

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

**4th Specialized Technical Committee on
Finance, Monetary Affairs, Economic
Planning and Integration
Experts Meeting
9-11 March 2020
Accra, Ghana**

Eco/STC/MAEPI(IV)/EXP/3

AFRICAN UNION
الاتحاد الأفريقي



UNION AFRICAINE
UNIÃO AFRICANA

**Specialized Technical Committee on
Finance, Monetary Affairs,
Economic Planning and Integration
Experts' Meeting
9-11 March 2020
Accra, Ghana**

Eco/STC/MAEPI(IV)Exp/3

**Progress Report on the Establishment of the African Union Financial
Institutions**

I. Background

1. The Heads of State and Government of the Member States of the Organization of African Unity (OAU) adopted the Treaty Establishing the African Economic Community (AEC), known as the Abuja Treaty, in June 1991 in Abuja, Nigeria, which entered into force in 1994. The aim of the Abuja Treaty was to develop the continent for current and future generations by utilizing all available human and natural resources. Its main objective is “to *promote economic, social and cultural development and the integration of African economies, in order to increase economic self-reliance and promote an endogenous and self-sustained development*”.

2. The Abuja Treaty states that the African Economic Community (AEC) should be established through six (6) stages with the last one being devoted, inter alia, to the implementation of the final step for the setting up of an African Monetary Union, the establishment of an African **Central Bank (ACB)** and the creation of a single African Currency.

3. In July 2000, the 36th OAU Summit held in Lomé, Togo, adopted the Constitutive Act of the African Union (AU), whereby the Heads of State and Government of the OAU completed the financial architecture of the AEC with the creation of two additional financial institutions: the African Monetary Fund (AMF) and the African Investment Bank (AIB). Article 19 of the Constitutive Act provides the creation of three institutions, namely the African Central Bank, the African Monetary Fund and the African Investment Bank. Furthermore, in January 2006, in Khartoum, Sudan, the Commission was requested by the Assembly of the African Union (Assembly/AU/Dec.109), to conduct a feasibility study on the creation of a Pan-African Stock Exchange (PASE). The three financial institutions and the PASE form the African Union Financial Institutions (AUFIs).

II. The Role of the African Union Financial Institutions in Financing the Fourth Industrial Revolution

4. The launch of the operational phase of the African Continental Free Trade Area (AfCFTA) in July 2019, set the motion for African countries to embark on the industrialization of the continent. African countries missed out on opportunities provided by the past three industrial revolutions to expand their industrial base and create the employment that is necessary for reducing poverty and generating wealth. The Fourth Industrial Revolution (4IR) has the potential to increase the combined GDP of African countries by an estimated US \$3.4 trillion. Estimates project that artificial intelligence will add approximately US \$15 trillion to global GDP by 2030, US \$6.6 trillion of which will be from increased productivity¹. African countries should position themselves to benefit from the current wave of industrialization by adopting the right policies and strategies.

¹¹ Ndung'u, N., & Signe, L. (2020). Capturing the Fourth Industrial Revolution: A regional and national agenda, in Foresight Africa 2020 Report. Retrieved from <https://www.brookings.edu/research/the-fourth-industrial-revolution-and-digitization-will-transform-africa-into-a-global-powerhouse/>

5. Financing industrialization requires a substantial amount of funding and the role of the AUFIs in this regard cannot be underestimated. The AUFIs are particularly critical for raising the funding necessary for industrialization, as the traditional sources of financing such as ODA and FDI have continued to decline over the years. African leaders recognized the importance of raising domestic resources to finance the development of the continent, in particular, the African Union's Agenda 2063 and the United Nations' Sustainable Development Goals (SDGs). In that regard, the AU outlined several strategies for domestic resources mobilization in the financing plan for Agenda 2063, including existing and new financing instruments.

6. The establishment of the African Investment Bank is key among the new financing instruments as it will facilitate capital market development on the continent. Developing the bond and securities markets will provide alternative long-term capital for financing Africa's development. The 4IR will require substantial amounts of public and private investment in human capacity development and IT infrastructure. A new set of skills and innovative capacity are major drivers of the 4IR, and African countries should adapt quickly to ensure that the continent benefits from this wave of industrialization. As technological advancements take root, governments will have to work with the private sector for cost-effective financing of the new and improved technologies. Regional integration would be beneficial in reducing costs of acquiring technology, especially financial technology that is aimed at reducing transaction costs across countries.

7. The Pan-African Payment and Settlement System (PAPSS) being promoted by Afreximbank and adopted at the African Union Extraordinary Summit held in Niamey in July 2019, to promote cross-border trade in local currencies and address liquidity constraints, is relevant and critical in the context of the successful operationalization of the African Continental Free Trade Agreement (AfCFTA). In a fast-digitalizing world, quick settlements of trade transactions have become increasingly critical to meet the market requirements that come with regional integration and trade. African countries operate in multiple currencies and attempting to settle payments for the increasing cross-border activities could prove to be cumbersome. Usually, a third currency (USD/Euro) is used to settle payments, resulting in increased costs, delayed transactions and heightened exchange risks. In response to this problematic, the role of the AUFIs and other continental and regional financial institutions has become even more important, as an integrated financial environment will facilitate cross-border transactions and will provide an ecosystem for financial innovation and successful implementation of the AfCFTA.

8. A successful operationalization of PAPSS will require continuing close collaboration with existing African national and regional central banks, pending the establishment of the continental African Central Bank. The provision of payment and settlement systems is an intrinsic function that central banks have historically performed. And in a digital era, a close collaboration with Central Banks which provide the legal and regulatory framework required for a well-functioning payment and settlement system will help mitigate risk associated with cross-border payments, including credit, liquidity, and operational risk.

III. Progress on the setting up of the Financial Institutions

9. Some progress, albeit slow, has been registered toward the establishment of the AU financial institutions. In recognition of the importance of the financial institutions for catalyzing domestic resources mobilization for the development of the continent, efforts were made to accelerate the gains that have been made. Of particular significance was the appointment of H. E. Nana Addo Dankwa Akufo-Addo as the Champion for the establishment of the AU financial institutions. The role of the Champion is to sensitize and advocate for the establishment of the AUFIs, with a view to accelerating their implementation. The appointment of the Champion was a particularly important step in addressing some of the concerns raised by respondents in the study undertaken by the AUC to establish reasons for the slow ratification of the legal instruments establishing the AUFIs. Lack of political will, limited information and understanding are some of the issues that the Champion will address. Progress registered thus far on each of the financial institutions is as follows:

10. **African Investment Bank:** The Protocol of the African Investment Bank was adopted in February 2009 during the twelfth Ordinary Session of the Assembly of the African Union held in Addis Ababa, Ethiopia, (Assembly/AU/Dec.212 (XII)), while its Statute was adopted later on in February 2010 during the fourteenth Ordinary Session of the Assembly of the African Union held in Addis Ababa, Ethiopia (Assembly/AU/Dec.286 (XIV)). As of today, twenty-two signatures of the legal instruments of the AIB had been registered: Angola, Benin, Burkina Faso, Chad, Cote d'Ivoire, Comoros, Congo, Democratic Republic of Congo, Gabon, Gambia, Ghana, Guinea-Bissau, Guinea, Libya, Liberia, Madagascar, Niger, Senegal, Sierra Leone and Sao Tome & Principe, Togo, and Zambia. Among them, only six have ratified these instruments: Benin, Burkina Faso, Chad, Congo, Libya, and Togo.

11. **African Monetary Fund:** The Protocol and the Statute of the African Monetary Fund were adopted in June 2014 during the 23rd Ordinary Session of the Assembly of the African Union held in Malabo, Equatorial Guinea (Assembly/AU/Dec.517 (XXIII)). As of today, twelve signatures have been registered: Benin, Cameroon, Chad, Comoros, Congo, Ghana, Guinea, Guinea-Bissau, Mauritania, Sao Tome and Principe, Togo, and Zambia. Only one instrument of ratification has been deposited by Chad. The AUC and the government of Cameroon signed the Headquarters Agreement for the AMF in March 2019.

12. **African Central Bank:** The AUC and AACB revised the timelines for the establishment of the ACB, using the AACB report on the refinement of the macroeconomic convergence criteria of the African Monetary Cooperation Programme (AMCP) as the reference document, as directed by the 3rd Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration. Following the revision of the timelines, the AUC and AACB organized a consultative meeting with the RECs on the macroeconomic convergence criteria and the timelines for the establishment of the ACB. The AUC undertook follow-up visits to the RECs Secretariats to further discuss the alignment of RECs programs to the continental

macroeconomic convergence framework. The emerging consensus from the consultation was that, the African Monetary Institute should be established as a matter of priority to oversee the implementation of the macroeconomic convergence criteria of the AMCP by the Member States and RECs.

13. The AUC and the Central Bank of Nigeria drafted the statute and structure of the African Monetary Institute (AMI), in preparation for its establishment during the course of the year. The draft statute and structure were considered by the AACB Bureau in February 2020, who made their inputs and recommended it for submission to the STC on Finance, Monetary Affairs, Economic Planning, and Integration.

14. **Pan African Stock Exchange:** In an effort to fast-track the integration of African securities exchanges, the AUC and African Securities Exchanges Association (ASEA) finalized the negotiation of a Memorandum of Understanding (MoU). The MoU specifically aims to pave the way for the two parties to work together on the economic development of the continent through the capital markets. The AUC wishes to engage ASEA members to fast-track the implementation of the Pan African Stock Exchange, with some ASEA members involved in the African Exchanges Linkage Project. The two projects are similar in that they are striving for the integration of securities and capital markets on the continent, advancing the African regional integration agenda in the process.

IV. Challenges

15. The main challenges towards the establishment of the AUFIs include the slow ratification of the legal instruments. Since adoption in 2009 and 2014 for the AIB and AMF, respectively, none of the financial institutions has reached the requisite number of ratifications to enter into force. In addition, there is a shortage of financing for the establishment of the AUFIs, and this is particularly detrimental to the operationalization of the AMI, which is the first step toward the establishment of the ACB.

V. Conclusions and Recommendations

16. Progress toward the establishment of the AUFIs is slow, hampered by lack of adequate financing and commitment of AU Member States to ratify the legal instruments establishing the AIB and AMF. Efforts of the AUC to speed up progress include:

- Facilitating the work of the AU Champion for the establishment of the AUFIs;
- Advocating for the signature and ratification of legal instruments establishing the AUFIs through an intensive Communication Strategy;
- Negotiating with the Nigerian Government and AACB to mobilise funds for the commencement of the AMI operationalization;
- Implementing the MoU with ASEA to fast-track progress toward the establishment of a Pan African Stock Exchange;

- Organizing workshops to sensitize the relevant stakeholders on the importance of the AU financial institutions;
- Taking advantage of platforms of the Regional Economic Communities (RECs) and AfCFTA Secretariat to enlighten Member States on the importance and benefits the AUFIs;
- Working closely with the AUFIs' host countries in advocating for the ratification of the legal instruments establishing the AUFIs; and
- Start the implementation of the strategy developed to expedite the signatures and ratifications of the legal instruments of AUFIs.