday, as an outline or feasibility study and not as a firm or specific proposal. If the use of the word "proposals" in its title has occasioned any misunderstanding, I repeat, on behalf of the Secretariat, the apologies already offered by the Deputy Executive Secretary. But as the Honorable Delegate of the Ivory Coast so properly emphasized on Saturday, we should not concern ourselves in a meeting of this sort with errors of drafting, however regrettable, and for which I apologize, but with the substantial issues for which this meeting has been convened.

But, bearing in mind the specific and categoric references in the directives of the African Heads of State and Economic Commission, it was certainly the opinion of the Executive Secretary that it would be unrealistic and even a departure from the spirit and perhaps the letter of the directives under which he was operating, if there was no discussion at all of this topic at the first meeting of African Monetary Authorities, notwithstanding the fact that all the necessary studies had not been completed.

But I am sure that Honorable Delegates with their wide experience of international conferences will agree that it is very difficult to pursue a discussion on an important and technical topic with wide ranging implications such as this, in a vacuum, merely as an item put down on the agenda and without any positive suggestions or substantive memorandum for consideration.

It was purely in this spirit, therefore, that the Secretariat ventured to produce as a basis for such discussion, outline proposals for a possible Payments Union. As pointed out on page 12 of that document, these proposals are in no way incompatible with the simpler forms of compensation arrangements which I have also mentioned in connection with the Triffin Report. The two could indeed go together, or a simpler compensation scheme could be embarked on separately by itself and perhaps extended later in successive stages.

For reasons which I will elaborate in a moment, it was not felt, however, that such a compensation scheme with its necessarily limited scope justified a separate memorandum, particularly since, as I have mentioned when recapitulating the documents, the material regarding the operation of a similar scheme in Europe had been distributed to African territories at a previous meeting. Nor was it felt that discussion of a compensation scheme would be an adequate substitution for the discussion of a possible Payments Union.

There remain, of course, the questions relating to an African Monetary Charter, Monetary Council and Center of Studies, all of which were recommended both by Professor Triffin and the Experts at Tangier. It is not, of

course, the intention of the Secretariat that these proposals should ever be overlooked. Indeed, it was the intention of the Deputy Executive Secretary, had the meeting proceeded with the agenda as originally proposed, to include in his formal introduction to our substantive discussions specific reference to these and other general problems of African monetary collaboration, and to emphasize that, although a discussion of the pros and cons of <sup>a</sup>possible payments and/or clearing union might naturally constitute the most conspicuous part of the proceedings of this meeting, it should not be thought that this was the sole purpose. The Secretariat hoped--and I may add, still hopes--that at some stage delegations would be ready to discuss in general terms the broader problems of African monetary collaboration, including the particular topics which I have just mentioned, and indicate the machinery and methods by which these should be pursued. For it is the view of the Secretariat that at the present stage of African monetary development, the successful prosecution of these matters requires the development of consultative procedures between the African governments, even more than study or research by itself.

May I now turn briefly, and I will endeavor to be as brief as possible, to the question of the relationship between monetary collaboration and economic development. Neither monetary collaboration nor even monetary stabilization, important though they are, are ends in themselves. I am sure every Honorable Delegation here present, will have endorsed the words of the Governor of the Fund for the United Kingdom, when he said in the plenary session of the International Monetary Fund only a few days ago, in the building, that the end purpose was not merely "monetary stabilization" "but economic development." The work of the Secretariat is, of course, by its nature and title directed by this broad objective. It is particularly relevant to any discussion of payments and monetary problems. Honorable Delegates here do not need, I am sure, and would not wish me to burden them with arguments much less documentation, supporting the thesis that the development of Africa in the United Nations Decade of Development requires further acceleration, or that it would not be satisfactorily



achieved until there is a far more widespread measure of diversification in African economies and a wide advance in industrialization; it will also, we think, be generally accepted that in the long run both of these objectives require in some substantial degree the planning and execution of development programs on a cooperative basis which transcend existing national boundaries without infringing national sovereignties. These boundaries, as Honourable Gentlemen in this room are only too well aware, are for the most part a legacy of colonial history and have resulted all too often in the establishment of political units without regard to economic, climatic, or geographical considerations. In many cases, perhaps most, individual territories are too small geographically, even economically, and even in terms of population, to support a modern economy in the fully developed sense of modern industry. Admittedly, these restrictive tendencies have been mitigated to a very important extent in certain parts of Africa by the existence of customs unions and common monetary zones. This is recognized. But, if it is important, as it is, to recognize the economic value in this context of these arrangements, it is not less important to note that many African countries whose needs for development are no less pressing than the others, are excluded from the benefit of these arrangements, or, to put the matter another way, the object of intra-African economic cooperation--if we are to achieve the large objectives on which our eyes are set--should be to widen and to extend the areas within which the products of African industry and agriculture can be freely exchanged.

No doubt, the development of agricultural production lies at the heart of African development for most territories, and such matters as the expansion of African imports and the improvement of the African terms of trade are extremely important. But it is not inconsistent with any of this to say that Africa must use all possible means to produce whatever it can, within its own boundaries, to meet its own needs. Excluding the Union of South Africa, Africa still imports consumer goods alone at an annual rate of something like 3,500 million U.S. dollars. Vast sums are also spent on the importation of building materials, processed products and industrial components, which Africa could in the years to come, and at no distant date, produce for itself, provided and always provided, markets of adequate size can be opened up for these products.

ANNEX I

This process of import substitution which has been discussed so often and for which I make no apology for mentioning again this morning, is not as is sometimes alleged either an economic luxury or a merely political objective; it is a stern necessity for most territories since they must make room in their necessarily limited import budgets for the increasing imports of capital goods and industrial materials which are required to support the expansion of investment which is the keystone to their economic development.

But when one discusses this problem with advisers and executives in individual territories, how often does one hear the answer: "It is impossible to produce this or that here. Our market is too small." Both the Economic Commission for Africa and the Organization for African Unity are therefore particularly directing their work toward this end, that is: the encouragement of inter-territorial planning and the development of industries and economic activities serving the interests of more than one African territory.

If this thesis--and I do not apologize for continuing on it for a moment--if this thesis be questioned, viz: that the African development requires a massive expansion of industrialization and intra-African trade, across existing national boundaries, let the question be asked: "How far would North America have developed today if each State of the Union had concentrated--as so many African states still do, for historical reasons--on a pattern of trade confined largely to a group of overseas countries, and content to exchange primary and mineral products with manufactured goods, while neglecting the abundant opportunities for inter-State commerce? The answer, we all know, is--very little.

It has, of course, been pointed out many times that recorded intra-African trade is a very small fraction, perhaps 10 per cent, of all African trade and that the obstacles to its development, particularly in the field of transportation facilities, are very great but this in no way vitiates the argument that such trade must be developed and such obstacles must be gradually overcome if the broad objective of pan-African development and industrialization are to be achieved.

But clearly, if the development and industrialization of Africa requires the expansion of intra-African trade on a grand scale, the latter, in turn, requires a concurrent expansion of facilities for intra-African payments. If the currencies of Africa were freely convertible, this would present no serious problem although its attainment would, of course, require considerable change in banking practice, since so much of current banking activities involve relations between African territories and continental countries in Europe, the United States, or Asia. But, despite the **existence and usefulness in this context, of the monetary zones** to which I have referred, such universal convertibility within Africa is far from being the case. Indeed, even in the present year one will see the appearance of new currencies in Africa as new states achieve independence.

The Secretariat has, therefore, been impressed by the words of the Expert Group which met at Tangier who went so far as to say in para. 7 of their Report that they: "agree on the need to arrest the process of monetary disintegration which threatens the Continent, and might divide it into a multitude of separate monetary areas and give rise to the establishment of bilateral, discriminatory trade and payments agreements."

In this situation, it seems to the Secretariat that quite apart from the directives which we have received from the African Heads of States and our own Commission, the problem of African payments requires ample study and consideration by all who can contribute to it as part of the broader problem of African development.

May I now turn to the discussion of some of the problems of intra-African payments and those presented by a Payments Union. I will not recapitulate, of course, the material which has been presented in APU/7, since, I am sure, that is not the desire of the Delegates. The Secretariat does not deny that in any solution such as the Payments Union there are many difficulties to be overcome. It does not prejudge the situation; it thinks only that the importance of the subject, quite apart from our directives, requires that it should be carefully considered and studied. And, indeed, where the difficulties are concerned, there was a specific

reference to some of them in APU/7 which has been circulated. But basically the case for considering the possibilities of such a union on monetary grounds derives from this fact: that except within certain monetary zones to which I have made reference, African currencies are by no means assuredly or freely convertible with each other. Certain countries, of course, enjoy de facto convertibility into other currencies through the medium of special arrangements, sometimes with the former metropolitan power. But the question which arises for this meeting and the Secretariat, is whether such arrangements can be regarded as an entirely satisfactory instrument under all circumstances, and for the purpose of long-term planning, in the context of a new and very great expansion of intra-African trade.

The important and underlying issue is that the situation which has to be considered is not merely the position as it stands today. It is not a static position. It is a changing one. It is the future, and the future pattern which has to be considered. All African countries today are committed to ambitious plans for national development involving increasing the levels of investments and output and the extension of public and social services on an unprecedented scale. In their present stage of their development, foreign borrowing will be a continuing necessity on a massive scale to finance these plans. The increasing burden of debt service, together with strains which may result from internal expansion have in some cases already resulted in heavy pressures on balances of payments and external reserves. Such cases may surely recur. In this circumstance there surely is a real risk--some might even say a certainty--that many African countries, perhaps most, will be constrained at times to tighten controls on import and exchange transactions. The experience of many newly developed and newly independent countries in the process of development in other continents points in this direction too. Such tendencies may, of course, be accentuated by the added stimulus of industrial development.

There is therefore surely a risk of the emergence in Africa of two major conflicting trends: of increased restrictions in general external trade and payments on the one hand while the processes of African industrial development and the promotion of intra-African trade on the other demand the liberalization of such exchanges between African countries themselves.

It seems to the Secretariat therefore, that facilities should be found to assure and maintain the liberalization of such trade and exchanges within African territories generally even though the external relations of some, or the majority of them, with the rest of the world under this head are subject to sporadic or even sustained restrictions.

It may not matter to the manufacturing industries of Europe or America if a group of African countries restrict their imports, but similar restrictions, perhaps even if only imposed for a comparatively short time, might wreck the prospects of new African industries which were relying almost entirely on their African partners for their markets.

So, whilst, as I have said, the Secretariat does not prejudge an African Payments Union as a particular solution, it feels that the question of African payments requires very careful and constructive consideration in this context. The Secretariat recognizes as a fact, of course, the arguments I have already mentioned that recorded intra-African trade is small and that problems of payments may not seem to many countries the principal obstacle to expansion. Therefore, it may very well be argued that other developments and other activities in the field of trade, customs liberalization, development of transportation facilities and so on should receive priority. The Secretariat does not dissent from the importance which is attached to these activities. Indeed, they represent a very considerable preoccupation of the Secretariat at the present time. It is equally the view of the Secretariat that the promotion of inter-territorial development and intra-African trade must be pursued concurrently on all fronts and that unless it is held that African countries generally are, despite the pressures arising from development, likely to advance consistently towards, and to maintain, general convertibility between themselves, it would be a serious mistake merely to put consideration of problems relating to intra-African payments on one side whilst concentrating on the commercial, technical and transportation problems.

The current discussion of a Payments Union in Africa has also attracted the observation that this might involve some misunderstanding

of the lessons to be drawn from the European Payments Union. The African problem is, of course, quite different from that which confronted Europe at the time of the establishment of the EPU. The problem of Africa is to create a new pattern of intra-African trade. That of the European scene was to restore (and further develop) a traditional pattern which had been disrupted by war and frustrated by a multiplicity of bilateral agreements which had largely become blocked. But there is a common purpose to this extent: that African development will require the establishment, extension and maintenance of monetary convertibility--or perhaps the purist would prefer me to say transferability--in respect, at least, of intra-African current transactions approved by the authorities, notwithstanding any possible deterioration in general external convertibility from time to time.

It is inevitable, of course, that any proposals--and this is certainly true of the tentative proposals submitted by the Secretariat--must be influenced by European experience. It is, after all, the practical example of a union which worked. No doubt as a consequence various details may be criticized. For example, the suggestion that country quotas might be based on world trade rather than on the intra-African trade of the member country, may seem illogical in the African context. In this particular case the reason behind this suggestion was twofold: the figures for world trade were far more reliable statistically and were generally a better indication of a country's economic strength and hence of its ability to give credit, than those related to intra-African trade. But no doubt alternative formulae should be considered and can be considered if the time comes.

No doubt there are many other difficulties. An African country may find itself running a surplus on intra-African trade at the same time as it has a deficit on its trade with the rest of the world. Thus it may feel hesitant about a system which might require it to give credit to other member countries at a time when it felt it could least afford to do so and would want to mobilize the maximum amount of convertible currency in respect of all its exports. Of course, on the sort of quotas tentatively suggested in the paper, the extent of such credit would be very limited. And again, it must be observed that it would be hoped that the development of intra-African trade would lead to a great expansion in exchanges.

Other special problems may, of course, arise in the case of territories, for example, which rely on earning export surpluses regularly with African neighbors to pay for imports from non-African countries, and in the case of African territories whose African trade taken over all is, say, persistently in deficit year after year.

The difficulties which are presented by these problems are not denied. The point which the Secretariat feels must be made is that the traditional pattern of intra-African trade which now prevails and which is often based largely on traditional movements of agricultural produce or livestock, is not any indication of the future pattern of inter-territorial relationships as and when general development of the continent and industrial activity gets properly under way.

The Secretariat is also only too well aware of the characteristic lack of complementarity in intra-African trade today but I think Honorable Delegates will appreciate that everything which I have said this morning, and which motivates the work of ECA and OAU, is based on the gradual replacement of this imbalance wherever possible by the progressive development of multilateral trade between African countries. Policies in short must be set with an eye to the future pattern of development which will be determined by the governments and peoples of Africa themselves and not by the past or present patterns where these are the result of quite different historical circumstances.

Two specific facts may underline the importance of this approach. Such intra-African trade as does already exist is to a considerable extent concentrated within existing monetary areas or between one or two territories of which one at least is in a more advanced state of industrial development by African standards.

Now surely what has been shown to be true in these particular instances where the circumstances were favorable to the promotion of intra-African trade, can and should be expanded to other areas, and in growing volume, as a result of the right economic policies and institutions.

Having spoken so much on some of the problems provoked by the question of a Payments Union, may I make a brief reference to a clearing system. The establishment of a multilateral clearing system has the great attraction of simplicity. In practice, however, it would surely be confined in its

effective operations to the liquidation of blocked bilateral balances by a process of multilateral compensation. No doubt such a compensation will be of definite value to the countries concerned and would have the added advantage that it could be introduced without any capital contributions, with hardly any staff, and entirely separate from the institution of any Payments Union. In fact, it would involve no more than inviting African member countries to report to an Agent those balances (either in credit or debit) which they would like to see compensated multilaterally by offsetting contra-balances between other African or even non-African territories.

There is in fact concurrently in existence a similar scheme run by the Economic Commission for Europe, which has operated since July 1957. On the basis of quarterly reports submitted by territories, the Agent looks for opportunities of multilateral compensation of balances which, as far as the individual territories are concerned are bilateral and blocked. May I give a simple example for any honorable delegates who are not aware of the way in which the European system works? (I would ask other delegates to excuse me.) Let us imagine that country A exports manufactured goods to country B, which exports raw materials to country C, which, in turn, has exported say, cattle, to country A; and let us assume that the international aspect of payments involved for these transactions has been blocked because the payments are not convertible either into the currency of the exporting country or into a third convertible currency. From the point of view of each of these territories the transaction is blocked, and such situations are extremely common where bilateral payments and trade agreements are concerned. But from the point of view of the three territories taken together, they are not blocked at all, if each would be willing to permit a circular compensation. Of course it is quite exceptional if the amounts involved are the same. It is perhaps exceptional if the compensation can be triangular. It is more often between 4 countries or 5 countries or even as many as 7 countries. This is the function of the Agent who receives these reports and studies the position of the individual countries, puts a towel around his head or takes a computer, and seeks opportunities for compensating these blocked balances by a series of links. Sometimes he goes right outside the member countries and drawing



from his experience of trade and payments structures approaches countries that have not ever made a report. But without detracting from the usefulness of such schemes of compensation the facts are that results are necessarily limited. Over the 7 years in which this scheme has been operating, I think something like 60 compensations have been established between 22 countries totaling 86 million dollars. Incidentally, 18 of these compensations totaling 6.5 million dollars involved an African territory as at least one partner; 5 African territories have been brought into this at some time or another.

Thus, while it is the view of the Secretariat that it would be in the interests of African countries to introduce a system of voluntary multi-lateral compensation on the ECE model, and that this could be done without any serious delay or even any special formal agreement, and for very little cost in terms of men and money, it seems clear that such a system could only play a very limited part in the promotion of intra-African trade and long-term development. In view of the documents on it which have been circulated at Tangier, it did not seem to merit a separate major study in itself for this meeting.

Honourable Delegates, with your permission, I will now summarize some of the salient points in this situation as they appear to the Secretariat and set out in particular those in respect of which the Secretariat respectfully and earnestly request and would be grateful for, your guidance.

First, whilst the Secretariat feels that the specific directives of the African Heads of States and of the full Commission require that definite consideration be given to the question of an African Clearing and Payments Union, the Secretariat also interprets the intention of the Commission in convening this first meeting of African Authorities to be the creation of a forum in which African representatives can discuss and exchange views on all monetary matters which are of concern to member countries. In this sense, the terms of reference for this meeting are for Honourable Delegates to decide. For this reason, the Secretariat warmly welcomes in principle their initiative in determining their agenda. As to the particular questions of a Clearing and Payments Union, the Secretariat invites attention to the fact that in its opinion a voluntary clearing system could be established with or without the concurrent establishment of any payments union. It

would be simple and not costly to operate and could undoubtedly be handled, if that was desired, by the Commission in the same way as the existing European system is handled by ECE. In its simplest form it would require no special agreement, although some link with the ECE system would undoubtedly be beneficial.

And although such a system would be of definite value to participants, its scope, in the view of the Secretariat, would be limited in practice to clearing of blocked bilateral balances and it could therefore only make a correspondingly limited contribution to the promotion of intra-African trade and development. However, the Secretariat would welcome the views of delegations on this subject.

A Payments Union would, of course, be a far more substantial operation requiring the prior negotiation of a formal and necessarily complicated Agreement, the establishment of an Executive Agency and Governing Body and the solution of a large number of outstanding problems of a highly technical character. Depending on the nature of the Union, it might require, as the European Payments Union had, substantial external financial assistance to get it going. Clearly much further study is needed before any definite decision can be taken on this subject.

The Secretariat itself is pursuing such studies but in the meantime it feels that observations of a constructive character by Honorable Delegates here present would be of great value. The Secretariat therefore **suggests** that discussion at this meeting of a Payments Union proper should take the form of such comments and observations by various delegations the main purpose of which should be to draw the attention of the Secretariat either to particular points of local or regional interest or difficulty and to provide guidance as to the scope and direction of further studies.

But apart from these two specific and important subjects, the Secretariat hopes that delegations will feel able to exchange views and offer their advice as to the way in which the whole question of intra-African monetary collaboration should be approached. The Secretariat feels that it is clear that the African Heads of State attach very high importance to this subject and that it is also clearly of particular significance in relation to African economic development.

This development if it is to be rapid and widespread must include a rapid growth **of** industrialization and intra-African trade and although the obstacles are many, they must be overcome. And this postulates corresponding development in the monetary field. All this implies the development of full and continuing cooperation between Central Banks and monetary authorities in African territories particularly in respect of foreign exchange controls, and the liberalization thereof, and of intra-African trade in the pursuit of development objectives.

The various proposals for a Monetary Charter, a Monetary Council and Research Centre need to be considered in this light. Financial policies and monetary policies must be pursued which are not merely sound from the national standpoint but pay due regard to the interests of African neighbors and help to take forward the broader objectives of development in the pursuit of the grand design of African economies advancing together.

It is the belief of the Secretariat that this meeting here today can mark a first step in the right direction in the monetary field, side by side, with the concurrent steps that have been taken by the Secretariat, and its subordinate committees and by the Organization for African Unity in the fields of trade, regional planning and transportation. Not necessarily by approving or disapproving any specific project or tactic, but by pointing the way to the establishment of the right machinery for study and consultation which must precede and accompany such evolution.

It is indeed the belief of the Secretariat that by such constructive steps, taken in association with these others in the allied fields which I have mentioned, countries of Africa can advance in harmony and with speed from the dawn of their independence to the bright day of full economic development. It is the duty of the Secretariat, and the high privilege of its members to play their part in this historic process in whatever way African governments think fit.

Honorable Delegates, I thank you for bearing with me so long.

ANNEX II

ECONOMIC COMMISSION FOR AFRICA  
FIRST MEETING OF AFRICAN MONETARY AUTHORITIES  
Tokyo, 12-15 September 1964

Résumé by Mr. N'Liba N'Guimbous,  
Deputy Executive Secretary of the Economic Commission for Africa

DOCUMENTS

NO TO BE TAKEN OUT

Mr. Chairman, Your Excellencies,

In my present remarks I wish to give a résumé in three parts, reviewing the stages of our work and the conclusions which the secretariat considers should be drawn therefrom.

In the first part, I shall try to review as briefly as possible the gist of the reports presented by the secretariat.

In the second, I shall attempt in the same manner to restate the dialogue, and in the third, I shall show what we feel we have learned from it.

In my very general statement at the opening meeting, then in the detailed statement of my colleague, we reported on the origin of the monetary questions the study of which has been entrusted to us and on the development of our work.

It has been our chief concern to place our proposals in their proper economic context, without which they might lose a large part of their significance.

Africa now has more than thirty-six independent or nearly independent countries, the majority of which obtained political autonomy only very recently. Nearly all, however, are faced with those pressing problems posed by population growth, too low a standard of living, and an ardent desire for economic and social progress; however, they must too often stifle that desire, for, in order to live, they are too dependent on the export of a small number of primary products, earnings from which are far from adequate. The African countries are realizing to an increasing extent that the only solution for them lies in collaboration and concerted action, which must not only be directed at earnings from the export of primary products, but must also lead to a change in the very nature of the African economy. In fact, the African countries have understood that, whatever may be its quality and abundance, primary

production is not enough, and if they are really to advance they must enter upon the path of diversification and industrialization followed by the principal industrialized countries. This calls for planning and development at sub-regional, and even, in certain cases, continental level. If the African governments want the populations of their countries to enjoy the benefits of development in all sectors, they must create, in Africa itself, markets vast enough to support modern industries and make them viable. In brief, what Africa needs is a market or markets of much broader dimensions than can be offered by the market of one country, however large.

This explains why the Economic Commission for Africa has adopted as its chief concern the problem of integration in all its aspects and in all sectors. To those who might be doubtful, let us ask the following question: where would America be today if each State of the Union had adhered (as too many African countries are doing today) to a system of bilateral trade with a single country or with a group of foreign countries, if each state had confined itself to exporting primary products and importing manufactured products and had not exploited all the possibilities offered by inter-state trade? It is obvious that America would not have gone very far. That is why the Economic Commission for Africa, and with it an increasing number of its member countries, attaches more and more importance to the promotion of trade and other economic relations among African countries.

That does not mean that ECA does not realize that earnings from traditional exports should be increased, wherever possible, by additional processing or transformation, or that it does not realize the many unquestionable difficulties which create as many obstacles to the promotion of intra-African trade and which arise especially from unnatural political frontiers, from traditional flows of trade with metropolitan countries and from the absence of good transport and communications, to mention only a few of the most obvious obstacles.

We know that we must overcome these obstacles if the industrialization and development of Africa as a whole is to be realized, if not

in this decade, at least in the next one.

However, while the development and industrialization of Africa call for an expansion of intra-African trade, this expansion cannot take place without a parallel development of intra-African payments. If all African currencies were freely convertible, there would be no problem; unfortunately, we know that that is far from being the case. The analysis which has been made during the past year, at Tangier, Addis Ababa, and elsewhere, of proposals for the creation of a clearing system within the framework of a payments union among the African countries shows clearly that everyone now concedes that greater convertibility of the African currencies must accompany and even precede the expansion of intra-African trade.

Our response to the view that priority should be given to the development of trade and that the question of payments should be postponed until later is our own conviction that trade and payments, which depend on each other, should develop in concert. Questions of currency and payments cannot be separated from the whole series of measures directed at the integration of the African economies.

We have pointed out some of the measures already taken by ECA and OAU; in particular those designed to increase production of goods for African markets (agricultural production - industrialization - sub-regional co-ordination, exploitation of power resources, co-ordination of transportation).

The African common market, established progressively at the sub-regional level, can be realized when there are more products to trade and better means of transportation. The balanced development of agriculture and industry cannot take place without a gradual elimination of the obstacles to trade. There are many problems to solve, some of which are essentially administrative. I shall tell you that we have advocated general adoption of the Brussels Customs Nomenclature.

If we wish to construct, for example, a new steel mill to supply the markets of several African countries, the products that it puts out must be able to circulate freely among these countries, and a common

external tariff will perhaps have to be adopted. As to goods already being produced in Africa, the best way will probably be to eliminate gradually the customs barriers and the other obstacles to trade by beginning, here too, with the sub-region or with a smaller grouping of countries.

The final objective is the progressive harmonization and full co-ordination of national plans. In some cases, this can be done directly by one country adapting its plan to those of its neighbours. In others, direct negotiations may be conducted between two countries. Multilateral negotiations may be necessary.

In this general framework and at the same time, large possibilities are opened up for harmonizing monetary and fiscal policies which will make possible the initiation of integration and co-operation in the monetary sphere.

Returning to the question of payments, we have repeated that the secretariat was not unaware that gaps are inevitable in a study, the preparation of which, by the nature of the field to which it is applied, requires a combination of theory and practice, indeed a pragmatic approach.

We have explained that if we are examining today the possibilities open to us for creating an African payments union, it is because, generally speaking, African currencies are not freely convertible among themselves, because there is no contact or relation between them.

We all know that there are groups of countries which have a common currency freely transferable within the groups and generally convertible into the currency of the former metropolitan power. But there are also many countries whose currencies do not enjoy these advantages. Moreover, these monetary groupings, as organized at present, are explained by historical and political factors much more than by concern to make Africa an integrated industrial continent. If this goal is to be achieved, new industries and products must have access to markets transcending traditional frontiers.

We have noted certain signs which indicate that more African

countries are planning to establish separate currencies, while the countries which already have such currencies show a distinct trend towards greater autonomy. In many countries, the increasingly heavy burden of debt service and the expenditure resulting from national development defined in dynamic development plans, which is already a serious danger to the balance of payments and foreign exchange reserves, will lead to stricter regulation of imports and exchange operations. It is obvious, however, that, however indispensable these measures are to national development, they frustrate the acceleration of intra-African trade, which should be the vehicle of development transcending the national framework, which calls for greater freedom of trade and exchange and for concrete measures to increase existing trade flows and create new ones. It would therefore be the role of a payments system to reconcile these opposing tendencies by providing greater convertibility in monetary operations among African countries, even if the African currencies were to remain more or less inconvertible in transactions with certain non-African countries.

I particularly wish, however, to recall that our philosophy by no means maintains - any more than do the studies by our secretariat which have been submitted to you - that the existing monetary groupings should be replaced by an African payments union. The future of these groupings concerns only the countries involved. We confine ourselves to seeking and proposing a functional system capable of providing greater monetary convertibility among these groupings, on the one hand, and, of course, among the majority of these countries.

After reiterating these preliminary general remarks, I should like to review quickly some particular aspects of the proposals which have elicited comment.

I wish, in the first place, to return to the creation of a clearing system. There are at present 94 bilateral agreements between African countries. Without having the breadth of the agreements which gave impetus to intra-European trade in the first post-war years, they, too, are aimed at "a blocking" of assets which of course leads to a restriction of trade. The creation of a clearing system which would permit



a country to short-circuit, so to speak, the blocked balances of member countries by an optional multilateral clearing system would indeed contribute toward unblocking the mechanism of payments. However, the secretariat considered that the scope of such a clearing system would be too limited to serve as a basis for a liberalization and expansion of trade among all the African countries. Naturally, that does not rule out the possibility of creating, in parallel fashion, a clearing system for the settlement of blocked accounts resulting from transactions under bilateral agreements between member countries and non-African countries. The secretariat would like to have your views on this subject.

In the second place, in the case of the payments union, the objection has been raised in certain circles that the volume of intra-African trade was still too small to justify the undertaking; in these same circles, it was felt that intra-African trade should first be stimulated and that the question of payments should not be taken up until later. In a certain sense, this is only a variation on the thesis I put forward when I said that the secretariat considered that the development of trade and the settlement of the question of payments should go hand in hand, and when I indicated the measures already taken in the field of trade. We do not ignore the fact that the volume of intra-African trade is insignificant today, I would even say deplorably insignificant, which is of course likely to limit seriously the scope of the operations of a payments union in the first few years. But this should not be taken a priori as a sufficient argument against the creation of a system whose object is precisely to facilitate the expansion of such trade.

I do not mean by that that the creation of a payments union will in itself work a miracle. Quite the contrary, and care must even be taken not to refer only to the European Payments Union and not to seek solutions only on that side, for in present-day Africa, conditions are different in many respects from those which led to the creation of that institution of monetary co-operation. To cite only one example: the relative importance of trade among member countries, and trade between member countries and the rest of the world is, of course, entirely reversed in the

two cases. The objection has also been raised that there were too many disparities in fiscal policies and monetary systems among the countries in the African continent and that it would be proper to begin by seeking standardization on this plane, to obtain first a diminution and even elimination of the risks to which the sounder systems would be exposed by immediate monetary co-operation, to the benefit of the weaker.

Our feeling is that fiscal and monetary problems occupy a central place, whose importance is such that eliminating or displacing them, even in the name of prudence and realism, from any plan for integration, would necessarily create not just a bottleneck but a real barrier to the realization of such a plan. Our concern and objective is integration, regional in scope and planned in structure.

We are indeed aware that to advocate dogmatically blind monetary co-operation would be equivalent, at the present stage, to settling up a fool's bargain and recommending suicide. But (circumspect) co-operation aimed at a progressive integration appears to us highly preferable to a solution of renunciation which would tolerate the coexistence of unreconcilable and unequal systems, condemned, by general opinion and the natural order of things, to interfere with each other. Gentlemen, since we are in the monetary sphere, let us recall what has been called Gresham's law: "when two currencies circulate side by side, the bad drives out the good."

After these two objections which questioned the advisability of monetary co-operation in Africa coupled with a payments system, much was made of the disadvantages which its very existence and operation would involve.

Mention was made of the divergent balance of payments and positions and it was stated that since the general trend revealed deficits chronic in size and location, a payments system would be beneficial to the same countries and that only the countries that had demonstrated wisdom, while not always the most favoured in regard to location and their level of development, would bear the costs, in the name of co-operation, of the abuses and selfish ambitions of certain other countries, generally better off.

What is true is the existence of this fundamental divergence, as well as the existence of the risk that an automatic, non-selective credit mechanism would tend to perpetuate the sharp division into providers and beneficiaries. Nevertheless, we consider that here, too, refusal to enter on commitments or resignation would not be a realistic solution in regard to the future.

Maladies which appear and then disappear of themselves without the need for applying the slightest remedy are rare. The difficulty often lies in diagnosis; once the evil or the risk is detected, the proper therapy must be applied. For as soon as a problem is revealed and stated, it is no longer premature, and it is even less premature to concern oneself with finding solutions. The whole problem is to define the cure and the dosage - and I mean dosage. An idea ceases to be premature as soon as it is stated. Measurement of time no longer has significance except for its transformation into working reality; it should have no significance in its recognition, its evaluation and its control.

Finally, it has been found that a payments system, because, inter alia, of its unquestionable disadvantages, would trouble or disturb the monetary unions, agreements and alliances already established, at the level of their technical organization as well as of their political repercussions. In the preliminary developments, we asserted and demonstrated sufficiently that the Economic Commission for Africa had jurisdiction over these problems of monetary co-operation only within the limit to which they affected the regional integration plan. All manipulations transcending that limit are outside our jurisdiction and concern. We intend indeed to recognize them as lying solely within the discretionary sovereignty of the states.

I should like to add also that if I have raised only a few points, one should not conclude that they exhaust the list of difficulties that might obstruct the creation of a payments union, or that all difficulties have been overcome. The question is too complicated for that to be so.

More precisely, I do not mean that each African country should not endeavour to maintain its over-all balance of payments or that the payments union should become an instrument through which a country with little concern for preserving this balance would automatically be entitled to permanent aid from the other members who were themselves applying a sounder policy.

However, everything suggests that, even with the best will in the world, the member-countries of ECA may find it difficult to accelerate the rate of their economic investment, their borrowing, and their development, without further restricting their foreign trade and payments in general. To propose the creation of a payments system confined to intra-African trade is to recognize the need for such measures and to try to reconcile them with the measures that must be taken to hasten industrialization, liberalization and expansion of trade among African countries, measures which, themselves, are necessary for the modernization of the economy of Africa as a whole. It is also to protect, in so far as possible, this development from the fluctuations of extra-African trade.

American or European industrialists hardly ever experience the restrictions to which the imports of an African country may be subjected from time to time, but for the infant African industries, which must count on sales to neighbouring or even distant African countries to offset the narrowness of the local market, these restrictions might be disastrous.

On the practical plane, it will certainly be difficult to convince African governments and entrepreneurs to invest capital in order to create means of transportation and communication, factories, warehouses, and commercial installations for the purpose of stimulating intra-African trade as long as the question of payments has not been settled and trade flows are exposed to frequent upsets. These projects, however, are among those which, moreover, will be accepted by the African Development Bank.

In these conditions, it seems that the creation of an agency to provide

for rapid settlements of trade and other current commercial transactions among all the African countries should go hand in hand with all other measures relating to industry and commerce. The fact that the operations of this agency will be very limited at the beginning should not be an obstacle to its creation, any more than it should suggest that it is a sterile undertaking; the success of this agency will be judged by its progress and not by its initial importance.

Mr. Chairman, Your Excellencies,

Taking into account the foregoing, the new enlightenment which my colleagues and I have drawn from this meeting, its preliminaries and attendant circumstances, may I put forward the plan that the Executive Secretary might suggest to the ECA as an approach to this problem in the future. Only a pragmatic approach appears to us to be recommendable.

To begin with, we must distinguish a first category of problems which could be solved immediately and empirically. In this category of possibilities we might include:

a) Services which could be rendered to countries experiencing difficulties from the blocking of accounts as a result of transactions under bilateral agreements or movements of labour, to which should be added the prospective requirements in respect of invisible transactions, whose consideration was earnestly recommended at the United Nations Conference on Trade and Development. Some African countries are already using the multilateral clearing system organized by the Economic Commission for Europe (ECE) in Geneva. The ECA or the OAU, in collaboration with the ECE, could easily adapt the services provided at present by Geneva to the needs of the African countries concerned and even intensify them.

b) The African monetary authorities and the central banks might now meet within a formal and institutional framework that would have to be defined. These meetings would lead up to monetary co-operation and would formulate timely opinions which would be of benefit to the background studies required for the second category of problems.

The second category would consist of all problems of an economic,

political, and technical nature raised by the whole question of monetary co-operation within the general context of African economic integration.

Mr. Chairman, permit me to digress. Certain remarks that have been made have seemed to reproach the ECA secretariat with having concerned itself, wrongly or excessively, with a problem for which the African states are not prepared to envisage either co-operation or even a genuine dialogue. May I repeat, and I can never repeat it often enough, that the secretariat is only an executive organ and if anyone is to be blamed, it is the Commission, and not its Executive Secretary.

However, the Commission is no more than the sum of the delegations, representing the states which form it of their own free will and at their own entire discretion. The resolutions of the Commission define our terms of reference and direct our action. Resolution 85 of the fifth session at Leopoldville and Resolution 95 of the sixth session held last February were adopted unanimously. The latter was even drafted by the plenipotentiaries of countries whose representatives have shown the greatest reserve at this meeting.

This tempts one to believe that a better association of the best qualified authorities in such or such a field should be sought.

Under these conditions, the principal lesson which we would derive from this meeting is that the whole question of monetary co-operation and integration should be referred indirectly to the States themselves and to their appropriate institutions.

We might thus have a sort of Study Committee whose members would be the African countries themselves, as was the case of the Committee of Nine for the African Development Bank.

The experts would come from monetary institutions and technical, even sovereign bodies in view of the implications arising from the existence of agreements establishing unions and monetary areas.

The terms of reference of the Committee could be made large enough to include the economic and political aspects of the problem.

The International Monetary Fund and multi-national institutions such as the OECD, or institutions covering whole areas, such as the Bank

of England or the Bank of France, could also be asked to extend their assistance and collaboration to this Committee, as well as to the ECA secretariat, whose role would revert to that which it played for the African Development Bank, i.e. providing the secretariat of the Committee, convening it and preparing for its work.

In conclusion, the objective which should henceforth be sought by the ECA secretariat, while at the same time it would be completing the studies now under way, would be to ensure that the Commission, at its seventh session in Nairobi next February, should adopt a resolution embodying the following provisions:

1. That the Executive Secretary be authorized to convene each year a Conference of African High Monetary Authorities.
2. That the Executive Secretary be recommended to render to requesting countries all the assistance necessary for the settlement of their difficulties in the area of payments from their blocked accounts.
3. That a Study Committee be created, its terms of reference defined, and its members elected.

Mr. Chairman, Your Excellencies, if the general opinion might lean toward such a pragmatic approach, I said advisedly that the secretariat would use the time between now and the seventh session to complete the studies under way and prepare its report with a view to the adoption of the above measures. I wish to add that the States, for their part, should use this time to give mature consideration to the problem and to instruct their delegations to the seventh session of our Commission.

I am sure that you will excuse me for having talked so long of our proposals and I thank you for having listened so patiently. I hope that my statement will have contributed towards clarifying the question under study, to place it in the broader context of the development of Africa as the ECA would wish to conceive it henceforth, and to bring out some of the particularly difficult problems for whose solution we most particularly need the concert of your efforts and ours.

Thank you.