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IMPLEMENTATION OF THE ABUJA TREATY: ASSESSMENT OF TRADE LIBERALIZATION/INTEGRATION SCHEMES AND PROPOSALS FOR THEIR HARMONIZATION AND RATIONALIZATION WITHIN THE CONTEXT OF THE ABUJA TREATY

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PART ONE

COMPARATIVE ANALYSIS OF INTEGRATION SCHEMES

INTRODUCTION

1. Assessment of the trade liberalization schemes in Africa is part of the work programme assigned to the Economic Cooperation Office of the Economic Commission for Africa (ECA) for the 1996-1997 biennium. The exercise is being conducted at a critical time in the process of implementing the Abuja Treaty establishing the African Economic Community (AEC).

2. This report is the result of a mission undertaken to subregional Economic Communities (RECs) in October and November 1996. The Communities visited were: the Southern Africa Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Central African States (ECCAS), the Economic and Monetary Community of Central Africa (CEMAC), the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (UEMOA). The purpose of the mission was to hold discussions, exchange views and collect information on the status of implementation of their respective integration schemes.

3. The objective of the study is to take stock of progress made by major RECs in the implementation of their respective trade liberalization and integration schemes in terms of content and timetable for implementation, successes and difficulties encountered. The study is expected to make concrete proposals in the context of the Abuja Treaty, in particular on coordination, harmonization and rationalization of frameworks and approaches, based on the experience of the RECs, to streamline future action in the process of implementing the provisions of the early phases of the Abuja Treaty. The intended consumers of the report are regional economic Communities and the Organization of African Unity (OAU), ECA and the African Development Bank (ADB) through the joint OAU/ECA/ADB secretariat, at their annual forums. The report may also be presented to other ECA and/or OAU organs as it may deem necessary.

4. Coming after the meeting of the joint OAU/ECA/ADB secretariat with Chief Executives of RECs in June 1996 in Addis Ababa, and after the First Ministerial Session of the Economic and Social Commission of the AEC, held in Abidjan from 20 to 21 November 1996, this assessment is expected to make a contribution to the ongoing discussions on the framework for cooperation and the role of each institution involved in implementation of the Abuja Treaty.

5. In fact, the assessment will not limit itself to trade aspects, since, as is now well established, there is no single economic integration arrangement in Africa which is solely based on trade liberalization. Therefore, the report will also deal with other important aspects of the integration

process such as monetary cooperation, facilitation, free movement of persons, coordination of sectoral policies and the convergence of macroeconomic policies.

6. The report is structured in two major parts, in addition to the introduction. Part one makes a comparative analysis of the main components the integration schemes and part two attempts a synthesis and makes proposals on future possible action for coordination, harmonization and rationalization, on the basis of the findings of the analysis in part one. The analysis concentrates on COMESA and ECOWAS as they cover 39 countries. Many elements are also taken from UEMOA and SADC. The situation of ECCAS and the Arab Maghreb Union (UMA) is mentioned in a separate section. Since CEMAC follows the same integration strategy as UEMOA, it was not necessary to repeat the same analysis; however, a short section points to major differences between the two francophone Communities.

7. The integration strategy promoted by ECA and OAU through the Lagos Plan of Action and the Abuja Treaty, is usually based on the following key components:

(a) trade liberalization;
(b) the creation of an expanded production base taking advantage of economies of scale;
(c) the setting up of efficient infrastructure in transport and communications; and
(d) the convergence of macroeconomic policies.

8. It should be pointed out from the outset that while most of the economic Communities are following the classical stages of integration starting with preferential trade area, through customs union, economic community to political union, UEMOA and CEMAC have based their strategies on consolidating the monetary union which has been in existence since independence by completing it with economic union .

9. For the purpose of this study, we shall limit ourselves to trade liberalization (including monetary cooperation and facilitation), convergence of macroeconomic policies, harmonization of sectoral policies, financing of cooperation and the special cases of Central and North Africa, where the integration process is facing serious problems.

I. TRADE LIBERALIZATION SCHEMES

10. In this chapter we shall review the trade liberalization process through a comparative analysis of the above-mentioned elements (para. 8).

A. Rules of origin

11. The introduction of rules of origin is common to all trade liberalization schemes. Such schemes usually aim at reducing tariff and non-tariff barriers between member States in order

to:

(a) Promote intra-subregional trade in goods and services;

(b) Ensure efficient production based on comparative advantages of member States;

(c) Create an appropriate environment for the promotion of domestic, cross-border and foreign investment;

(d) Enhance economic development, diversification and industrialization of the community. Rules of origin constitute an instrument with appropriate mechanisms to attain the objectives of the trade liberalization schemes.

12. Table 1 provides a succinct comparison of the rules of origin of four Communities: COMESA, SADC, ECOWAS, UEMOA. For AEC, elements of analysis have been extracted from article 2 of the first draft protocol on the rules of origin.

13. Rules of origin have evolved considerably over time. They normally include a minimum of three conditions related to consignment, ownership and management. In the early stages of the Preferential Trade Area (PTA), the rules stipulated that goods should qualify for preferential treatment (tariff reduction), if they were produced by enterprises which were subject to management by a majority of nationals and to at least 51 per cent of equity holding by nationals, and satisfied one of the following conditions: wholly produced, import material content, value added and substantial transformation1/

14. Products which fulfilled these conditions were included in the Common List on condition that they matched import and export interest. Over time, the matching condition was found to be restricted to intra-PTA trade and the ownership and equity-holding conditions were found difficult to fulfil. In 1992, it was decided that equity and management conditions should be deleted and, in 1993, the Common List was abolished.

1/"A Decade of economic Integration, 1982-1992", PTA Development Report, p.31.

15. The initial PTA trade liberalization scheme aimed to achieve zero tariff by year 1992. However, in 1987, in view of the economic performance of the region ~~generally~~ and the revenue implications of tariff elimination on member States ~~particularly~~, it was decided to push the zero-tariff target date back to the year 2000. The scheme now stands as follows:

1988 - 1996 : 10 per cent reduction revery two years (50 per cent)
1998 : 20 per cent
2000 : 30 per cent

Table 1. Rules of Origin
(Industrial goods)

REC	REFERENCE	CRITERIA	PREFERENCES
COMESA	Art. 48, Protocol on Rule of Origin (800 products)	(a) Wholly produced in a member State (that is, no materials from outside the Common Market have been used); or (b) Produced in the member States and the c.i.f. value of any foreign (that is, non-COMESA) materials used does not exceed 60 per cent of the total cost of all materials used in the production; (c) Produced in member States whose value added resulting from the process of production accounts for at least 45 per cent of the ex-factory cost of the goods; or (d) Particular importance to the economic development of the member States and containing not less than 25 per cent value added not withstanding the provision paragraph 6(c) above.	60 - 70 - 80 per cent (according to countries)

If possible have the Table on two page without text standing by it own

REC	REFERENCE	CRITERIA		PREFERENCES
SADC	Annex 1 of Protocol on Trade, rule 2	(a)	Wholly produced as provided for in Rule 4 of this Annex; or	Protocol not yet ratified
		(b)	Produced in the Member States wholly or partially from materials imported from outside the Member States or of undetermined origin by a process of transformation of those materials such that:	
		(i)	The c.i.f. value of those materials does not exceed 60 per cent of the total cost of the materials used in the production of the goods; or	
		(ii)	The value added resulting from the process of production accounts for a least 35 per cent of the ex-factory cost of the goods; or	
ECOWAS	Par 2, Art. 15 of Treaty, Art. II of Protocol related to (400 products) of 15 November 1976	(a)	Produced from materials of Community origin whose value is equal to or higher than 40 per cent of the total cost of the raw materials employed in their production or whose quantity is equal to or higher than 60 per cent of the total cost of all raw materials employed;	Three group of countries - over 6 years (16.6 per cent/ year)
		(b)	Produced from materials of foreign or indeterminate origin whose c.i.f. value does not exceed 60 per cent of the total cost of materials employed or whose quantity is equal to or more than 40 per cent of all raw materials employed in its manufacture;	- over 8 years (12.5 per cent/ yr)
		(c)	Have received in the process of production a value added of at least 35 per cent of the ex-factory price before tax;	- over 10 years (10 per cent/yr)
		(d)	Manufactured by enterprises in which Community nationals hold an equity share of at least 25 per cent	

REC	REFERENCE	CRITERIA	PREFERENCES
UEMOA	Acte additional N:04/96 Article 7 (170 products out of 380 from West African Economic Community (CEAO) list)	(a) Produced with new material, of community origin whose quantity is equal or higher than 60 per cent the total raw materials used (b) Produced from material imported from third countries or in which the quantity of raw material from with the community is equal or higher than 60 per cent of all raw materials used and whose value added is equal or higher than factory cost free of tab	30 per cent
AEC	Article 33 of Treaty Article 2 of Protocol on Rules of Origin	- wholly produced - value-added element	not specified
	Art. 31 - 32 of Treaty Annex IV: Protocol on Reduction and Elimination of Customs Barriers	Reference is made to the "Common List of selected goods which are of both export and import interest (art.3) to member States, classified in 6 groups for the purpose of granting references, A process of negotiation is proposed.	From 10 to 70 per cent according to the classification.

16. The ECOWAS trade liberalization scheme shows similar evolution of its rules of origin with regard to equity participation and management. The rules were first established by the Protocol of 15 November 1976, in compliance with art.15, paragraph 2 of the ECOWAS Treaty. Priority was given to industrial goods produced by Community enterprises in selected priority branches. A list of priority industries was to be established. A number of decisions taken on criteria for ECOWAS rules of origin indicate the evolution of the thinking on this issue2/.

17. Decision A/DC. 15/5/80 of May 1980, defined the level of participation of nationals of member States in the equity capital of these enterprises and set up the corresponding timeframe as follows: 28 May 1981: 20 per cent; 28 May 1983: 35 per cent; 28 May 1989: 51 per cent. Decision A/Dec. 1/5/83 of 30 May 1983 adopted a single trade liberalization scheme for industrial products originating from member States of the Community. Decision A/DC. 6/7/92 of July 1992, amended the previous decision whereby the new article 5 ~~products~~ defined the groups of countries, the period of tariff reduction and the rate of reduction as indicated in table

2/ A Compendium of Protocols, Conventions and Decisions Relating to Free Movement of Persons and Goods, ECOWAS Secretariat.

Table 2 missing

2 above, and repealed article 8. It also established a single rate of 25 per cent equity participation of nationals in community enterprises.

18. Lastly, decision A/DEC.4/7/96 of the Nineteenth Session of the Conference of Heads of State and Government held in Abuja from 26 to 27 July 1996 repealed article 2 on the criteria related to the participation of nationals in the equity capital of enterprises. Only the criteria related to the value added and raw materials used in the production process now remain.

19. The above succinct analysis points to the difficulties encountered by both COMESA and ECOWAS in implementing the provisions of the rules of origin related to ownership and equity participation in the capital of enterprises producing the goods. For the purpose of harmonizing the rules of origin in the context of the Abuja Treaty, table 1 points to certain common elements percentages between COMESA and SADC on the one hand and ECOWAS and UEMOA on the other. In addition, there is total similarity/identity on procedures with regard to the process of conferring the origin to products, the forms of the certificate itself, the declaration by the producer and the forms for verification of the origin. It should be added that ECCAS rules of origin are similar to those of PTA, but have never been given the chance to be implemented.

20. Therefore, it should be relatively easy when the opportunity occurs, to reach agreements on a subregional basis first and, later on, at continental level. The framework is provided by the recently adopted Protocol on Relations between the AEC and the RECs on the implementation of the Abuja Treaty, in November 1996.

21. However, the need for a continent-wide protocol on the rules of origin is not obvious. Should it occur, at the fifth stage, it should be based on the experience of RECs. This has not been the case so far. For example, the present zero-draft protocol (annex IV) on "Reduction and elimination of customs barriers in respect of certain goods to be traded within the Community", prepared by the joint secretariat still refers to a "Common List" of products and advocates a negotiation strategy similar to the one followed by COMESA and ECOWAS more than a decade ago!

22. The above analysis has shown how these instruments (common list, ownership and management have revealed themselves to be counter-productive and cumbersome to implement. Actually, the levels of ownership and participation in management should be considered as structural factors causing the low level of industrial development and managerial capability throughout the continent, a situation which a simple decision by any one Authority cannot change. Hence, the urgent need for capacity-building in the RECs and member States alike.

B. <u>Non-tariffs barriers (NTBs)</u>

23. Rules of origin deal usually - if not exclusively - with tariff barriers. The removal of non-tariff barriers in usually left to the discretion of member States within an agreed timespan.

24. Article 2 of decision C/DEC. 4/5/82 by the ECOWAS Council of Ministers of May 1982 distinguished three categories of NTBs which member states were called upon to eliminate: direct, indirect and of equivalent effect3/.

1. **Direct or legal NTBs**:

(a) Absolute or relative prohibitions;

(b) Quantitative restrictions: licensing, global or country quota for imports, import quota linked with export performance or the purchase of products of local origin and seasonal restrictions on imports;

(c) Foreign exchange restrictions: licenses, visas for imports, advance deposits, minimum cash margins, multiple exchange rates for different categories of imports, and different import and export rates;

(d) Customs valuation (such as mercurial value of increasing the relative import/export price)

2. **Administrative or indirect NTBs**

These include surveillance licensing, quantitative restrictions and prior or special authorization.

3. **Other NTBs measures and practices of equivalent effect**

These include standards and technical regulations, price and quality control and sanitary considerations.

25. In addition to a given period of time, other preconditions may be considered by member States in the removal of NTBs. For example, article 3 of the ECOWAS decision referred to above states, in paragraph 1 that: "Without prejudice to the provision of article 2 of this decision, the elimination of non-tariff barriers referred to in article 2, paragraph A.2 above shall be carried out after the problems of monetary cooperation and convertibility of currencies within the Community would have been solved". As we shall see later in this report, limited convertibility of currencies is expected to occur during the 1997-2000 period, if activities are scheduled according to the ECOWAS Monetary Cooperation Programme, which means 18 years from the time the decision was taken.

3/ECOWAS Compendium of Protocols, Conventions etc., op.cit. p.122.

26. Non-tariff barriers are supposed to be of a temporary nature. However experience shows that, because of their budgetary implications in terms of revenue, member States may be reluctant to do away with them. The Central African Customs and Economic Union (UDEAC) is known to have introduced the "taxe complémentaire" (complementary tax) the purpose of which is to compensate for losses resulting from the liberalization scheme. Over time, the tax has been consolidated in the normal tax structure of some member States. Instead of being temporary, it became part of the tax system thus contributing to failure of the UDEAC integration scheme. Therefore, NTBs deserve as much attention as tariff barriers in the success (or failure) of trade liberalization schemes.

C. **Facilitation**

27. Facilitation usually refers to a set of practical measures aimed at facilitating trade among partners. It emphasizes simplification and harmonization of documents, customs procedures and the adoption of a number of common instruments. In addition, institutions (including forums) established to promote trade capacity-building, will be mentioned here.

28. The attached table shows that a great deal has been done in the area of harmonization of trade , customs and information documents. Much has also been done in the area of institution building in terms of clearing houses, development banks, information networks, etc...

29. Facilitation is an area enabled by the degree of harmonization already incorporated in the instruments to be used, since most of the documents are derived from international institutions such as United Nations Conference on Trade and Development (UNCTAD), International Trade Centre (ITC), the Council for Customs Cooperation, etc.

D. **Free movement of persons**

30. Free movement of persons is a long-term objective in most trade liberalization and/or integration schemes, because of the reluctance and suspicion attached to free movement of persons.

31. The SADC Protocol on "combating illicit drug trafficking", which was signed on 24 August 1996 in Maseru, provides in its preamble, a number of reasons underlying such suspicion and fear:

> *"Aware that the Region is being increasingly used as a conduit for illicit drugs destined for international markets and that illicit drug trafficking generates large financial gains and wealth enabling transnational criminals and organizations to penetrate, contaminate and corrupt the structures of governments, legitimate commercial and financial business and society at all levels".*

32. In fact, the Protocol is a result of the "Berlin Initiative" launched in August 1994 between SADC and the European Union, which covers four areas: political dialogue, drug trafficking, land mines clearance and regional integration. Influx of refugees from neighbouring countries is another reason for fear or suspicion of the free movement of persons.

33. In COMESA, adoption of a common visa arrangement is seen as the first step leading eventually to free movement of persons, including right of establishment.

34. West Africa is the region where most progress has been made in this area. The ECOWAS Treaty made provision in articles 2 and 27 for abolition of obstacles to free movement of persons, services and capital, as one of its long-term objectives. Protocol A/P 1/5/79 of May 1979, in its article 3 defined, the phases for accomplishment of complete freedom of movement and right of establishment:

(a) phase one; right of entry and abolition of visa;
(b) phase two: right of residence;
(c) phase three: right of establishment.

35. In the subsequent amendments or additional protocols, community citizenship has been defined and provisions have been made for protection of properties, roles and obligations of member states, travel documents, procedures etc...

36. In view of the little progress made so far, the Heads of State and Government, meeting in Dakar, in July 1992, took decision A/DEC.5/7/92 instituting a minimal programme of action aimed at accelerating implementation of various decisions taken in the past, on free movement of persons and goods. The programme emphasizes improvement of transit procedures at frontiers by issuing ECOWAS travel documents and implementation of payment agreements with use of national currencies in intra-community transactions, including payment for air tickets.

37. Under this programme, each member State is requested to present an annual progress report on programme implementation. In addition, an evaluation committee composed of representatives of the Federation of Chambers of Commerce, the Union of Carriers and the Association of Tourism Operators was established.

38. In conclusion, it could be said that although it is a priority for all subregional Communities, the implementation of treaty provisions on free movement of persons is not an easy task and still has a long way to go.

TABLE 2.Facilitation and Capacity Building

Title	COMESA	ECOWAS
(a) **Documentation services**		
• Road Customs Transit Declaration (RCTD)	Y	Y
• Regional Customs Bond Guarantee Scheme	Y	Y
• Automated System of Customs Data	Y	Y
(ASYCUDA)	Y	Y
• Trade Information Network	Y	Y
• Travellers' cheques	Y	Y
• Advance Cargo Information System	Y	Y
• Third Party Motor Vehicle Insurance Scheme	Y	Y
• Yellow Card Re-insurance Document (SGD)	Y	Y
• Single Goods Declaration Document (SGP)	Y	Y
(b) **Capacity-building (institutions)**		
• Clearing House	Y	Y
• Development Bank (Fund)	Y	Y
• Federation of Chambers of Commerce and Industry	Y	Y
• Business organizations	Y	N.A.
• Re-insurance Company	Y	N.A.
• Charter for Multinational Industrial Enterprises	Y	Y
• Centre for Commercial Arbitration	Y	N.A.
• Technology Centre	Y	N.A.
(c) **Forums**		
• Investors' forums	Y	Y
• Trade fairs	Y	Y
• Buyers and Sellers meetings	Y	N.A.
• Technology Market Forum (Techmart)	Y	N.A.

II. MONETARY COOPERATION

39. With the exception of the 14 CFA Franc Zone countries forming UEMOA and CEMAC, all other countries have their own national currencies, most of them inconvertible. During the last two decades, member States have been implementing exchange rate, fiscal and monetary policies, under structural adjustment programmes (SAPs) at national level, with little attention to subregional or regional dimensions.

40. During the debate which preceded devaluation of the CFA franc, one central issue was the number of devaluations that there should be. Because, despite enjoying a single currency, member States were adopting individual, uncoordinated macroeconomic policies at national level. In the end, the principle of solidarity prevailed, but the debate has pointed to the imperative need to coordinate and harmonize closely the macroeconomic policies of member States. This constitutes the most important element of the new integration strategy of the CFA Franc Zone. It has also captured the attention of both COMESA and ECOWAS in recent years as trade liberalization and facilitation have not brought the desired increase in intra-subregional trade.

41. In this chapter we shall examine firstly, the programmes for monetary cooperation and harmonization of COMESA and ECOWAS and secondly, the programme of "macroeconomic convergence" of UEMOA and CEMAC in their conceptual, institutional and implementation aspects.

A. COMESA Harmonization Programme

42. The COMESA Monetary Harmonization Programme4/ is the result of the decision of the PTA Authority at its Summit of November 1990 in Mbabane, following a study commissioned by the PTA Council of Ministers in 1988, on the feasibility of establishing a monetary union for the Eastern and Southern African subregion. The programme objectives are:

(a) To enhance existing payment mechanisms that: the Clearing House and the use of PTA Traveller's Cheques, which will lead to the establishment of a Payment Union;

(b) The establishment of a limited currency convertibility and the formation of an exchange rate union; and

(c) The creation of a monetary union involving one common currency issued by one common central bank. The various stages leading to the attainment of the objectives are indicated in table 3.

4/PTA Development Report, op.cit., paras.164-183.

43. The policy areas covered by the programme are exchange rate policy, fiscal policy, monetary policy and overall macroeconomic policy. An evaluation 5/ of the programme undertaken by ECA in September/October 1995 has concluded that progress achieved in the implementation of the programme is much more a result of implementation of structural adjustment programme at national level than that of the harmonization programme as such. The following were identified as main problems encountered by member States in their endeavour to implement the programme:

(a) lack of measurable targets to be achieved;

(b) Competing economic programmes in member States;

(c) Avoidance of the immediate cost of regional integration by member States, in the face of budgetary and balance-of-payment constraints;

(d) Absence of a regional dimension in SAPs;

(e) Lack of resources at the COMESA secretariat for monitoring the programme;

(f) Competing groups of interest in COMESA.

44. In the face of this situation, the evaluation team had to set up its own indicators against which to measure the progress made in the harmonization programme implementation. The result of the assessment can be summarized as follows:

1. Exchange rate policy and removal of exchange restrictions

(a) **Towards market-determined exchange rate**

(i) 14 countries have achieved market-determined exchange rates and/or are already in a monetary zone in Africa;

(ii) 7 countries have adopted a managed, floating exchange rate system and/or a composite currency basket;

(iii) 2 countries are still on a single currency peg.

5/ Review Study of the Implementation of the Common Market for Eastern and Southern Africa, COMESA Monetary Harmonization Programme, volume I: Main Report. The Section on COMESA relies heavily on Parts IV and V of this Report, pp.41-59.

(b) **Removal of exchange restrictions**

(i) 4 countries have fully liberalized their international transactions on both current and capital account;

(ii) 11 countries have liberalized their current account transactions, but retained restrictions on capital account;

(iii) 8 countries have restrictions on both current and capital account.

2. Convergence in fiscal policies

(a) **Government budget deficit/surplus to GDP ratio**

(i) 7 countries with an average deficit ratio below 5 per cent; 10
(ii) 5 countries with a budget deficit between 5 and per cent;
(iii) 7 countries with an average budget deficit of over 20 per cent;
(iv) 4 countries not evaluated for a number of reasons, including the absence of data.

(b) **Domestic borrowing by government**

Average net government borrowing as percentage of total domestic credit:

(i) 7 countries with less than 30 per cent;
(ii) 6 countries between 30 and 50 per cent;
(iii) 6 countries above 50 per cent;
(iv) 3 countries not evaluated.

(c) **External debt servicing**

Debt servicing ratios:

(i) less than 20 per cent: 5 countries;
(ii) between 20 and 30 per cent: 3 countries;
(iii) over 30 per cent: 10 countries;
(iv) 5 countries not evaluated.

3. Convergence of monetary situation

45. Preference is given to the use of indirect instruments such as reserve requirements, cash ratio, open market, over direct instruments such as credit ceilings, administratively fixed interest rates. It is important to check that money supply rates are not too high (above 10 per cent).

(a) <u>Use of monetary instruments</u>

(i) 7 countries using indirect monetary instruments;
(ii) 4 countries using a combination of indirect and direct instruments;
(iii) 3 countries using direct instruments;
(iv) 9 countries not evaluated for various reasons.

(b) <u>Interest rate policy</u>

(i) 9 countries with market-determined interest rates;
(ii) 2 countries with a combination of market and central bank fixing interest rates;
(iii) 3 countries with interest rates fixed by central bank;
(iv) 9 countries not evaluated.

(c) <u>Annual growth rate of broad money supply</u>

(i) 2 countries with growth rates below 10 per cent;
(ii) 5 countries with growth rates between 10 and 20 per cent;
(iii) 10 countries with growth rates above 20 per cent;
(iv) 6 countries not evaluated.

4. Overall macro-economic stability of COMESA countries

46. In addition to the above indicators, three additional indicators are examined here in order to assess the overall macroeconomic stability namely, GDP growth, inflation and debt exposure:

(a) <u>GDP growth</u>

(i) 3 countries with an average growth rate above 5 per cent;
(ii) 13 countries with growth rate between 0 and 5 per cent;
(iii) 3 countries with negative growth rate;
(iv) 4 countries not evaluated for various reasons.

(b) <u>Rate of inflation</u>

(i) 8 countries with single digit inflation;
(ii) 7 countries with inflation rates between 10 and 20 per cent;
(iii) 6 countries with average inflation rate above 20 per cent;
(iv) 4 countries not evaluated.

(c) <u>Debt/GDP ratio</u>

(i) 11 countries with average ratio below 100 per cent;

(ii) 4 countries with average ratio between 100 and 150 per cent;
(iii) 6 countries with average ratio above 150 per cent;
(iv) 2 countries not evaluated.

47. on the role of the Clearing House and the use of COMESA Traveller's cheques, the report noted that, as a result of generalized liberalization programmes, there has been a sharp decline in the use of the Clearing House and the COMESA Travellers Cheques. Paragraph 82 of the study summarises the situation:

> *"The decline in the use of CCH coincided with the implementation of donor-funded economic reform programmes which include, inter-alia, the liberalization of trade and foreign exchange control in a number of COMESA countries. With liberalization, the monetary authorities could no longer direct importers and exporters to use the clearing house nor force travellers within the region to use COMESA Travellers Cheques (popularly known as UAPTATCs). Economic liberalization also brought about introduction of the policy of retention of exports proceeds and allowing the holding of external accounts and maintenance of domestic foreign currency accounts by exporters. By establishing this scheme, export receipts in many COMESA countries are no longer surrendered in full to the Central Banks. Instead, they are being retained in personal and/or corporate accounts in the inter-bank markets from where exporters source their foreign exchange requirements for paying foreign and regional suppliers directly without licensing restrictions, at current market rates. Exporters who use the CCH facility receive payment in local currency and are not eligible to participate in the Export retention Scheme. While this development has increased the role of normal commercial banking, it has, to a large extent, limited the role of the clearing house in intra-COMESA payments arrangements".*

48. The ECA evaluation concluded that, over the 5 years since the launching of the programme, 16 countries out of 23 could be said to have implemented the programme. The 7 remaining countries, namely Comoros, Eritrea, Madagascar, Namibia, Seychelles, Sudan and Zaire,joined COMESA after the programme was adopted and therefore did not have enough time to implement it.

49. The recommendation of the reports that the programme should be redesigned to fit two different groups of countries. The group of countries that have implemented the first phase according to indicators analysed above should fell free to embark upon the second phase. For the majority of countries, the first phase should be redesigned and extended for four years, with a minimum programme including the following indicators:

(a) Free floating currencies;

(b) Full liberalization of exchange controls by acceding to article 8, sections 2, 3 and 4 of the IMF Agreement;

(c) Budget deficit as percentage of GDP under 10 per cent;

(d) Central Bank financing of central government budget deficit not more than 20 per cent of previous year's tax revenue;

(e) Use of indirect monetary policy instruments;

(f) Full liberalization of interest rates and progressive move to make them positive in real terms;

(g) Annual growth rates of money supply below 10 per cent;

(h) Debt service rate less than 20 per cent;

(i) Single digit rate of inflation.

B. ECOWAS Monetary Cooperation Programme

50. The ECOWAS Monetary Cooperation Programme (MCP)6/ was launched in 1991 with two main objectives:

(a) achieve regional currency convertibility in the short-term; and

(b) establish a single monetary zone in the long-term.

The various steps of the programme are shown in table 3.

51. On the institutional front, the West African Clearing House (WACH) has been transformed into the West African Monetary ~~Agreement~~ Agency (WAMA) with the main task of:

(a) Ensuring implementation of ECOWAS monetary cooperation programme;

(b) Promoting use of market-determined exchange rates in intra-community transactions;

(c) Initiating policies and programmes aimed at facilitating economic and monetary integration;

(d) Establishing a Credit and Guarantee Fund;

(e) Introducing ECOWAS travellers cheques.

6/ECOWAS Monetary Cooperation Programme, ECOWAS Secretariat

52. Evaluation of programme implementation is made twice a year at the sessions of the Committee of Governors of Central Banks.

1. Short-term measures

53. The short-term programme of action includes settlement of WACH arrears since its transformation into WAMA, introduction of travellers cheques, establishment of the Credit Guarantee Fund, ratification by member States of the Protocol on WAMA and removal of monetary non-tariff barriers (exchange rate, interest rates). The latest assessment of July 1996, gives the following picture:

(a) Settlement of arrears in WACH

54. The position of arrears stood at UA 15 million in May 1996; the three central banks concerned have been invited to settle these arrears.

(b) Introduction of Travellers cheques

55. A Study Group of experts has been set up to study the matter; the group has visited COMESA Secretariat in order to learn from COMESA'S experience with Travellers cheques.

(c) Introduction of the Credit Guarantee Fund

56. Rules and regulations governing the Fund have been drawn up. The next step requires the definition of management prudential ratios before the study is submitted to the Committee of Central Bank Governors for decision.

Articles of the Agreement on
Agency

(d) Ratification of West African Monetary ~~Agreement~~ (WAMA)

57. The ratification has been completed and WAMA came into existence in March 1996, after signature by the Governors of Articles of the Agreement on WAMA. With the exception of three countries all have removed monetary non-tariff barriers.

2. Medium and long-term measures

58. Measures to be completed during the 1994-2000 period, include the following:

(a) Alignment and harmonization of exchange rates;

(b) Adoption of an ECOWAS exchange rate mechanism with a central parity and margin fluctuation;

(c) Liberalization of exchange controls;

(d) Maintenance of fiscal discipline; and

59. A number of indicators have been identified in order to assess the performance of member States in implementing the measures:

(a) <u>Exchange rate adjustment and harmonization</u>

60. Steady progress has been made by member States. The terms of reference of a study to be conducted by the secretariat on the setting up of a central parity and margin of fluctuation within an agreed band have been considered and adopted by the Committee of Governors. However, member States' attention was drawn to two disturbing trends, (a) lack of stability and continuous large depreciation of some currencies in foreign exchange markets, and (b) the officials maintenance of artificial exchange rates in one country.

(b) <u>Exchange control liberalization</u>

61. Four countries outside the Central Bank of West African States (BCEAO)) UEMOA have now acceded to article 8 of the IMF Agreement. A great deal remains to be done in this area for the other 5 countries.

(c) <u>Fiscal discipline</u>

62. The main indicator is to maintain a common ceiling on central bank lending to government of 10 to 20 per cent of the previous year's fiscal receipt. However, many countries have a deficit/GDP ratio above 10 per cent, which is an indication of the seriousness of the problem. On the issue of adoption of the calendar year as a fiscal year, almost all countries with the exception of one, have taken this measure.

(d) <u>Market-oriented monetary management</u>

63. Most countries have their interest rates determined by the market, also some big economies in the subregion have not yet reached a single digit inflation. The use of indirect instruments is being pursued within the framework of structural adjustment programmes at national level.

64. In conclusion steady progress is being made for the implementation of the ECOWAS monetary cooperation programme.

Change page for table 3

Table:3 Monetary Cooperation Harmonization Programmes

COMESA	ECOWAS
I. 1992 - 1996	I. 1987 - 2000
1. Consolidation of payment mechanism by full utilization of Clearing House. Full utilization of UAPTA travellers cheques	1. Transformation of WACH into a specialized monetary agency of ECOWAS
2. Study on establishment of a payment union	2. Clearing of outstanding payment arrears under WACH system
3. Use of equilibrium exchange rates	3. Introduction of new payment instruments through WACH bills of exchange through clearing system
4. Reduction of central bank credit to government and money supply growth	4. Removal of non-tariff barriers of monetary nature
5. Reduction of fiscal deficit	5. Extension of range of eligible products and other materials channelled through the clearing system
II. 1997 - 2000	6. Adjustment of exchange rates to equilibrium
6. Establishment of limited currency convertibility	7. Adoption of ECOWAS exchange rates system based on markets
III. 2000 - 2020	8. Adoption of common central bank credit ceiling of 20 per cent to government, based on prior year receipts
7. Formation of formal exchange rate union	9. Adoption of market-oriented approach to monetary policy
8. Creation of a common monetary authority	10. Adoption of the calendar year as the fiscal year
9. Immutably fixing of exchange rate	11. Achievement of regional currency convertibility
10. Full convertibility of intra-community transactions	12. Achievement of a single monetary zone
11. Coordination of monetary and fiscal policies	
IV. 2020+	
12. Full monetary union involving one common currency issued by one common central bank.	

Sources:

- Page 61 - PTA Development
  Report 1982 - 1992, p. 61; and
- ECOWAS - Progress Report on Implementation of MCP

C. UEMOA Convergence Policy

1. Overview of the UEMOA integration strategy7/

65. The Treaty establishing the UEMOA was signed in January 1994 and entered into force after its ratification by member States in August 1994. Article 4 of the Treaty spelt out the objectives of the new community which can be summarised as follows:

(a) Strengthening the competitiveness of economies within an open, competitive market and harmonized legal framework;

(b) Ensure convergence of performance and macroeconomic policies by establishing procedures for multilateral surveillance;

(c) Create a common market based on free movement of people, goods, services, capital, the right of establishment and a common external tariff;

(d) Ensure coordination of national sectoral policies and develop common policies in the areas of human resources, territorial development, transport and communication, environment, energy, industry and mining; and

(e) Harmonize, for the smooth functioning of the common market, member States' legislation, especially, fiscal legislation.

66. The main characteristics which make UEMOA's integration strategy different from others are:

(a) The strategy is anchored on monetary integration with member States enjoying a single currency issued by a common central bank (BCEAO).

(b) The establishment of supra-state and supra-national-mechanisms.

67. Therefore, in accordance with the principle of "subsidiarity", member States agreed to accede their sovereignty to community organs in a number of areas. The principle of subsidiarity implies that actions which can be better performed at the community level than by individual member States, should be left to the competence of community institutions, which are the Summit of Heads of State and Government, the Council of Ministers, the Court of Justice and the Secretariat of the Commission. These organs have the legal power to take decisions which apply to member States. Furthermore, disciplinary measures can be taken against a member State which does not comply with such decisions.

7/"UEMOA: Réussir Ensemble l'Intégration, La Commission, Traité et Acte Additionnel", Dossier UEMOA, BCEAO, Dakar, Decembre

68. This principle will apply mostly in the following areas, in addition to the traditional monetary policy:

(a) Convergence of macroeconomic policies;
(b) Common sectoral policies; and
(c) Harmonization of laws and legislations.

69. In the following section, we shall examine how the convergence of macroeconomic policies is defined and organized as it has a strong bearing on COMESA and ECOWAS integration schemes in the area of monetary cooperation just examined.

2. Convergence of macroeconomic policies

(a) Areas of convergence

70. The harmonization of macroeconomic policies is dictated by the need to avoid excessive disparities between member states belonging to the same monetary union. The main policy areas of convergence are summarized below in table 4:

Table:4 Areas of convergence of macroeconomic policies

Policy areas	Areas of harmonization
Legal framework	Business laws and practices, covering, *inter-alia*, statutes governing enterprises and trading, transport, competition and arbitration aspects
Public finance	Legal framework Concepts and tools related to public finance and budget
Fiscal policy	Harmonization of indirect taxation . Value-added tax . Excise tax . Tax on petrol products
Budget and debt	Coherence between budgetary and monetary policies of member states; Harmonization of indebtedness policies and debt management
Overall economic policy	Harmonization of main economic policies and related indicators in respect of . GDP growth . Income distribution . Balance of payments . International competitiveness
Price and statistics	Harmonization of statistical concepts and tools in order to facilitate comparison of price indexes and the management of public finance and debt

(b) <u>Indicators of convergence</u>

71. The legal and statistical frameworks can be considered as, supportive of other policy areas. Indicators adopted by UEMOA are of two types namely, performance indicators and analytical indicators. Performance indicators can be global, that is related to the community as a whole, or can be national.

72. Performance indicators are intended to assess the degree of attainment of the main objectives of the economic policy, while analytic indicators help to assess the global economic trends and how they affect the attainment of objectives. They also help in taking appropriate measures to redress the negative impact of the global trends on common policy.

73. We shall address here fiscal policy, budget policy and debt and debt management policy in relation to budget:

(i) <u>Harmonization of indirect taxation</u>

74. Harmonization in this field will target three main sectors: valued added tax (VAT), excise tax and taxation of petroleum products. It must be looked at in the perspective of establishing a common external tariff (CET), which is one of the main objectives of the community. The immediate objectives of harmonization are :

- Strengthening the Customs Union and accelerating expansion of intra-community trade;
- Ensuring equal and fair treatment to all economic agents;
- Enhancing production and investment through efficient allocation of resources and investment.

75. The guidelines for harmonization are:

- For VAT: enlargement of the tax base and reduction of the number of rates;
- For excise taxes: establishment of a common list encompassing alcohol, tobacco; suppression of "specific" taxation and generalization of "ad valorem" taxation; and
- For petroleum products: simplification of taxation

(ii) <u>Convergence of budgetary policies</u>

76. Five indicators have been retained in this area. The target corresponds to the average of the best performing economy in the Community for the 1980-1992 period. The indicators are:

- The ratio of aggregate salary to the previous year's fiscal revenue cannot exceed 50 per cent;

- The net change in domestic arrears is zero or total settlement of arrears with accruing of further arrears prohibited;

- The net change of foreign arrears is nil or total settlement of arrears with accruing of further arrears prohibited;

- The ratio of public investments financed by domestic resources is equal to, or above 20 per cent of fiscal revenue of previous year; and

- The balance of current budget must represent at least 15 per cent of fiscal revenue.

(iii) **Guidelines for harmonization of debt management**

77. They are as follows:

Structures in charge of debt management at country level must:

- Be associated in the process of debt creating (negotiations);

- Extend their area of competence to domestic debt;

- Reduce or give up expensive debt in favour of concessionary loans or grants;

- Convert floating debt such as arrears into contractual ones; and

- Merge negotiating and management functions into the same structure.

(c) **Institutional structure: multilateral surveillance**

78. In order to ensure that individual member States comply with measures decided collectively, overseeing provisions have been built into the Treaty (articles 64-75). To this effect, a Council of Convergence has been established. It is composed of:

- Ministers of Finance and Budget;

- Governor of the Central Bank (BCEAO); and

- The Secretariat (Commission) of the Community.

79. Prior to devaluation of the CFA franc, the Council's attention was mainly directed to the monetary and budget indicators. Since then, the scope has been extended to other economic indicators. In addition, the national structure has been expanded, to include national directorates for the treasury, taxation, customs, budget, debt management, external

trade, economy, forecasting, planning, the branch of the Central Bank (BCEAO), and the institute of statistics.

80. If a member State faces economic and financial difficulties due to exceptional events, the Council of Ministers may decide to exempt that country from meeting the indicators of convergence for a maximum period of six months. After this period, the Secretariat submits a report on the situation of the country, with proposals on measures to be taken by the country to redress the situation. The member State concerned prepares, with the assistance of the Secretariat, a programme of action to redress the situation. If the programme is acceptable to the Council of Ministers, the country will benefit from all the financial resources of the Community for implementing its programme; if not, the country will suffer from sanctions including suspension of access to the financial resources of the Community.

D. Conclusions

81. After decades of trade liberalization and facilitation measures which had little result on the trade development, emphasis has clearly been shifted to collective discipline in the management of national economies, as a precondition for meaningful success with integration. The SAPs at country level seem to have played an essential role in increasing the awareness of member States to needed discipline in monetary, fiscal and budgetary policies. The adoption of similar performance indicators is a good trend which will facilitate harmonization and rationalization between big and smaller Communities, within the framework of accepted "variable geometry" as we shall see in the next chapter.

82. However, it should be pointed out that liberalization programmes under SAPs do not take regional dimensions into account . In particular, it should be said these programmes have weakened the clearing and payment mechanisms by substituting new schemes whereby commercial (and multinational) banks play a greater role in determining national monetary policies than do national banks.

83. The UEMOA and CEMAC are at a more advanced stage of integration than other communities. Under their schemes, member States renounce their sovereignty in key areas of interest to the Community and equip community organs (Council of Ministers, Court of Justice, Secretariat) with the required power to enforce community decision on member States. At the national level, an institutional framework has been established composed of key Directorates in charge of economic, monetary, financial, customs, budget, statistics and information areas, to ensure the compliance of member States with common policies. This is no doubt the right path and model for others to follow.

III. HARMONIZATION OF SECTORAL POLICIES

84. In most cases, the integration process has started at the sectoral level. SADC is the best example, although results in some sectors have been far below expectations. For instance, in transport and communications, SADC's achievement is enormous. Similarly, the CEPGL experience was based on development of energy resources. In most cases the sectoral approach yields more concrete results than the traditional global approach.

85. Programmes of continental magnitude have also laid the ground for harmonization of sectoral policies at subregional level. The United Nations Transport and Communications Decades and the Industrial Decades have played a major role in this direction. More recently, the United Nations Environment Programme (UNEP) has added a new dimension.

86. In each subregion, coordination and harmonization have already started between existing RECs, in the development of key sectors of transport and communications, energy, mining, industry, environment, and related human resources.

87. The most exhaustive approach on this issue is the SADC's, which includes eleven sectors, each of them coordinated by a member State (see paragraph 164). As could be expected, some countries have performed better than others, but the approach is "democratic" in that it provides everyone with the chance to take responsibility and make a contribution.

IV. FINANCING OF INTEGRATION

A. Traditional approach

88. The traditional financing of integration activities by assessed contributions from member states has proved, over the years, to be very disappointing in many respects. This is because, for a variety of reasons, member States facing financial hardship at home, have been less able to meet their financial obligations vis-a-vis subregional economic communities and IGOs.

89. This has created many problems for them in discharging their mandated obligations. To give 2 examples, in spite of great achievements in capacity building for trade promotion and integration in Southern and Eastern Africa, COMESA has been faced with financial problems, to such an extent that payment of staff salaries was delayed on several occasions. ECCAS has almost collapsed because of financial difficulties.

B. SADC's experience with funds mobilization

90. The only successful story in mobilization of resources to fund integration activities is SADC's experience. The SADC's success with resources mobilization is due to the fact that, over the years, it has developed a special relationship with the donor community, especially with the European Union and the Nordic countries, through its annual Consultative Conference with partners.8/

91. Thanks to the commitment of member States to regional cooperation, SADC has been effective in tapping the resources of the Regional Indicative Programme (RIP) under the Lome Convention, ECU141 million under Lome III and ECU121 million under Lome IV, for the agreed regional priority sectors of transport and communications (35 per cent), food security, agriculture, natural resources (20 per cent), and human resources development (15 per cent), trade and investment (10 per cent), SADC programme of action (20 per cent), and secretariat support (2 per cent). However, in spite of this high level commitment, the 9.4 per cent disbursement rate has been rather disappointing. This reflects an unsatisfactory absorbtion capacity (poorly prepared projects submitted, lack on managerial capacity, etc...).

92. SADC member States are also involved in a number of initiatives. The Nordic/SADC Initiative was launched in 1986, and its framework was recently reviewed. The thrust is on trade and investment, and under this Initiative, a Nordic/SADC Fund was established in 1990, with an initial capital of US$29 million. A Nordic/SADC Trade Advisory Group has also been established. The Initiative constitutes an appropriate framework for the promotion of investments and related technical assistance.

8/Record of the Council of Ministers held in Johannesburg, Republic of South Africa, 28-29 January 1996, SADC/EC Cooperation, note from the Secretariat, p.213.

93. SADC member States have also developed other bilateral frameworks of cooperation such as the Memoranda of Understanding between SADC and the United States of America, Belgium and Spain respectively which constitute good opportunities for channelling external resources to the Community. The SADC example should serve as a model to other RECs in their search for financial resources.

C. New developments

94. UEMOA has introduced another innovation. The principle of financial autonomy is enshrined in the new Community, in article 48 of the Treaty which stipulates that "the Union should be endowed with autonomous resources to ensure smooth financing of its functioning". During the transitional phase of setting up the mechanism, ~~called~~ the costs of integration activities will shared between the Central Bank (BCEAO) and the Development Bank (BOAD) be ~~in the~~ proportion of 90 to 10 per cent, respectively.

95. At the end of the transitional period of 3 years (July 1996- July 1999), community resources will be derived from:

(a) A "Community Solidarity Levy" (Prélevement communautaire de solitarite (PCS), which is equivalent to 0.5 per cent of the customs value of consumer goods imported from third countries into the Community, with the exception of a few strategic goods such as petroleum products;

(b) A fraction (to be determined later) of the resources from the common external tariff (CET) and indirect taxes, as provided for by article 54 of the Union;

(c) Community Value-added Tax (VAT); once introduced, it will serve as a substitute for indirect taxes referred to above;

(d) Additional taxes that may be deemed necessary by the Union;

(e) Loans, grants and any other external aids compatible with the objectives of the Union.

96. Similarly, in compliance with article 72 of the ECOWAS Treaty which introduced a Community Levy to generate revenue for financing the activities of the community, a protocol was prepared in 1995.9/ According to article 6 of the Protocol, the Community Tax should be levied on the basis of:

(a) The c.i.f value at the port of disembarkation for imports arriving by sea;

(b) The c.i.f value at the point of entry into the community's customs territory in case of imports arriving by road;

9/Draft Protocol on Conditions Governing the Community Levy

(c) The customs value at the airport of disembarkation for imports arriving by air;

(d) The market value for products featuring on the market price list.

97. The National Customs Administrations of member States are responsible for assessment and recovery of the Community Levy. Allocation of the amounts collected as Community Levy is given in article 11 of the Protocol as follows:

(a) The ordinary budgets of the Community and its institutions, with the exception of the Fund for Cooperation, Compensation and Development;

(b) The compensation budget for loss of revenue arising from trade liberalization:

(c) Any other uses as may be decided by the Authority of Heads of State and Government or the Council, including any increases of the capital of the ECOWAS Fund.

98. Any surplus recorded on the community levy pursuant to authorized expenditures for a financial year shall be carried over into the accounts of the Executive Secretariat (art.13). Provisions have been made in article 14, on how to offset any deficit that may occur, by using the surplus of the previous year, if any. When deficits cannot be offset from the surplus carried over, they must be reversed by either of the following methods:

(a) By deferring execution of certain activities which may be postponed or for which alternative funding may be obtained;

(b) By requesting additional funds from member States. The deficit is then spread between the different budgets according to their respective share of the entire budget. The additional contribution from member States will be determined on the basis of the different contribution quotas applied for the community budget.

99. Where a deficit or surplus over three consecutive budget years exceeds 25 per cent of total vote, the Council of Ministers shall effect the necessary adjustments either by widening the tax base or, where there is a deficit, by raising the rate of the community levy or, by reducing the rate in case of a surplus.

100. The community levy has been instituted for an initial period of three years after which the Secretariat is expected to present an evaluation which will serve as the basis on which the Council of Ministers will determine the necessary arrangements to ensure a smooth passage to the substantive regime (art. 23 of protocol).

101. The introduction of the Community levy in West Africa is certainly a positive development in the search for the best solution for ensuring sufficient, regular and sustainable resources to finance integration activities. Although it is still too early to have an evaluation, the mechanism is attractive enough to have been adopted also by UDEAC/CEMAC in Central Africa.

102. It is hoped that COMESA, SADC, the Inter-Governmental Agency for Development (IGAD), UMA and other smaller Communities will consider the possibility of introducing the mechanism in their own integration schemes. The allocation of money collected through the Community Levy seems to be limited to the community institutions only. Obviously, there is need to see to what extent the levy can also cover the needs of ECA-sponsored institutions which have an important role to play in building capacity for African development and integration.

V. SPECIAL CASES OF CENTRAL AND NORTH AFRICA

103. The situation in Central and North Africa has been of great concern to the OAU/AEC secretariat and to the joint OAU/ECA/ADB secretariat, because implementation of the Abuja Treaty depends mainly on the RECs.

A. Central Africa

104. After an encouraging start, ECCAS has been facing financial problems which have hampered its activities for the last three years. In the meantime, Zaire has joined Rwanda and Burundi in COMESA and UDEAC is actively engaged in design and implementation of the new strategy for CEMAC. Let us recall briefly how ECCAS has reached such a desperate stage.

1. ECCAS: The chronology of an agony

105. The Treaty establishing ECCAS was signed on 18 October 1983, after two years of intense negotiations, following the Libreville Declaration of December 1981. The first years of the organization were devoted to setting up the secretariat based in Libreville, and other institutions such as the Intergovernmental Committee of Experts and the Sectoral Technical Committees.

106. During these years, ECA provided continuous assistance to ECCAS in many respects: institutional support, organization of meetings, workshops and preparation of technical studies. Most of the assistance was channelled through the UNDP-financed and ECA-executed project entitled "Multisectoral Assistance to ECCAS, RAF/88/049". The main objective of the project was to assist ECCAS to strengthen its institutional, technical and managerial base, by conducting studies with a view to:

(a) Setting up a subregional transport and communications infrastructure in order to facilitate free movement of goods, services and persons;

(b) Creating a subregional production system based on complementarities and economies of scale;

(c) Integrating national markets into a single subregional market and harmonizing customs and fiscal instruments; (from the inception of the project in 1989 to its termination in 1993, over 50 technical studies were prepared).

(d) Strengthening the secretariat to enhance its capacity as an efficient and dynamic instrument for promoting economic cooperation and integration in Central Africa.

To this end, an in-depth evaluation (Management Audit) of the structures and activities of ECCAS was undertaken in 1992.

107. The evaluation made concrete proposals including:

(a) A new organizational structure for the secretariat;

(b) A different approach to the preparation and implementation of programmes;

(c) A new method for member States to contribute to the budget of the secretariat.

108. Since then, whenever everything seemed to be ripe for a new start, ECCAS experienced a steady decline, the chronology of which is as follows:

April 1993: An Extraordinary Session of the Council of Ministers of ECCAS met in Bujumbura and approved most of the recommendations of the Evaluation Report;

July-December 1993: The Summit of Heads of State and Government failed to meet to adopt the proposed changes, the budget and the work programme of the community;

6 March 1994: The Heads of State and Government of UDEAC met in N'djamena (Chad) and signed the Treaty creating the Central African Economic and Monetary Community (CEMAC);

Sept. 1994: Zaire became a member of COMESA (joining Burundi and Rwanda, the two other CEPGL countries);

20 January 1995: The ECA Executive Secretary discussed the revitalization of the integration process in ECCAS with Ambassadors from Central Africa. The principle of a sensitization mission by the joint A/OAU/ADB secretariat with the participation of the Ambassadors was agreed upon;

26 January 1995: The ECA Executive Secretary met with Ministers of Foreign Affairs from Central Africa, who were attending the OAU session and discussed the same subject.

109. In November 1996 when the mission visited ECCAS, only the Secretary General and two professional staff were around. The building housing the Secretariat was in shambles, and member States had accrued US$7 million worth of arrears. How could this situation have bene averted? Two closely interlinked reasons seem to have played a crucial role in the demise of ECCAS; the decision-making process and the failure by member States to pay their assessed contributions.

(a) <u>**Decision-making process**</u>

110. ECCAS, as most of the Communities, has decision making which starts with Sectoral Technical Committees, goes through the Intergovernmental Committee of Experts, the Council of Ministers and culminates at the Summit of Heads of State and Government. This process of decision-making at the highest level has blocked the implementation of reforms proposed by the Management Audit Report endorsed by the extraordinary meeting of the Council of April 1993 in Bujumbura.

111. Drawing lessons from the collapse of the defunct East African Community in 1977, the newly established East African Cooperation has scaled down its decision-making to ministerial level, except for matters of strategic importance which are decided upon by the Heads of State. The same trend is discernable in other Communities (SADC, COMESA).

(b) <u>**Unpaid contributions by member States**</u>

112. This is a common situation with many other institutions such as the ECA-sponsored institutions. In the case of ECCAS,where four member States (Cameroon, Gabon, Congo and Zaîre) make up to 86 per cent of contributions, it seems that financial crisis could be avoided easier than elsewhere. In any case, the change in the mode of contribution was also part of the unimplemented reforms. As stated earlier, the 6 CEMAC countries have now instituted a community levy which gives more regular and secured resources to the Secretariat. If ECCAS was to be revitalized as called for by the first AEC Economic and Social Council (ECOSOC) meeting held in Abidjan in November 1996, this is certainly one of the issues to be considered first.

2. <u>CEMAC: A dynamic scheme</u>

113. CEMAC is the replicate of UEMOA in Central Africa, both in terms of conception and institutions. There are minor differences resulting from the particular situation of each Community. In West Africa, the Treaty was signed in January 1994, ratified in August 1994 and has been in effect since September 1994. In Central Africa, the Treaty was signed in March 1994 and is yet to be ratified. The explanation of the apparent discrepancy lies in the fact that in West Africa, the Treaty was the culmination of negotiations which started in 1991, prior to the devaluation, whereas in Central Africa the Treaty was signed first and negotiations started thereafter.

114. Another difference is that in West Africa, CEAO - the Community that preceded UEMOA - was dissolved, whereas in Central Africa, UDEAC has not been dissolved but has been integrated and restructured instead to handle the new programme of reforms. Thus, while discussion of the Treaty and other important texts is going on the Central Bank Central African States (B~~C~~EAC) is in charge of overseeing setting up and monitoring the multilateral surveillance of budgetary, fiscal and other monetary and macroeconomic policies; and UDEAC is in charge of implementing ~~the (PRR) or~~ the regional programme of reform (PRR), the purpose of which is to establish the CET by harmonizing domestic taxation.

115. UDEAC's main integration instrument was the "taxe unique" (single tax). However, in order to offset loss-of-revenue effects arising from trade liberalization, member States introduced a "taxe complémentaire" (complementary tax). As explained in paragraph 26, this tax was originally conceived as a temporary measure with its introduction and removal left to the discretion of member States. Over time, however, it has become part of the normal tax structure of many member States, hence contributing to the failure of the "taxe unique" as a sound integration instrument. The new regional reform programme10/ has introduced corrective measures. The CET and the TC have been replaced by a single import duty the rate of which varies according to the product category as follows:

- Priority products: 5 per cent;
- Raw materials and capital goods: 15 per cent;
- Intermediary products: 35 per cent;
- Consumption products: 70 per cent.

116. The ultimate goal of the PRR is firstly to harmonize domestic taxation and secondly, to achieve zero tariff in the short run (3 years). The implementation of PRR and the convergence of macroeconomic policies will eventually lead to establishment of full economic and monetary union within CEMAC.

B. North Africa11/

117. The Treaty creating the Arab Maghreb Union (UMA) was signed in Marrakech (Morocco), on 17 February 1989 by the Heads of Government of Algeria, Libya, Mauritania, Morocco and Tunisia. The objectives of the Union as spelt out in article 2 of the Treaty are:

(a) Consolidation of fraternal relationships between member States and peoples of the region;

(b) Achievement of progress and well-being for their population and defense of their rights;

(c) Participation in safeguarding of peace, based on justice and equity;

(d) Achievement of free movement of persons, services, goods and capital among member States;

(e) Implementation of common international policies on ~~the~~ defense and economic and cultural affairs.

10/ Integration Economique et Sociale en UDEAC, BEAC, page 23-24

11/ Dossier d'Information, Secrétariat Général de l'UMA.

118. In addition to the Treaty, 37 Conventions and Agreements covering a wide range of possible areas of cooperation have been prepared. Only five of them have been ratified, relating to:

(a) Trade in agriculture products;

(b) Phytosanitary control of agriculture products;

(c) Guarantee of investments;

(d) Avoiding double taxation; and

(e) Road transport and transit.

119. Among many other Conventions, it is worth mentioning the Maghrebian Charter for protection of the environment and sustainable development. In the last few years, the activities of UMA have been at a standstill due to political differences among member States. This situation was a matter of concern to the ECOSOC meeting of last November in Abidjan. On that occasion, the Secretary-General of UMA pointed out that the organization was not working with OAU and urged member States to take corrective measure.

VI. SUMMARY CONCLUSIONS

120. The major findings and conclusions which will help us make appropriate recommendations in the next chapter should be summarized here.

A. Rules of origin

121. Over the last two decades, rules of origin have substantially evolved, from the PTA "Common List" to their present status. Conditions concerning national participation in capital equity and management have revealed themselves to be too complicated to be implemented. The remaining conditions are wholly produced goods, and a given percentage of raw materials used, and value added. With globalization of production, it is possible that only the value-added criteria will be retained, besides the wholly produced goods.

122. The removal of non-tariff barriers (NTBs) should be given adequate attention as they have proved to be as important as tariff-barriers in the success (or failure) of previous trade liberalization schemes in Africa.

123. Much has been done in the area of facilitation which includes simplification and harmonisation of documents, technical standards, and administrative procedures. Because most of these instruments were originally conceived by international organizations (UNCTAD/ITC/ GATT), there is a great degree of commonality in them, despite modifications or adaptation to specific local conditions.

124. Free movement of persons is an essential ingredient for trade liberalization success; but,

progress has been slow, in spite of numerous agreements and protocols signed to this effect. Emphasis is being laid on adoption of common visa arrangements as a first step to free movement of persons, including the right of establishment.

B. Monetary cooperation

125. Many years of trade liberalization efforts have met with little result in terms of intra-subregional trade. Monetary cooperation has emerged as the missing link in economic integration. Although some of the mechanisms such as Clearing Houses have been emasculated by liberalization measures and new schemes (export receipts retention), member States have accepted collective discipline in macroeconomic policies in terms of exchange rate, fiscal and monetary policies.

126. No subregion has yet achieved the goal of partial currency convertibility. In Southern Africa, Southern African ~~Currency~~ Customs Union (SACU) constitutes a nucleus for a possible future monetary zone anchored on the rand and the South African economy which is weighted five times the combined economies of all COMESA member States. In West and Central Africa, the CFA Franc Zone may eventually evolve, with the necessary changes and adaptations, to cover other countries of West and Central Africa. The fact that the CFA franc will be, in one way or the other, linked to the European currency represents an advantage in terms of stability. One may also speculate on the possible emergence of a ~~shutting~~ Shilling? to be anchored on the East African Cooperation (EAC).

PART TWO:

RECOMMENDATIONS

I. FRAMEWORK FOR CO-OPERATION

127. Recommendations should be made, taking full account of recent developments in the institutional and intellectual framework for cooperation and integration, namely the "Protocol on the Relationship between the African Economic Community and the Regional Communities for the Implementation of the Treaty establishing the African Economic Community" and the concept of "variable geometry".

A. Institutional framework

128. In addition to the existing framework, the OAU/AEC secretariat and the joint OAU/ECA/ADB secretariat, the Treaty provides guidelines, in article 88, on the relationship between the Community and the Regional Economic Communities. In compliance with this provision, the first session of the OAU Economic and Social Commission held on 19 November 1996 in Abidjan, adopted the protocol mentioned above.

129. Article 3 of the Protocol spelt out its objectives as follows:

(a) To strengthen the existing Communities in accordance with the provisions, of the Treaty, treaties and this protocol;

(b) To promote the coordination and harmonization of the policies, measures, programmes and activities of RECs to ensure that provisions of paragraphs 2(a) through (d) of article 6 of the Treaty are implemented in a harmonious manner to facilitate at stage five set out in article 6 of the Treaty, an efficient integration of the RECs into the African Common Market;

(c) To promote closer cooperation among RECs; and

(d) To provide an institutional structure for the coordination of relations between the Community and the RECs on the implementation of stages 1 through 4 set out in article 6 of the Treaty.

130. In articles 6 through 10, the Protocol defines the coordination organs - the Committee on Coordination and the Committee of Secretariat Officials, their composition, functions and the meetings to be organized by each Committee. The Protocol also defines general and specific benchmarks to be implemented both by the AEC and RECs and indicates modalities for organization and attendance of each other's meetings.

131. In a nutshell, the provisions of this Protocol are pragmatic and action-oriented.

B. Intellectual framework: variable geometry

132. There is no agreed definition of "variable geometry". The term was coined by francophone experts, in the process of preparing their new strategy of economic integration based on the existing monetary union. The idea behind it that countries sharing common values, common currency, cultural values and the like should be allowed to forge ahead in a common effort in specific areas, without waiting for others. However, in the long run, it should be possible for others to join.

133. At its inception, the concept of "variable geometry" was received with suspicion, because it was viewed as inspired by some mysterious external forces trying to divide African countries and derail the integration process on the continent. This suspicion was further reinforced by the fact that, when the Cross-border Initiative was being launched in Eastern and Southern Africa, the main integration entities in the subregion, namely COMESA and SADC, were not properly associated. Some heated debate did take place, here and there, on the pertinence of the concept to the economic integration process in Africa. Three years later, there seems to be a general acceptance of the concept.

134. In COMESA, it is called "multi-speed development". The COMESA Treaty, drawing lessons from experiences of PTA and the European Community, has introduced a new perception to regional integration not previously envisaged in the PTA Treaty. The new aspects of COMESA, that were not in the PTA, are as follows: "*...(c) COMESA fully recognizes that member states, being at different levels of growth and development, cannot move at the same speed*". Thus, the concept is based on **multi-speed development** by which, two or more member States can agree to accelerate the implementation of specific COMESA treaty provisions or other common agreements, while allowing others to join in later on a reciprocal basis. Previously, the PTA emphasized decisions by consensus and, as such, the programmes were pegged on the "slowest moving member State". COMESA now emphasizes the need to move forward and where consensus cannot be reached, a simple majority decision will be sufficient to initiate joint development. Hence, future programmes are pegged on the "fastest moving member State"12/

135. This new understanding brings in more flexibility and programmes pursued by smaller entities (EAC, IGAD, SADC) are seen as complementary rather than conflicting with those of bigger entities. Indeed, some actions are more effectively conducted within a smaller, rather than a bigger Community. For example, member States of the East African Cooperation can envisage to attaining partial currency convertibility (Shilling Zone) more easily than within COMESA. Also, it is possible to coordinate macro policies (budget, money growth) within a smaller Community. As we have seen already, convergence of macro-policies can increase cross-border investments and bring about growth.

136. In West Africa, the process was complicated by the fact that ECOWAS was recognized as the sole Community for integration in that subregion. Indeed, article 2 of the revised treaty states: "*By the present Treaty, the High Contracting Parties reaffirm the creation of the*

12/COMESA in Brief, para 12(c)

Economic Community of West African States (ECOWAS) and decide that it is the sole economic community in West Africa". Article 80, para. 1 reads as follows, "the Community, acting in its capacity as the sole regional economic community in West Africa, determines global integration policies and strategies and defines objectives and integration programmes of all institutions of the Community", and paragraph 2 of the same article, "*member States undertake to renounce the continuation objectives of economic integration within all other international in the region and to take necessary measures to this effect*".13/

137. In the process of preparing the new integration strategy, negotiations were engaged between UEMOA member States and the other ECOWAS non-UEMOA members and it was agreed that the designation of ECOWAS to become the sole integration community in West Africa, should be in the long run. Consequently, the articles mentioned above were amended to accommodate UEMOA concerns. At the end of this process, there has been a *de facto* harmonization of the two Treaties.

138. UEMOA member States, being collectively at a more advanced stage of integration, are playing a leading role in respect of other countries, especially in convergence of macroeconomic policies. ECOWAS's Programme of Monetary Cooperation draws on UEMOA experience a great deal.

II. RECOMMENDATIONS

139. In addition to the above institutional and intellectual frameworks, recommendations will be directed to all major actors in the implementation of the Abuja Treaty: the OAU/AEC secretariat, the joint OAU/ECA/ADB secretariat and the RECs. In this connection, they should also take into account the 18 point Indicative work programme adopted by the meeting of the joint OAU/ECA/ADB secretariat with the RECs, which was held in Addis Ababa from 4 to 5 June 1996, and was endorsed by the Abidjan ECOSOC meeting, mentioned above. Finally, recommendations should take due consideration of the timetable set up in the Treaty indicating the objectives to be attained at each stage.

A. Timetable for establishment of the AEC

140. The Treaty came into effect in May 1994, after its ratification by 36 member Sates. The timetable for its implementation as set out in article 6 of the Treaty, is as follows:

Stage 1: **1994- 1999** : Strengthening of RECs

Stage 2: **2000-2007**
- Stabilization of tariff and NTBs;
- Strengthening of sectoral integration;
- Coordination and harmonization of activities among RECs.

13/Dossier UEMOA, op.cit., p.19.

Stages 3: 2008-2017: : Transformation of RECs into Free Trade Areas (FTAs).

Stage 4: 2018-2019:
- Coordination and harmonization of tariff and non-tariff barriers;
- Creation of a customs union.

Stage 5: 2020-2023 : Establishment of the African Common Market through:
- Adoption of common sectoral policies;
- Harmonization of monetary, financial and fiscal policies;
- Free movement of persons and the right of establishment; and
- Proper resources for the Community.

Stage 6: 2024-2028 : Consolidation and strengthening of AEC structures.

141. As we have seen above, major RECs, such as COMESA and ECOWAS, will have achieved the FTA stage and established their respective by the year 2000; so will be the case with UEMOA and CEMAC. SADC is expected to reach this stage by year 2005 at the earliest (8 years from the ratification of the Protocol on Trade Promotion). The interrogation point still hangs on North African countries and UMA, with the exception of Sudan which is a member of COMESA, and Mauritania which belongs to ECOWAS.

Recommendation 1:

142. In view of the above, the timetable for implementation of the Abuja Treaty should be reviewed from time to time to take into account the real development taking place at the level of RECs. At present, most RECs have already reached phase two and are actively moving to phase three. The revision of the timetable is also necessitated by external considerations such as the implementation of emerging issues (trade and competition, trade and investment) in multilateral trade arrangements and negotiations under the World Trade Organization (WTO).

Recommendation 2:

143. The "variable geometry" or "multi-speed approach" should also apply to the AEC. The integration process should be pegged to "fastest" moving RECs and not to the "slowest" moving ones. If this principle is accepted, the concept of RECs itself will change. Not only will the size be a determinant element, but the dynamics and progress achieved by smaller Communities such as SACU, UEMOA, CEMAC, EAC and IGAD, will be taken into account by the larger RECs (COMESA, ECOWAS). This approach will generate more synergy in terms of complementarities rather than conflicts.

B. Implementation of benchmarks

144. As a general observation, the Community (OAU/AEC) has little capacity to implement these benchmarks defined in articles 11 through 14 of the Protocol on the relationship between the AEC and RECs. In fact, some of the benchmarks are of little use, such as the one on the creation of an economic Community where such community does not exist! In order to enable the OAU/AEC secretariat to deliver, a UNDP-financed project is under way with the objective of strengthening its capacity. One of the objectives of the project, the Protocol on the Relationship between the AEC and RECs, has already been approved by the ECOSOC Ministers who recommended that the Assembly of Heads of State and Government should authorize the OAU Secretary General OAU to sign it with the Chief Executives on behalf of OAU member States. The other major component of the project is the adoption and operationalization of the new OAU secretariat structure.

145. The 18 point Indicative Work Programme is a first attempt to translate these benchmarks into practical projects and activities. On the other hand, as demonstrated by this study, RECs have proved to be more advanced in several areas such as trade liberalization, monetary cooperation, capacity building, resource mobilization. They are therefore in a better position than the central OAU/AEC secretariat to implement the Treaty.

Recommendation 3:

146. The OAU/AEC secretariat should expedite the streamlining of the organizational structure in order to be able to provide assistance to RECs as called for in stage one of the Abuja Treaty.

C. Preparation of protocols

147. Protocols are the classic way of implementing treaties. In the case of the AEC, more than 20 protocols are to be prepared. In May 1995, by the time of the ECA Conference of Ministers, 5 draft protocols (free movement of persons, transport and communications, rules of origin, customs cooperation, industry and relations between AEC and RECs) were under consideration by the OAU Permanent Steering Committee. Eleven preliminary drafts were also prepared on elimination of customs duties, elimination of non-tariff obstacles, re-export of goods, transit facilities, harmonization of trade formalities and documents, trade promotion, compensation fund, agriculture, science and technology, human resources development and a pan-African parliament.

148. At first glance,it is obvious that with the exception of a few, these protocols have been prepared by **analogy** with those of RECs without any further **justification**. As we have seen above, the draft protocol on reduction and elimination of customs barriers refers to a "Common List" and proposes a negotiation process similar to that followed by PTA more than a decade ago, ignoring the fact that the PTA "Common List" has been abolished.

149. In addition, after phase three, most of the work will emphasize coordination, harmonization and rationalization. Therefore, it should be possible to reduce the **number** of

protocols. For example, concerns expressed in two drafts (rules of origin and customs cooperation) and six preliminary draft protocols (elimination of customs duties, elimination of non-tariff obstacles, re-exportation of goods, simplification and harmonization of trade formalities and documents, trade formalities) among those mentioned above, can be captured in one single protocol, hence reducing the number from eight to one! The SADC Protocol on Trade is a good model in this regard.

150. In preparing continent-wide protocols, one should not overlook the fact that, protocols generate a great number of institutions in the form of committees, commissions, technical units the functioning of which require additional resources, both human and financial. To cite SADC again, the full implementation of the SADC Protocol on Transport, Communications and Meteorology will require a Committee of Ministers, a Committee of Senior Officers, a Technical Unit and eight sub-committees (in the different modes envisaged). Similarly, the SADC Energy Commission requires the following institutional structure, one committee of ministers, one committee of senior officers, one technical unit and seven sub-committees! One can imagine the resources required to organize 16 meetings a year for two protocols only!

Recommendation 4:

151. In order to avoid unnecessary duplication, continent-wide protocols must be fully justified by either progress achieved by RECs at subregional level and or by specific needs of the Community. They will be more justified in stages four and five, emphasizing coordination, harmonization and rationalization rather than mechanical replication of RECs protocols.

D. Relationship between RECs: Structures for integration at national level

152. Informal relationship already exists between RECs. For example, in the process of introducing travellers cheques in West Africa, the ECOWAS secretariat visited COMESA's secretariat and learned from ~~this~~ its experience.

153. To date a few countries, including Senegal and Burkina Faso in West Africa, have established Ministries in charge of Integration Affairs, at country level. On the other hand, subregional economic communities maintain some sort of focal point in most countries, generally at sectoral level such as at the Ministry of Transport and Communications, Industry, Agriculture and even at the Chambers of Commerce.

154. The most advanced structures for economic integration at national level are those of SADC and the Francophone Communities of West and Central Africa (UEMOA and CEMAC).

1. The SADC case

155. From its early days, SADC has established sectoral coordinating units, whereby each country is assigned the responsibility of ensuring a coordinated development of the sector with, and on behalf of, other member States. The present situation with regard to the assignment of sectors is as follows:

1.	Angola	:	Energy
2.	Botswana	:	Agricultural research, livestock, animal disease control
3.	Lesotho	:	Environment and land management
4.	Malawi	:	Inland fisheries, forestry and wildlife
5.	Mauritius	:	Tourism
6.	Mozambique	:	Culture and information Transport and communications
7.	Namibia	:	Marine fisheries and resources
8.	South Africa	:	Finance and investment
9.	Swaziland	:	Human Resources development
10.	Tanzania	:	Industry and trade
11.	Zambia	:	Mining
12.	Zimbabwe	:	Food, agriculture and natural resources

156. The assignment of sectors is the responsibility of the Summit and as such, has an obvious political dimension. The units report to the Council of Ministers. The basic policy concern is to have each country assume its share of responsibility in building the Community. However, over the years, it has become clear that due to big differences in financial and human resources between member States, sectoral coordinating units do not always operate as expected. This seems to be the main weakness of the system despite its democratic conceptualization. Financial resource requirements and qualifications need to be addressed and corrected. The adoption of a community levy which would cater for the needs of the Community and its specialized agencies may constitute the way out. Following the UEMOA, the ECOWAS has recently introduced its own levy.

2. The case of UEMOA

157. As seen earlier, one of the cornerstones of the UEMOA and CEMAC integration strategy is collective responsibility in the management of macroeconomic policy. The multilateral surveillance has the responsibility to ensure that each country adheres to the criteria established for economic management of the Community; it is therefore the basic condition for the success of the integration process. For this purpose, each country has established, with the assistance of the Central Bank and the Secretariat, a National Committee on multilateral surveillance. The Committee is composed representatives of the national directorates outlined earlier in paragraph 79.

158. In addition to the National Committees are the Central Bank (BCEAO), the Secretariat (called Commission) of the Community and the Council of Ministers. The two structures correspond to two different approaches of integration. For SADC, sectoral approach with

emphasis on infrastructure was vital in pursuing its main objective at the time, which was lessening dependence on apartheid South Africa. For UEMOA, the painful devaluation experience of 1993 has pointed to the need to create a sound macroeconomic environment as a basis for promoting investments and developing priority sectors.

Recommendation 5:

159. RECs should endeavour to learn from the above two integration experiences, in order to commit member states through shared responsibility to the integration process.

E. Relationship with ECA and MULPOCs

Sub regional Development Centres

160. ECA is already an active member of the joint OAU/ECA/ADB secretariat for the implantation of the Abuja Treaty. At subregional level the relationship between ~~MULPOCs~~ SRDCs and RECs has been maintained and consolidated around programmes of harmonization and rationalization of the activities of IGOs.

Recommendation 6:

161. The relationship between RECs and ~~MULPOCs~~ SRDCs should encompass integrated programming of activities and closer cooperation between their policy organs. In addition, RECs should rely more, on the services of ECA-sponsored institutions where possible.

F. Financing of integration

Recommendation 7:

162. In order to avoid further financial difficulties, it is recommended that RECs which have not introduced the Community Levy do so, after consulting UEMOA and ECOWAS. The OAU/AEC secretariat should also to introduce the levy after consultation with member states. In order to supplement domestic resources that may accrue from the Community Levy, it is further recommended that the SADC approach be followed for mobilization of external financing.

G. Monitoring of the implementation of the Treaty

Recommendation 8:

163. In order to ensure proper monitoring of the implementation of the Abuja Treaty, it is recommended that key indicators be identified for continuous monitoring by RECs. A progress report on these indicators could be published regularly, say every six month.

LIST OF PEOPLE INTERVIEWED

SADC

C.J.G. Hove	Principal Economist
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COMESA

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* As a result of generalized liberalization programmes, there has been a sharp decline in the use of the Clearing House and the COMESA Traveller's cheques. Paragraph 82 of the study summarises the situation: quote" the decline in the use of CCH coincided with the implementation of donor funded economic reform programmes which include, inter-alia, the liberalization of trade and foreign exchange control in a number of COMESA countries. With liberalization, the monetary authorities could no longer direct importers and exporters to use the clearing house nor force travellers within the region to use COMESA Travellers Cheques (popularly known as UAPTATCs). Economic liberalization also brought about the introduction of the policy of retention of exports proceeds and allowing the holding of external accounts and maintenance of domestic foreign currency accounts by exporters. By establishing this scheme, export receipts in many COMESA countries are no longer surrendered in full to the Central Banks. Instead, they are being retained in personal and/or corporate accounts in the inter-bank markets from where exporters source their foreign exchange requirements for paying foreign and regional suppliers directly without licensing restrictions, at current market rates. Exporters who use the CCH facility receive payment in local currency and are not eligible to participate in the Export Retention Scheme. While this development has increased the role of normal commercial banking, it has, to large extent, limited the role of the clearing house in intra - COMEWSA payments arrangements" unquote.