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ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

PROPOSAL OF A MONITORING FRAMEWORK AND A PEER REVIEW MECHANISM FOR MACROECONOMIC CONVERGENCE
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1. INTRODUCTION

In order to assess economic convergence on the Continent, the Assembly of Governors of the Association of African Central Banks (AACB) adopted the convergence criteria as contained in the African Monetary Cooperation Program (AMCP), at its meeting held in Algiers, Algeria, in September 2002.

A review of the progress of the AACB sub-regions on the implementation of the African Monetary Cooperation Program (AMCP) shows that the member States have in general not met the convergence criteria. This has resulted in two extensions of Stage III of the AMCP. However, despite these extensions, most countries have still not met the convergence criteria.

As a result, Governors requested, at their August 2015 meeting in Malabo, Equatorial Guinea, that an Experts Group from central banks comprising members of the AACB Bureau be established with the explicit purpose of refining\(^1\) and establishing timelines for adherence to the convergence criteria. The primary objective of this exercise was to promote harmonization at the sub-regional and continental levels and also help promote macroeconomic convergence on the continent.

During the 40\(^{th}\) Assembly of Governors meeting in August 2017 in Pretoria, Governors adopted the report of the Experts Group. This report included justifications for the criteria, thresholds for the macroeconomic convergence criteria with associated initiatives, outcomes and timelines in support of the establishment of the African Central Bank as envisaged in the AMCP. The Governors then instructed the Experts Group to develop:

- a monitoring framework to assess compliance with the convergence criteria;
- a peer review mechanism to ensure compliance with the framework.

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\(^1\)address issues related to definition and measurement.
2. A MONITORING FRAMEWORK TO ENSURE COMPLIANCE WITH THE CONVERGENCE CRITERIA

A monitoring or surveillance mechanism should assist with the assessment of compliance with an agreed set of rules. In the case at hand, the AACB has endorsed a set of convergence criteria. The monitoring mechanism is based on the agreed convergence criteria as adopted by the Assembly of Governors in Pretoria. It is meant to support the convergence objectives as specified in the AMCP.

2.1. The convergence criteria

Under the AMCP, 4 primary and 4 secondary convergence criteria are identified. This is reflected in Tables 1 and 2 respectively (see Annexure A). Column 2 highlights the thresholds and targets that have been agreed on at the AACB annual meetings in Pretoria. The thresholds are for the period 2017 to 2027 while the targets are those specified in the AMCP.

The convergence criteria span across both the fiscal and non-fiscal spheres. Hence, collaboration by both the fiscal and monetary authorities is needed to ensure adherence to the convergence process and give effect to the AMCP. Collaborative efforts in the monitoring of the convergence indicators will also assist in strengthening the convergence process and economic integration on the continent.

2.2. The current monitoring mechanism

Within the AACB, the monitoring of macroeconomic convergence within the AMCP is currently done every 6 months. This is facilitated through the compilation of a report (AACB report on macroeconomic convergence) on the implementation of the AMCP by the AACB Secretariat on the basis of the contribution sent by each sub-region of the AACB.

The AACB report on macroeconomic convergence reviews the state of each country's performance against the convergence criteria. A first progress report\(^2\) is presented by the AACB Technical Committee at the AACB Bureau meeting in February.

In addition, a final report is prepared by the Technical Committee which is approved by the Bureau and submitted to the Assembly of Governors for approval at the Annual

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\(^2\) This report is only provisional, due to data for the previous year (t-1) not being available at the beginning of year t.
Meeting. In summary, the institutional framework and process of the current monitoring system includes:

i. The Chairs of the sub-regions receive a country report from AACB members in their regions. Each sub-region provides a report which highlights the developments pertaining to the region as a whole and forwards this, together with the reports received from each member in the sub-region to the AACB secretariat;

ii. The AACB Secretariat compiles a consolidated report on the performance of the AACB membership. This is based on the inputs received from the sub-regions and AACB members on their performance against the macroeconomic convergence criteria identified in the AMCP. This report is evaluated by the Technical Committee before it is submitted to the Bureau of the AACB for consideration;

iii. The AACB Bureau reviews the progress report on the implementation of the AMCP developed in February and approves the final report before it is presented to the Assembly of Governors in August;

iv. The Assembly of Governors reviews the report on the implementation of AMCP in August and makes recommendations for consideration by AACB members and the technical committee.

One of the difficulties in the current monitoring mechanism relates to the timely production of reports at the sub-regional level. In many cases this is due to the late submission of country reports in the sub-regions. In addition, the absence of a process of consultation with the members on their performance has also been signaled as an issue that warrants attention to enhance the integration process on the continent. At the Assembly of Governors meeting in August 2017, it was agreed that the AACB should focus on how the current monitoring system can be strengthened to enhance effectiveness in the monitoring of economic performance.

2.3. Strengthening of the current monitoring mechanism for macroeconomic convergence

In accordance with the decision of the Assembly of Governors held on 16 August 2017 in Pretoria, the monitoring mechanism should assess compliance with the convergence criteria adopted under the AMCP.
The AMCP specifies macroeconomic convergence targets that members should attain. These convergence targets are meant to support the economic integration of the continent. However, Governors noted the poor performance of AACB members and approved that interim targets with associated timelines be adopted that will support the movements towards the targets specified in the AMCP. In this regard, interim targets (specified as thresholds in tables 1 and 2) were adopted. Thus, the monitoring report will in the main assess compliance in terms of the thresholds adopted by the Assembly of Governors in the August 2017 meeting in Pretoria.

An effective monitoring mechanism should document the economic performance as well as the appropriate policies and reforms needed to address poor macroeconomic performance and non-compliance with the convergence criteria. In order to achieve this objective each sub-region should undertake an assessment (based on the convergence criteria reflected in tables 1 and 2) of the countries in their Sub-region. The central bank in each sub-region will submit the actual outcomes/progress on the macroeconomic criteria of each country to the chair of the sub-region. In addition, the policies that will be adopted to support the attainment of the convergence criteria should be specified. Table 3 (see Annexure A) should be used for this purpose.

These country reports will be used to compile a regional report by the chair in each sub-region and should contain a high-level summary of the regional developments and include the following elements\(^3\):

- a summary of the outcomes/progress of each Sub-region on the criteria. This will be based on the country inputs/reports which should also be reflected in the Annex of the regional report.

- an explanation for the outcome of each of the criteria. This should be a high-level summary of the main developments that have affected the regional performance.

- what policy response/options will be considered in the Sub-region to achieve the target. Once again a summary of the main policy options to be pursued to improve performance should be included.

The reports should be sent to the AACB secretariat. The AACB Secretariat will use the Sub-regions’ reports to prepare a consolidated report for consideration by the Technical Committee. The report to be prepared by the AACB secretariat will entail:

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\(^3\)the country reports should be reflected in the Annex of the regional report prepared by the chair of the sub-regions.
(a) An assessment of the performance of the country against the convergence criteria for a given year. Table 4 (see Annex) will be used for this purpose. In essence, the assessment will reflect whether the country has met (green) or not met (red) the convergence criteria.

(b) In addition, the AACB secretariat will provide an assessment of the macroeconomic outlook. Table 5 (in Annexure A) will form the basis for this purpose and will entail the following classification:

- Green = target has been achieved.
- Yellow = target has not been achieved but the country is on the convergence path.
- Red = target has not been achieved and diverging from convergence path.

In effect, the heatmap evaluates the performance of countries against the target measure as well as indicates whether countries are converging towards the target (“convergence path”). The statistics for the heatmap could be obtained from the country reports and from the statistical database of International Organisations where the information is not forthcoming from the countries. The report should also provide a high level summary of the main factors underpinning the macroeconomic developments in the different regions as well as document the remedial policy measures to address the economic challenges as reflected in the regional reports.

2.4. Institutional framework of the monitoring mechanism

In order to strengthen the monitoring mechanism of the implementation of the AMCP and make it effective, it would be necessary to involve both the fiscal and monetary authorities given the nature of the indicators monitored.

Based on the current institutional set-up this could include the following institutions:

- African Union (Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration (STC), Conference of Ministers and African Monetary Institute (AMI))
- The AACB (Assembly of AACB; AACB Technical Committee; AACB Secretariat)

a) African Union
As mentioned earlier, several convergence criteria are linked to fiscal indicators and hence the oversight responsibilities for the monitoring mechanism should include the fiscal and monetary authorities. To ensure that the monitoring mechanism is effective ideally Ministers of Finance and Central Bank Governors should be involved in this process. There are currently two committees within the AU that could fulfill this responsibility.

The African Union Commission and Association of African Central Banks Governors agreed in Tripoli in 2007 to set up the Joint AUC-AACB Committee to define a common strategy for the establishment of the African Central Bank. The Joint Strategy on the Establishment of the African Central Bank (ACB) proposed that an African Monetary Institute (AMI) be established to undertake the preparatory work leading to the African Central Bank (see Annexure C).

The AMI will *inter alia* undertake all the technical, policy, statistical, institutional and legal preparations for the establishment of the African Central Bank, single currency and monetary union on the continent. This would entail reviewing and advising on the revision of the macroeconomic convergence criteria of the AMCP and monitoring the state of macroeconomic convergence of the member states and RECs against the agreed criteria. Hence, the mandate of the AMI is suited to fulfilling the monitoring function pertaining to the country performance against the convergence criteria.

Until the AMI is established it is proposed that the AACB collaborates with the AUC with the explicit purpose of producing a report on member states compliance with the macroeconomic convergence criteria for consideration by the Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration (STC). One of the responsibilities of the STC is to monitor the progress on the regional and continental integration agenda.

The Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration (STC) is composed by Ministers in charge of Finance, Monetary Affairs, Economic Planning and Integration from AU Member States or such other Ministers or authorities duly accredited by the Governments of Member States.4

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4The Powers and Functions of the STC include:

(i) Follow up on the implementation of the integration agenda of the continent;

(ii) Follow up and monitor the establishment of the African Union financial institutions namely, the African Central Bank, the African Monetary Fund and the African Investment Bank;

(iii) Follow up on the implementation of private sector recommendations emanating from fora such as African Private Sector Forum;

(iv) Follow up on the implementation of Decisions of the Executive Council and Assembly;

(v) Follow up on the implementation of the micro finance plan of action;

(vi) Follow up on the regional and continental integration agenda;

(vii) Follow up on the implementation of the Charter on Statistics;

(viii) Follow up on the implementation of global issues such as debt relief, financing for development, fulfilment of the G8 commitments;
b) **The AACB**

The Assembly of Governors should assume the responsibility of reviewing the performance of the monetary authorities in fulfilling their obligations to meeting the convergence criteria. This would entail the submission of a report on their performance to the AUC. This report shall outline the macroeconomic performance as well as the corrective policy measures to be followed to facilitate compliance with the convergence criteria.

The following processes will be followed at the AACB level. The Technical committee of the AACB will be responsible for compiling the reports on the performance of AACB members on the convergence criteria. This would entail an interim report which will be reviewed by the AACB Bureau in February, with a view to making a preliminary assessment of the AACB member/country performance. This assessment will be conveyed to the regional chairs for discussion within the sub-regions. In August, the AACB Bureau would meet to prepare a report for submission to the Assembly of Governors meeting.

The AACB Secretariat will be part of the Technical Committee which will be responsible for the production of the reports to be submitted to the Assembly of Governors and the African Union.

The AACB (represented by the Executive Secretary of the AACB and the chair of the Technical committee) and the African Union Commission (AUC) will be responsible for compiling a joint report for consideration by the STC of the AU.

3. **PEER REVIEW MECHANISM**

During their session held on 16 August 2017 in Pretoria, the Assembly of Governors requested, in addition to setting up a framework for monitoring compliance with the convergence criteria, the establishment of a peer review mechanism. The peer review mechanism is meant to hold AACB members to account for their performance vis-à-vis the convergence criteria.

3.1 **Objectives of the peer review mechanism**

The peer review mechanism will assess the performance of the countries as well as the implementation of the policy recommendations made to ensure compliance with the convergence criteria.

(ix) Carry out any other functions assigned to it by the Executive Council or the Assembly.
The peer review should serve to hold members to account. This would involve identifying countries that are in breach of the convergence criteria, ascertaining whether the remedial measures being proposed to put the countries back on track are appropriate and assess compliance with the remedial measures that were proposed. The country to be peer reviewed will be chosen at the sub-regional level on the basis of its performance against the macroeconomic convergence criteria.

3.2 Peer review process and institutional arrangements

In order to ensure accountability and adherence to the convergence criteria it is imperative that the Peer Review is undertaken by a body that comprises both Finance Ministers and Central Bank Governors. Country assessments undertaken by technical experts (from central banks and fiscal authorities) will form the basis of the peer review.

a) Secretariat

The Peer Review will be supported by a secretariat. The secretariat will initially be composed of representatives from the AACB secretariat as well as the AUC. This function will be assumed by the African Monetary Institute once it is established and fully functional. Country assessment reports will form the basis of the peer review. This will be co-ordinated by the Secretariat.

Given the resource (human and financial) constraints, the secretariat should rely on the country reports being produced by international institutions (e.g. World Bank, IMF, AfDB) for its assessments. Once the process has been established and adequate financial resources have been secured, mission teams could be appointed to undertake country visits to undertake the assessments. The secretariat may call upon technical experts to assist with the assessment.

b) Peer review

The peer review will be undertaken under the auspices of the Africa Peer Review Mechanism through the meeting of African Union Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration (see Annex). While Central Banks have been invited to attend these meetings, attendance by the monetary authorities has been very poor mainly due to the Agenda not be directly related to central banking activities.

It is proposed that the AUC be approached with a view of having an agenda item on “Peer review on macroeconomic convergence” at these meetings. The country assessment prepared by the secretariat will serve as the basis for this agenda item.
and this would provide an opportunity for both Governors and Finance and Development Ministers to be involved in the peer review process. This will give credence and support to the monetary integration process on the continent.

c) **Choice of countries to be peer reviewed**

Countries that will be peer reviewed will be chosen on a yearly basis. The choice of countries to be peer reviewed should be done at the sub-regional basis. There are two alternatives in this regard:

**Alternative 1:**
- At least one country per region by year
- Countries chosen alphabetically or as per regional arrangements

**Alternative 2:**
- At least one country per region by year
- Country chosen on basis of assessment of country performance with a focus on primary convergence criteria. In the event of many countries being identified for peer review, the countries to be peer reviewed should be chosen alphabetically.

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ANNEXURES

Annexure A: Tables for country reporting, monitoring and peer review
Annexure B: African Peer Review Mechanism
Annexure C: African Monetary Institute
### Table 1: Primary convergence criteria in the 2017 – 2027 period

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Threshold</th>
<th>Definition</th>
<th>Measurement</th>
<th>Justifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>Inflation ≤7% (target ≤3% by 2038)</td>
<td>Change in Consumer Price Index during the year (12 months year-on-year)</td>
<td>Average Annual Inflation Rate (Headline Inflation)</td>
<td>- Historical inflation on the continent averages 11%</td>
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<td>- Threshold studies indicate level of about 12%</td>
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<td>- High budget deficit</td>
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<td>- High debt/GDP ratio</td>
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<td>- Need to stimulate growth in the forecast horizon</td>
</tr>
<tr>
<td>Overall Budget Deficit /GDP</td>
<td>≤5% (target ≤3% by 2038)</td>
<td>The difference between General Govt. revenue (+grants) and expenditure on commitment basis as a percentage of nominal GDP - Measured using the fiscal year</td>
<td>- Difference between revenue (+grants) and expenditure of less than 5% of GDP</td>
<td>Using the European Monetary Union Framework where $d=g\times b$</td>
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<td>$d=budget$ deficit / GDP</td>
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<td>$g=projected$ nominal GDP growth rate</td>
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<td>$b=government$ debt / GDP</td>
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<td>In Africa; $g=8%$, $b=65%$</td>
</tr>
<tr>
<td>Central Bank Credit to Government</td>
<td>≤ 5% (target 0% by 2038)</td>
<td>Central Bank advances to government including purchase of government debt instruments in the current year</td>
<td>≤ 5% of the previous year’s government’s tax revenue</td>
<td>- Given the current state of Government finances</td>
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<td>- Governments are encouraged to move towards financing from the market</td>
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<td>- Progressively towards elimination</td>
</tr>
<tr>
<td>External Reserves/Imports of Goods and Services</td>
<td>≥ 3 months (target ≥ 6)</td>
<td>The Ratio of stock of gross external reserves to current imports of goods and services</td>
<td>Number of months of imports based on</td>
<td>- To address macroeconomic shocks</td>
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<tr>
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<td>- To create confidence in the economy</td>
</tr>
</tbody>
</table>
Table 2: Secondary convergence criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Threshold</th>
<th>Definition</th>
<th>Measurement</th>
<th>Justifications</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government Debt / GDP</td>
<td>&lt; 65%</td>
<td>Total stock of outstanding General Government debt as a ratio of nominal GDP</td>
<td>Ratio of General Government debt to GDP</td>
<td>- Available data indicates that the current average is 56%</td>
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<tr>
<td></td>
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<td>End period data</td>
<td></td>
<td>- Infrastructure needs of member States</td>
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<td></td>
<td>- 65% will give us a budget deficit to GDP ratio of 5%, with a projected nominal GDP growth rate of 8%.</td>
</tr>
<tr>
<td>Total Tax Revenue/GDP</td>
<td>≥ 20%</td>
<td>Total tax revenue as a ratio of nominal GDP</td>
<td>Total tax revenue divided by nominal GDP</td>
<td>- Grants average 3%</td>
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<td></td>
<td>- Total tax revenue to GDP ratio currently at 18%</td>
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<tr>
<td>Nominal Exchange Rate</td>
<td>Variability ±10%</td>
<td>The average official exchange rate of the country during the year</td>
<td>Depreciation/Appreciation in the nominal exchange rate not exceeding 10%</td>
<td>- Concerns raised by Bureau members on the need for flexibility</td>
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<td>(Target ±5%)</td>
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<td></td>
<td>- Provide room for macroeconomic adjustment</td>
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<tr>
<td>Government Capital Investment/Tax Revenue</td>
<td>≥ 30%</td>
<td>Capital expenditure by Central Govt. as a ratio of tax</td>
<td>Ratio of capital expenditure to tax revenue</td>
<td>- To encourage tax revenue collection</td>
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<td>- To encourage investment in capital expenditure</td>
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</tbody>
</table>
- The high growth rate has to be supported by high investment spending by Governments to encourage tax revenue.

revenue (Govt. to invest in projects that generate more tax revenue)
Table 3: Progress towards AACB Macro-economic convergence targets by COUNTRY

<table>
<thead>
<tr>
<th>Convergence criteria</th>
<th>Threshold</th>
<th>Outcome measure</th>
<th>Reason(s) for deviation from target</th>
<th>Remedial policy measures</th>
<th>Forecast/expected outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary criteria</strong></td>
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<tr>
<td>Inflation</td>
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<tr>
<td>Overall Budget Deficit/GDP</td>
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<tr>
<td>Central Bank Credit to Government as a percentage of tax revenue</td>
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<tr>
<td>External Reserves/Imports of Goods and Services</td>
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<tr>
<td><strong>Secondary criteria</strong></td>
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<tr>
<td>General Government Debt / GDP</td>
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<td>Total Tax Revenue/GDP</td>
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<td>Nominal Exchange Rate</td>
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<td>Government Capital Investment/Tax Revenue</td>
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</table>
**TABLE 4: ASSESSMENT OF PERFORMANCE AGAINST CONVERGENCE CRITERIA AT A SPECIFIC YEAR**

<table>
<thead>
<tr>
<th>Country</th>
<th>Inflation</th>
<th>Overall budget deficit/GDP</th>
<th>Central bank credit to Government</th>
<th>External reserves/import of goods and services</th>
<th>General Government debt/GDP</th>
<th>Total tax revenue/GDP</th>
<th>Nominal exchange rate</th>
<th>Government capital investment/Tax Revenue</th>
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<tbody>
<tr>
<td>COUNTRY 1</td>
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<td>COUNTRY 2</td>
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<td>COUNTRY 3</td>
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<td>COUNTRY 51</td>
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Notes:
1. **Green** = achieved (met convergence target). Where performance for year t is measured against the convergence target
2. **Red** = not achieved. Where performance for year t is measured against the convergence target
### TABLE 5: ASSESSMENT PERFORMANCE AGAINST CONVERGENCE CRITERIA

<table>
<thead>
<tr>
<th>Country</th>
<th>Inflation</th>
<th>Overall budget deficit/GDP</th>
<th>Central bank credit to Government</th>
<th>External reserves/import of goods and services</th>
<th>General Government debt/GDP</th>
<th>Total tax revenue/GDP</th>
<th>Nominal exchange rate</th>
<th>Government capital investment/Tax Revenue</th>
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<tbody>
<tr>
<td>COUNTRY 5</td>
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<td>COUNTRY 7</td>
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</table>

**Notes:**

1. **Green** = achieved (met convergence target).
2. **Yellow** = not achieved but on convergence path. The convergence path is defined as the average (t and t+1) being better than the average for the previous three years (t-3, t-2, t-1). Where forecasts (t+1) are not available, the convergence path is defined as the average (t-1 and t) being better than the average for the previous three years (t-3, t-2, t-1).
3. **Red** = not achieved and diverging from convergence path. Divergence is defined as the average (t and t+1) being worse than the average for the previous three years (t-3, t-2, t-1). Where forecasts (t+1) are not available, the convergence path is defined as the average (t-1 and t) being worse than the average for the previous three years (t-3, t-2, t-1).
AFRICAN PEER REVIEW MECHANISM (ARPM) : BASE DOCUMENT
THE AFRICAN PEER REVIEW MECHANISM (APRM)

The African Peer Review Mechanism (APRM) is an instrument voluntarily acceded to Member States of the African Union as an African self–monitoring mechanism.

Mandate of the APRM

The mandate of the African Peer Review Mechanism is to ensure that the policies and practices of participating states conform to the agreed political, economic and corporate governance values, codes and standards contained in the Declaration on Democracy, Political, Economic and Corporate Governance. The APRM is the mutually agreed instrument for self-monitoring by the participating member governments.

Purpose of the APRM

The primary purpose of the APRM is to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs for capacity building.

Principles of the APRM

Every review exercise carried out under the authority of the Mechanism must be technically competent, credible and free of political manipulation. These stipulations together constitute the core guiding principles of the Mechanism.

Participation in the African Peer Review Process

Participation in the process will be open to all member states of the African Union. After adoption of the Declaration on Democracy, Political, Economic and Corporate Governance by the African Union, countries wishing to participate in the APRM will notify the Chairman of the NEPAD Heads of State and Government Implementation Committee. This will entail an undertaking to submit to periodic peer reviews, as well as to facilitate such reviews, and be guided by agreed parameters for good political governance and good economic and corporate governance.

Leadership and Management Structure

It is proposed that the operations of the APRM be directed and managed by a Panel of between 5 and 7 Eminent Persons. The members of the Panel must be Africans who have distinguished themselves in careers that are considered
relevant to the work of the APRM. In addition, members of the Panel must be persons of high moral stature and demonstrated commitment to the ideals of Pan Africanism.

Candidates for appointment to the Panel will be nominated by participating countries, shortlisted by a Committee of Ministers and appointed by Heads of State and Government of the participating countries. In addition to the criteria referred to above, the Heads of State and Government will ensure that the Panel has expertise in the areas of political governance, macro-economic management, public financial management and corporate governance. The composition of the Panel will also reflect broad regional balance, gender equity and cultural diversity.

Members of the Panel will serve for up to 4 years and will retire by rotation.

One of the members of the Panel will be appointed Chairman by the Heads of State and Government of participating countries. The Chairperson will serve for a maximum period of 5 years. The criteria for appointment to the position of Chairperson will be the same as for other members of the Panel, except that the candidate will be a person with a proven leadership record in one of the following areas; Government, public administration, development and private sector.

The Panel will exercise the oversight function over the review process, in particular to ensure the integrity of the process. Its mission and duties will be outlined in a Charter, which will also spell out reporting arrangements to the Heads of State and Government of participating countries. The Charter will secure the independence, objectivity and integrity of the Panel.

The Secretariat may engage, with the approval of the Panel, the services of African experts and institutions that it considers competent and appropriate to act as its agents in the peer review process.

The Panel will be supported by a competent Secretariat that has both the technical capacity to undertake the analytical work that underpins the peer review process and also conforms to the principles of the APRM. The functions of the Secretariat will include; maintaining extensive database information on political and economic developments in all participating countries, preparation of background documents for the Peer Review Teams, proposing performance indicators and tracking performance of individual countries.

**Periodicity and Types of Peer Review**

At the point of formally acceding to the peer review process, each State should clearly define a time-bound Programme of Action for implementing the Declaration on Democracy, Political, Economic and Corporate Governance, including periodic reviews.

There will be four types of reviews:
• The first country review is the base review that is carried out within eighteen months of a country becoming a member of the APRM process;

• Then there is a periodic review that takes place every two to four years;

• In addition to these, a member country can, for its own reasons, ask for a review that is not part of the periodically mandated reviews; and

• Early signs of impending political or economic crisis in a member country would also be sufficient cause for instituting a review. Such a review can be called for by participating Heads of State and Government in a spirit of helpfulness to the Government concerned.

APRM Process

The process will entail periodic reviews of the policies and practices of participating states to ascertain progress being made towards achieving mutually agreed goals and compliance with agreed political, economic and corporate governance values, codes and standards as outlined in the Declaration on Democracy, Political, Economic and Corporate Governance.

The peer review process will spur countries to consider seriously the impact of domestic policies, not only on internal political stability and economic growth, but also on neighboring countries. It will promote mutual accountability, as well as compliance with best practice.

Bearing in mind that African countries are at different levels of development, on joining the Mechanism, a country will be assessed (the base review) and a timetable (Programme of Action) for effecting progress towards achieving the agreed standards and goals must be drawn up by the state in question, taking into account the particular circumstances of that state.

Stages of the Peer Review Process

Stage One will involve a study of the political, economic and corporate governance and development environment in the country to be reviewed, based principally on up-to-date background documentation prepared by the APRM Secretariat and material provided by national, sub-regional, regional and international institutions.

In Stage Two, the Review Team will visit the country concerned where its priority order of business will be to carry out the widest possible range of consultations with the Government, officials, political parties, parliamentarians and representatives of civil society organizations (including the media, academia, trade unions, business, professional bodies).
**Stage Three** is the preparation of the Team’s report. The report is prepared on the basis of the briefing material prepared by the APRM Secretariat and the information provided in-country by official and unofficial sources during the wide-ranging consultations and interactions with all stakeholders. The report must be measured against the applicable political, economic and corporate governance commitments made and the Programme of Action.

The Team’s draft report is first discussed with the Government concerned. Those discussions will be designed to ensure the accuracy of the information and to provide the Government with an opportunity both to react to the Team’s findings and to put forward its own views on how the identified shortcomings may be addressed. These responses of the Government will be appended to the Team’s report.

The Team’s report will need to be clear on a number of points in instances where problems are identified. Is there the will on the part of the Government to take the necessary decisions and measures to put right what is identified to be amiss? What resources are necessary to take corrective measures? How much of these can the Government itself provide and how much is to come from external sources? Given the necessary resources, how long will the process of rectification take?

The **Fourth Stage** begins when the Team’s report is submitted to the participating Heads of State and Government through the APRM Secretariat. The consideration and adoption of the final report by the participating Heads of State and Government, including their decision in this regard, marks the end of this stage.

If the Government of the country in question shows a demonstrable will to rectify the identified shortcomings, then it will be incumbent upon participating Governments to provide what assistance they can, as well as to urge donor governments and agencies also to come to the assistance of the country reviewed. However, if the necessary political will is not forthcoming from the Government, the participating states should first do everything practicable to engage it in constructive dialogue, offering in the process technical and other appropriate assistance. If dialogue proves unavailing, the participating Heads of State and Government may wish to put the Government on notice of their collective intention to proceed with appropriate measures by a given date. The interval should concentrate the mind of the Government and provide a further opportunity for addressing the identified shortcomings under a process of constructive dialogue. All considered, such measures should always be utilized as a last resort.

Six months after the report has been considered by the Heads of State and Government of the participating member countries, it should be formally and publicly tabled in key regional and sub-regional structures such as the Pan-African Parliament, the African Commission on Human and Peoples’ Rights, the envisaged Peace and Security Council and the Economic, Social and Cultural Council (ECOSOCC) of the African Union. This constitutes the **Fifth and final stage** of the process.

**Duration of the Peer Review**
The duration of the review process per country should not be longer than six months, commencing on the date of the inception of Stage One up to the date the report is submitted for the consideration of the Heads of State and Government.

**Funding of the Peer Review Mechanism**

Funding for the Mechanism will come from assessed contributions from participating member states.

**Review of the APRM**

To enhance its dynamism, the Conference of the participating countries will review the APRM once every five years.
Annexure C

Overview of the African Monetary Institute (AMI)

African Monetary Institute (AMI)

To forge a common front, the African Union Commission and Association of African Central Banks Governors agreed in Tripoli in 2007 to set up the Joint AUC-AACB Committee to define a common strategy for the establishment of the African Central Bank. Since then, the AACB and AUC organs have regularly discussed the implementation, monitoring and evaluation of the AACB AMCP and AU Abuja Treaty, respectively. The Joint Committee at its inaugural meeting in 2007 in the AUC headquarters, agreed as follows:

- Macro-economic convergence remains a prerequisite to the introduction of a common currency and the creation of the ACB. In this regard, the Committee recommended re-assessment of the convergence criteria and harmonization of economic policies. The AACB shall undertake a study for this purpose.
- The need to create an African common market (free movement of goods and services, labour and capital, and development of infrastructure) prior to attaining monetary integration. The AUC should carry out the relevant studies with the input of the AACB on capital market development, and ensure implementation.
- The Regional Economic Communities (RECs) should be the pillars of economic and monetary integration in Africa.
- The creation of African Monetary Institute (AMI) as a transition stage towards the creation of the ACB and an AMI - ACB Steering Technical Committee shall be established by the AUC-AACB Joint Committee.

The Joint Strategy on the Establishment of the African Central Bank (ACB) proposed that an African Monetary Institute (AMI) should be established to undertake the preparatory work leading to the African Monetary Union. The AMI should then report through the Joint Committee to the Conference of African Ministers of Economy and Finance (CAMEF), the Council of Ministers and Heads of State.

The AMI will be responsible for the preparatory technical, policy, statistical, legal and institutional groundwork leading to the establishment of the African Central Bank (ACB). Furthermore, AMI will support the AU organs and the RECs in the implementation of the monetary cooperation programme and liaise with the RECs Secretariats, and work closely with Regional Monetary Institutes and Sub-regions in monitoring and implementing the macro economic convergence and financial integration aspects of their strategic plans.

The proposed AMI will be an AU organ. Consequently, it will be funded through the budget of the AU. However, the AMI will be operationally independent and may receive financial and technical support from other sources.

The proposed AMI will periodically review the design of the Strategic Plan and Roadmap for the establishment of the African Central Bank (ACB) to take into account
emerging African realities. It will also undertake any other initiatives needed to facilitate the integration process in Africa.

Role of the African Monetary Institute (AMI)

A non-exhaustive list of functions that the AMI is expected to undertake is outlined below:

- Undertake the implementation of the Joint Strategy;
- Undertake all the technical, policy, statistical, institutional and legal preparations to attain the Continental Monetary Union, African Central Bank and Single Currency;
- Review and advise on the revision of the macroeconomic convergence criteria of the AMCP and monitor the state of macroeconomic convergence of the member states and RECs against the agreed criteria;
- Advise on the merits of alternative monetary policy frameworks;
- Advise on the design an appropriate Exchange Rate Mechanism (ERM). The AMI would be responsible for determining the value of the common currency and the conversion rates of national and RECs currencies into the common currency;
- Contribute to the implementation of the African Statistics Charter and the Strategy for Statistical Harmonization in Africa;
- Make recommendations for the harmonization and coordination of monetary and exchange rate policies in the run-up to monetary union;
- Monitor fiscal policies and public debt at national and REC levels;
- Recommend appropriate supervisory and regulatory frameworks for an integrated financial and capital markets in the region;
- Advise on harmonization of financial system regulations and accounting practices in all member countries;
- Make recommendations for the development of a Continental Payments and Settlement System;
- Define possible links between the three African financial institutions - ACB, AMF and AIB and their interaction with the existing national and regional institutions;
- Undertake studies and prepare reports recommending the establishment of the African Central Bank;
- Define the possible institutional relationships between the ACB and, national central banks and REC central banks, focusing on such issues relating to ownership, governance system, management of foreign reserves, and financial system surveillance, supervision and regulation;
- Define the entry and exit criteria for participation in the monetary union as well as the conditions for entry into force of the ACB;
- Develop a framework for a sensitization and communication programme on the net benefits of a single currency in order to create wide public support for the introduction of a common currency;
- Review the design of the Strategic Plan and Roadmap to take into account emerging African realities;
- Liaise with the RECs Secretariats and AACB Executive Secretariat, and coordinate regional monetary institutes in implementing the macroeconomic convergence and financial integration aspects of their regional strategic plans;
- Develop the minimal conditions for the creation of single currency in Africa; and
- Undertake any other tasks assigned to it.

The strategy for the establishment of the African Central Bank (ACB) provides for the necessary stages, the approach, roadmap with clear timelines and the establishment of the African Monetary Institute (AMI) as an indispensable transitional organ towards the creation of the common currency. It is understood that participating countries and RECs will strive to adhere to the proposed timetable.

**Source**
Joint AUC-AACB strategy on the establishment of the African Central Bank (ACB), available:https://au.int/sites/default/files/pages/32815-file-african_central_bank_joint_strategy_e.pdf