Overview of initiatives to promote convergence in the context of regional integration: an African perspective

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1. Introduction

1.1 The imperative for regional integration stems from a desire to minimise the cost of trade between nations and facilitate market access and growth for the region's industries, as well as to strengthen the economic power of the combined member states vis-à-vis third parties. For Africa, integration is also a developmental necessity in relation to trade, economic performance and strengthening of policy credibility and effectiveness. With organisational and institutional initiatives towards regional integration, there is scope to increase intra-regional trade, develop regional infrastructure, improve administrative efficiency, facilitate higher levels of investment and industrialisation and reduce political contamination of macroeconomic policies.

1.2 Specific to macroeconomic policy convergence, it is argued that it provides efficiency and growth through the elimination of exchange rate uncertainty and transaction costs; ensures monetary stability (price stability and lower interest rates); and member countries would cultivate discipline to avoid excessive deficits. This paper outlines specific initiatives towards regional integration in Africa and efforts towards attaining macroeconomic convergence. The following Section outlines the institutional steps towards regional integration in the African context. Section 3 discusses some elements of convergence and the expected benefits, while Section 4 assesses the region's performance with respect to convergence criteria and other expectations arising from regional integration initiatives. Section 5 covers concluding observations.

2. Regional integration in the African context

2.1 Regional integration initiatives in Africa are undertaken under the auspices of the African Union's (AU) programme of transition to an African Economic Community (AEC) established in terms of the Abuja Treaty (signed in June 1991) and the Constitutive Act of the AU adopted in 2000. The African Union has designated regional economic communities (RECs) as the building blocks towards achieving an African Economic Community. The process envisages the gradual integration of African economies through a transition process from establishing free trade areas, customs unions, common markets, monetary unions, culminating in one continental central bank (African Central Bank) and single currency.

2.2 In a free trade area, the group of countries eliminate tariffs and non-tariff barriers on substantially all trade between them with each country maintaining tariffs on non-members. For a customs union, the group of countries constitutes a single customs territory in which duties and other restrictive trade regulations are eliminated for substantially all trade between the parties and, in addition, there is a common

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external tariff applied to trade with non-members. In a common market, restrictions on the movement of capital and labour are removed, allowing for free movement of goods, services and factors of production. A monetary union establishes a single monetary authority which conducts monetary policy for the union, resulting in introduction of a single currency (SADC FTA Brochure, 2009).

2.3 Integration is undertaken in consideration of features/characteristics of an optimal currency area (OCA) which for the region include:

(a) price and wage flexibility

(b) financial market integration

(c) factor market integration

(d) goods market integration

(e) political integration

2.4 The major drawback is loss of monetary policy independence for the individual countries. In moving ahead with integration, it is considered that the benefits in terms of trade, optimal policy formulation, welfare and increase in living standards outweigh the loss of policy independence for the individual countries. Moreover, it is considered that over time the desire to work towards economic integration brings its own benefits, for example, through complementing monetary union with free regional trade and pursuit of accompanying economic and institutional integration steps, (Ghosh, Guide and Wolf, 2008, p176). While, initially, poor transaction links and a lack of complementarity in output provide structural reasons for low integration, aggravated by uneven progress in implementing trade liberalisation agreements, targeting a customs union, which would include the elimination of intra-union tariffs and the harmonisation of indirect taxes leads to progress in economic integration. On process and administrative issues, it has also been noted that a regional approach in key structural areas, such as tariff reduction and harmonization, legal and regulatory reform, payment systems rationalization, financial sector reorganization, investment incentive and tax system harmonization, and labor market reform – enables participating countries to pool their resources and avail themselves of regional institutional and human resources, in order to attain a level of technical and administrative competence that would not be possible on an individual basis. The regional approach also allows countries to assert their interests from a stronger and more confident position in the international arena (Outtarra, 1999).

2.5 In addition, the focus on common and optimal macroeconomic policies ultimately leads to better outcomes with respect to important economic indicators. There is, as well, the desire to foster interregional trade and capital flows, to insulate monetary policy from national politics, and to bolster defenses against the vagaries of global capital flows by pooling reserves (Ghosh, Guide and Wolf, 2008). It is noted, for example, that,

> "The European experience suggests two possible benefits, policy credibility and trade and financial integration. Indeed, while the original motivation for European monetary integration in the 1970 Werner Report was fostering greater integration of goods and capital market in Europe, in the event the impetus for maintaining fixed exchange rates (and eventually adopting a single currency) was to import the Bundesbank's policy credibility to aid disinflation efforts in the early 1980s" (Ghosh, Guide and Wolf, 2008, p186)

2.6 In line with this integration and transition process, the African Union recognises eight RECs, namely, Arab Maghreb Union (UMA); Community of Sahel-Saharan States (CEN-SAD); Common Market for Eastern and Southern Africa (COMESA); East African Community (EAC); Economic Community of West African States (ECOWAS); Economic Community of Central African States (ECCAS); Inter-Governmental Authority on Development (IGAD); and Southern African Development Community (SADC). In addition there are six other inter-governmental organisations working on the integration agenda: the Central African Monetary and Economic Community (CEMAC); Economic Community of the Great Lakes States (CEPGL); Indian Ocean Commission (IOC); Mano River Union (MRU); Southern African Customs Union (SACU); and West African Economic and Monetary Union (WAEMU). Figure 1 illustrates the timeline and developments on transition to the AEC.

Figure 1

Regional integration efforts from OAU to AU

Timeline		
Formation: Organisation of African Unity	**1963**	
Established: Economic Community of West African States	**1975**	
Formalised: Southern African Development Coordinating Conference (SADCC)	**1980**	Lagos Plan of Action
Established: Preferential Trade Area	**1981**	
	1983	Established: Economic Community of Central African States
Western Sahara admitted into the OAU	**1985**	Morocco withdraws membership from OAU
Established: Intergovernmental Authority on Drought and Development	**1986**	
Established: Arab Maghreb Union	**1989**	
	1991	Abuja Treaty establishes African Economic Community
SADCC transformed into Southern African Development Community	**1992**	
Established: Common Market for East and Southern Africa replaces PTA	**1994**	OAU referred to as AU/AEC
Established: Intergovernmental Authority on Development (IGAD) replaces IGADD	**1996**	
	1998	Established: Community of Sahel-Saharan States (CEN-SAD)
Call to Establish the African Union	**1999**	Established: East African Community (EAC)
	2000	Constitutive Act of the AU adopted
Adoption of the New Partnership for Africa's Development (NEPAD)	**2001**	
NEPAD: African Peer Review Mechanism (APRM) approved	**2002**	Inaugural Summit and Formation of the AU replaces OAU/AEC MoU: Conference on Security, Stability, Cooperation and Development in Africa (CSSDA)
Inauguration of Pan African Parliament	**2004**	
	2008	Historic: Joint EAC – COMESA – SADC Summit to develop a combined Free Trade Area (FTA)

2.7 A feature of these regional inter-governmental organisations, which potentially slows progress, is the significant overlapping of membership motivated by strategic and political considerations, as well as economic benefits and geographical contiguity. The disadvantages of multiple memberships include difficulties and tardiness in relation to: meeting financial obligations to the RECs; focusing on numerous agenda of each REC; low ratification and implementation of agreed treaties and programmes; incompatibility of some programmes; duplication of effort; and little support for, and understanding of RECs in member countries. The other concern with overlapping and uncoordinated membership is with respect to countries belonging to broader regional groupings pursuing economic integration, which also include countries that do not belong the monetary unions, which raises operational issues, as well as the issue of possible future enlargement (Ghosh, Guide and Wolf, 2008). These concerns and impediments to progress led the AU Summit held in Banjul in 2006 to put a moratorium on the recognition of new RECs.

2.8 Work is, therefore ongoing on the regional integration agenda to promote policies and programmes that would speed up formation of the AEC; promote intra-African trade; harmonise and coordinate policies and programmes in RECs; and promote and develop infrastructure policies and programmes (Mouyelo-Katoula and Nshimyumuremyi, 2007). In essence, it is considered imperative to widen the region's economic space so as to generate economies of scale for production and trade and to maximise the welfare functions (United Nations Economic Commission for Africa, 2008). In summary, the envisaged phases for transition to AEC are as follows:[2]

(a) Creation of regional blocs to be completed by 1999

(b) Strengthening of intra-REC integration and inter-REC harmonisation to be completed in 2007

(c) Establishment of free trade area and customs union in each regional bloc to be completed in 2017

(d) Establishment of continent-wide customs union and thus also a free trade area to be completed in 2019

(e) Establishment of a continent-wide African Common Market to be completed in 2023

(f) Establishment of a continent-wide economic and monetary union and, thus, also currency union and pan-African Parliament to be completed in 2028

(g) End of all transition periods by 2034 at the latest.

3. Convergence in the context of regional integration in Africa

3.1 Convergence in the context of regional integration is essential to establish commonality in an economic region, in particular relating to economic performance, institutions, regulation, access to infrastructure, as well as policy-making and administrative processes. Given that economic integration entails a common approach to policy formulation or a central policy-making authority, it is important that this is not constrained by considerations of asymmetry or disparate

[2] This programme may, however, become redundant as the AU pushes for the fast tracking of the African financial institutions.

performance with respect to economic indicators and national institutions. Moreover, to have a common effect across the region, centralised policy has to reflect symmetrical developments and need to be transmitted through similar institutions and administrative processes. Symmetry for the region can be assessed in terms of whether: shocks to GDP are in the same direction; the shocks are of comparable magnitude; and whether the union's aggregate GDP is dominated by movements of one or two idiosyncratic members?

3.2 In addition to issues of symmetry in economic performance and policy formulation, it is also important to have similar standards and a coordinated approach to regulation of (systematically) important institutions such as the financial sector and economic activities, for example relating to control of monopolies and competition. Beyond regulation, other considerations relate to harmonisation of legislation, institutions, statistics and administrative processes, for example relating to tax and trade incentive structures, tariffs, business and labour laws, as well as payment systems.

3.3 The focus on convergence can also improve general governance, adherence/monitoring and, in turn, performance with respect to both economic and social development. Convergence almost implies the adoption of the highest standard or optimal policy over which there are monitoring mechanisms and sanctions for non-performance. There is, therefore, self-imposed policy and regulatory discipline that motivates adherence and which engenders policy credibility, helping to promote investment and market opportunities. In essence, regional surveillance and the dialogue between the various partners help reduce the risks of macroeconomic slippage, resulting in a more stable, predictable environment, which is an essential factor for the private sector to flourish. Furthermore, the conditions and obligations associated with participation in an ambitious reform program within a regional organization also facilitate the work of the domestic authorities in implementing politically difficult measures, such as lowering tariffs or instituting wide-ranging reforms of the regulatory and judicial systems (Ouattara, 1999).

3.4 Specific Initiatives in the African Context are, therefore, in the policy areas, infrastructure development, trade integration and administrative processes/legal reforms.

(a) Macroeconomic convergence

3.5 Convergence criteria normally centre around economic indicators that are related to macroeconomic policy formulation and performance. These include the level of inflation, interest rates, exchange rate performance, and budget deficit and government debt to GDP ratios. The African Monetary Cooperation Programme provides a blueprint for macroeconomic convergence in the African context and was formulated with the objective of ensuring the adoption of collective policy measures that foster a harmonised monetary system and common management of institutions. The programme has a long-term perspective and involves (a) the adjustment of member countries exchange rate to equilibrium levels, (b) eventual current and capital account convertibility, and (c) the pursuit of market-oriented monetary policy. The ultimate aim is to evolve (through the regional central banks) towards a single monetary zone by 2021, with a common currency and continental central bank (Table 1).

Table 1

Stages for implementation of the African Monetary Cooperation Programme (AMCP)[1]

Stage I: 2002–2003	TableText Adoption by sub-regions of monetary integration programmes
Stage II: 2004–2008	1. Harmonisation and coordination of macroeconomic and monetary policies 2. Gradual interconnection of payments and clearing systems (a) Promotion of African banking networks (b) Promotion of sub-regional and regional stock exchanges (c) Strengthening and harmonisation of banking and financial supervision 3. Observance of the following macroeconomic indicators by 2008 (a) Budget deficit/GDP ratio not exceeding 5 percent (b) Central bank credit to government not exceeding 10 percent of previous year's tax revenue (c) Single digit inflation rate (d) External reserves/import cover of at least 3 months
Stage III: 2009–2012	Observance of the following macroeconomic indicators by 2012 (a) Budget deficit/GDP ratio not exceeding 3 percent by 2012 (b) Elimination of central bank credit to the government (c) Inflation rate of less than 5 percent (d) External reserves/import cover equal or greater than 6 months
Stage IV: 2013–2015	Assessment of macroeconomic performance and negotiation for the establishment of a common central bank (2015); consolidation of third stage achievements (a) Inflation rate of less than 3 percent (b) Continuous assessment of macroeconomic indicators against convergence criteria; comparative analysis referred to a Convergence Council (c) Commissioning of a study on the establishment of an African Exchange Rate Mechanism
Stage V: 2016–2020	Finalisation of arrangements for launching the African Monetary Union (a) Preparation of institutional, administrative and legal framework for setting up the common central bank and currency of the African Monetary Union (b) Review of commissioned study on the African Exchange Rate Mechanism; operationalisation of the mechanism (c) Appointment of key officers of the common central bank (d) Preparation for the introduction of a common currency (e) Recruitment of staff of the Bank (f) Mid-term assessment of country performance (g) Final assessment of countries' performance against convergence criteria

Table 1 (cont)

Stages for implementation of the African Monetary Cooperation Programme (AMCP)[1]

Stage VI: 2021	1. Introduction and circulation of the common African currency 2. A transitional period during which sub-regional monetary institutions would operate alongside the African Central Bank

[1] The AMCP was adopted by the Association of African Central Banks (AACB) in Algiers in September 2002.

Source: www.aacb.org.

3.6 Broadly, macroeconomic convergence is in the two areas of monetary policy and fiscal policy. Among the initiatives in this respect is the transition towards an African Central Bank. However, this is preceded by creation of regional central banks (in the context of regional economic communities) and within this framework, there are efforts to ensure effective policy-making by these institutions.[3] In particular, central bank legislation is being reviewed to achieve independence and proper allocation of institutional responsibilities. For example, within SADC, a model central bank law has been completed to guide country legislation that would conform to the ideals and policy perspective of a regional central bank. Table 2 outlines the objectives of monetary cooperation in selected RECs and Table 3 shows the macroeconomic convergence criteria.

Table 2

Main Objectives of REC Monetary Cooperation

REC	Main Objectives of REC Monetary Cooperation
CEMAC	1. To create the conditions for harmonious economic and social development 2. To create a single currency for all member states 3. Ensure internal and external stability of the common currency
COMESA	1. Macroeconomic stability 2. Reduction of transaction costs 3. Free movement of persons
EAC	1. Attainment of monetary union 2. Application of element of EAC Treaty that defines integration strategies
ECOWAS	1. Creation of monetary union through the observance of a set of macroeconomic convergence criteria and implementation of a set of structural reforms all aimed at ensuring and sustaining macroeconomic stability of member states

[3] There is, nevertheless a challenge in that some of the RECs programmes do not conform to that of the AU in the sense that some of the regional central banks are planned to be established after the African Central Bank and so are some of the regional currencies.

Table 2 (cont)

Main Objectives of REC Monetary Cooperation

SADC	1. Attainment of macroeconomic convergence in the region 2. Harmonisation of taxation policies and related matters 3. Harmonisation of monetary policies 4. Convertibility of the regional currencies and elimination of exchange controls for the establishment of a single currency in the region 5. Establishment of SADC Monetary Union
WAEMU	1. Manage monetary policy of member States; the policy is aimed at promoting economic growth 2. Strengthen the monetary union and economic integration of the Union's member States by increasing the competitiveness of their economies 3. Develop monetary discipline and solidarity 4. Promote commercial transactions and capital investments 5. Create macroeconomic stability

Source: UNECA.

Table 3

Macroeconomic Convergence Criteria

RECs	Primary Criteria	Secondary Criteria
CEMAC	1. Budgetary balance must be non-negative 2. Annual inflation has to be less than 3 percent 3. Rate of public debt has to be no more than 70 percent 4. Non-accumulation by the state of internal and external debt in the current period	1. Investment rate versus GDP 2. Ratio of payroll to total budgetary revenues 3. Current account on GDP
COMESA	1. Ratio of fiscal deficit to GDP, excluding grants 2. Inflation rate 3. Reserve accumulation	1. Use of indirect monetary policy instruments 2. Interest rate policy 3. Achievement of market determined exchange rates 4. Growth 5. Savings 6. Investment 7. External current account, excluding grants 8. External debt

Table 3 (cont)

Macroeconomic Convergence Criteria

EAC	(No difference between primary and secondary criteria) 1. GDP growth rate: A high a sustainable rate of growth of real GDP, with 7 percent as the minimal annual rate (by the year 2000) 2. Inflation: Maintenance of low and stable underlying inflation to single digit rates of less than 5 percent (by the year 2000) 3. Current account deficit excluding grants/GDP; reduction of the current as a percentage of GDP to sustainable levels 4. Budget deficit (excluding grants)/GDP: Reduction of budget deficit to less than 5 percent (by the year 2000) 5. National savings/GDP: raising national savings-to-GDP ratio to at least 5 percent (by the year 2000) 6. Gross foreign exchange reserves in months of import of goods and services: Build gross foreign reserves to a level equivalent to six months of imports in the medium term 7. Maintenance of low and stable market-determined exchange rates 8. Maintenance of low market-determined interest rates 9. Pursuit of debt reduction initiatives to reduce both domestic and foreign debt, including statutory borrowing limits 10. Maintenance of prudential norms of banking regulation, effective supervision, improved corporate governance and transparency of all financial transactions	
ECOWAS	1. Inflation rate = 5 percent 2. Ratio of budget deficit (excluding grants) to GDP (commitment basis) 4 percent 3. Ceiling on central bank financing of budget deficit to 10 percent of previous year's tax revenue 4. Gross reserves not less than 6 months of imports	1. Prohibition of all domestic arrears and liquidation of all existing arrears 2. Tax revenues/GDP ratio ≥ 20 percent 3. Salary mass/tax revenue ≤ 35 percent 4. Capital expenditure/tax revenue ≥ 20 percent 5. Real exchange rat stability 6. Positive real interest rate
SADC	1. Inflation 2. Budget deficit/GDP 3. Debt/GDP 4. Current account/GDP	1. Economic growth 2. External reserves/imports 3. Central bank credits/government 4. Domestic investment/GDP 5. Domestic savings/GDP

Table 3 (cont)

Macroeconomic Convergence Criteria

WAEMU	1. Budget deficit/GDP ≥ 20 percent	1. Wage bill/tax revenue ≤ 35 percent
	2. Average annual inflation rate maintained at a maximum of 3 percent	2. Public investment/tax revenue ≥ 20 percent
	3. Ceiling on total public debt/GDP	3. Tax revenue/GDP ≥ 17 percent
	4. Non-accumulation of internal and external arrears	4. Current account deficit/GDP ≤ 5 percent

Source: UNECA.

(b) Trade and market integration

3.7 In the main, trade and market integration is intended to be achieved through transition to customs union arrangements and harmonisation of tariffs, such that the flow of goods and services between the countries (constituting the REC) is on the same terms and conditions as within countries. Market and trade integration within the RECs is, therefore, being promoted through measures such as the removal of tariff barriers to intra-REC trade, removal of non-tariff barriers and the development and enactment of common trade policies (United Nations Economic Commission for Africa, 2008). The creation of and/or accession to customs unions would result in a reduction in the number of RECs, as countries belonging to more than one REC have to choose which customs union to join. In terms of progress, the East African Community became a customs union in 2005, while for SADC, there is a programme to establish a customs union by 2010; by 2008 twelve (of the 14) SADC countries had established a Free Trade Area envisaging no payment of tariffs for 85 percent of all trade in Community goods for the 12 countries.

(c) Financial integration

3.8 The regional cooperation agenda recognises the need for effective financial markets to mobilise resources in support of development objectives, by increasing both the quantity and productivity of investments, as well as enhancing competition in the financial sector and improving corporate governance. The range of instruments availed by developed financial markets facilitate policy transmission as well as serving as a platform for regional integration and for Africa to integrate into the global economy. Integrated financial and capital markets also potentially address the thinness and lack of liquidity. There is also scope for reducing costs, enhancing capacity building, maximizing resource mobilization and allocation.

3.9 Therefore, there are efforts being made towards the establishment of regional institutions, adoption of common policies and regulatory frameworks and harmonisation of standards. It is suggested that the EAC could serve as a model for the integration of financial markets in Africa where there are specific areas of cooperation as follows: policy formulation; regulatory and legal issues; and structural and institutional matters. A Capital Markets Development Committee initiates common policies and is made up of representatives of member states from central banks, securities markets regulators, ministries of finance/treasury, stock exchanges, and insurance and pension fund regulators (United Nations Economic Commission for Africa, 2008). In the SADC region, the SADC Committee of Stock Exchanges provides leadership and oversight for the harmonisation of listing requirements and operating systems for exchanges of member states, as well as the qualification of the region's stockbrokers. In addition it encourages cross-listing. WAEMU countries are served by a regional stock exchange, the Bourse Regionale des Valeurs Mobiliéres/West African Stock Exchange (BRVM), which was established in 1998 with eight regional branches interconnected to the headquarters under the supervision of the Regional Savings and Capital Market Board. In the context of the ECOWAS region, the BRVM also cooperates with the Nigerian Stock Exchange and the Ghana Stock Exchange to achieve convergence of rules, surveillance procedures and training. Other examples are the Central African Exchange and cooperation agreements in the AMU region.

3.10 The SADC payments system project is also notable. The project aims to assist individual countries in SADC to define a payment system strategy and development plan, and to define a coordinated regional approach to cross-border payments. A sound and robust domestic payment system within each country is a prerequisite for defining a cross-border payment strategy.

(d) Convergence measurement and statistical harmonisation

3.11 Yet another important initiative relates to enhancing the comparability of convergence and other economic and social indicators. This will facilitate a better assessment of the economic and social integration process. Some unions and RECs have, therefore, created statistical units/institutions aimed at strengthening the harmonisation of national statistics and building capacity. This effort is supported by the African Development Bank, which has set up a capacity building programme through the provision of financial and technical support under the framework of International Comparison Programme for Africa (ICP-Africa), (Mouyelo-Katoula and Nshimyumuremyi, 2007). The ICP is a global statistical initiative established to produce internationally comparable price and expenditure levels to facilitate cross-country comparisons of GDP and its sub-aggregates in real terms and free of price and exchange rate distortions (Mouyelo-Katoula and Nshimyumuremyi, 2007, p10).

3.12 The authors highlight the fact that GDP and inflation related indicators require relevant statistical systems to be harmonised at sub-regional and regional levels in terms of: (a) common definitions of indicators to be used to monitor convergence criteria; (b) the scope of the indicators in terms of their main components or the indicators they are derived from, status, as well as desired frequency; (c) determining the statistical framework which would ensure data comparability; and (d) providing guidelines for future activities in order to set up a harmonised statistical system for Africa.

(e) Overview and monitoring mechanism for convergence

3.13 The regional integration effort also incorporates frameworks for monitoring progress on macroeconomic convergence and implementation of the regional integration agenda. The AMCP, for example, requires that periodic (quarterly reports) be submitted to the Association of African Central Banks (AACB) Secretariat and the AEC/AU Secretariat in order to facilitate the monitoring and evaluation of performance of countries and RECs. The permanent institutional framework for monitoring performance at the level of member states and at the sub-regional level is a follows:

(a) ***Convergence Council***, comprising Ministers of Finance and Central Bank Governors, which will report to the Authority of the Heads of State and Government of the AU;

(b) ***Coordinating Committee***, made up of Bureau of the AACB, i.e., Chairman, Vice Chairman and Chairmen of the Regional Committees. The Committee evaluates proposals of the Technical Committee and makes recommendations for the consideration of the Convergence Council;

(c) ***Technical Committee***, comprising officials of Central Banks and Ministry of Finance evaluates and analyses information from the various sub-Regions and makes proposals to the Coordinating Committee, relating to macroeconomic convergence criteria.

3.14 Below this level, RECs also have organs in charge of carrying out and monitoring the macroeconomic convergence activities within the RECs.

4. Performance and assessment of integration and convergence initiatives

4.1 The United Nations Economic Commission for Africa report *Assessing Regional Integration in Africa III (ARIA III): Towards Monetary and Financial Integration in Africa* provides a comprehensive analysis of progress towards economic integration and convergence in monetary and fiscal policies.[4] Although the RECs have made some progress, Africa still faces a number of ongoing challenges. First, there are no enforcement mechanisms to deal with African States that decide not to adhere to protocols and treaties they are signatories to. Second, there is no compensation mechanism for the losers of the integration process, which also acts as a constraint for the full implementation of integration schemes. Third, compared to world standards, Africa's infrastructure network is generally very weak, constraining the physical integration of the continent. Fourth, the multiple memberships of countries in various RECs, and the resulting overlap and duplication of functions of the RECs also act as stumbling blocks to the integration agenda. Fifth, Africa's macroeconomic and financial environment is very weak. What is observed in most RECs are significant differences in tariffs, inflation, exchange rates, debt-to-GDP ratios, rate of money growth and other vital macroeconomic variables between member countries. In addition, it is suggested that, being reliant on agriculture and, for a subset, commodity exports, the intra-block trade shares – the traditional gauge of potential benefits from reduced exchange rate volatility following monetary union – are comparatively small. For the same reason member states are subject to potentially large asymmetric shocks to their terms of trade, the traditional gauge the potential cost of monetary union (Ghosh, Guide and Wolf, 2008). Nevertheless, there is persistence and endurance of the economic integration effort, possibly reflecting other (potential) benefits, such as policy credibility and macroeconomic stability. A notable example is the endurance of CEMAC and WAEMU, which have lasted for approximately sixty years.

4.2 In the ARIA II analysis the *a priori* assumption is that macroeconomic convergence could be a sign that policy initiatives and coordination in the RECs is achieving the desired outcome. Inflation is used to analyse convergence in monetary policy with the following results and conclusions:

(a) The variability of inflation among SADC countries has generally declined over time, signifying a tendency among the member countries to have convergence in macroeconomic policy, particularly monetary policy;

[4] The analysis focuses on selected RECs in Africa namely: SADC, COMESA, ECOWAS, CEMAC and WAEMU.

(b) A tendency of convergence of inflation values within COMESA indicating some convergence in monetary policies;

(c) Similar to SADC and COMESA, a generally decreasing variation in inflation is observed over time for the ECOWAS region;

(d) In the CEMAC region, the dispersion in inflation is relatively low and stable compared with the other RECs, reflecting a high level of inflation convergence among the member countries and strong convergence in monetary policy;

(e) The variability of inflation within WAEMU has decreased markedly since the late 1990s, showing clear evidence of monetary policy convergence among the member countries

4.3 Fiscal balance is used as the key indicator to capture progress made towards harmonizing fiscal policies within the various RECs. The reported results show that the "overall variability in fiscal balance within each REC was not too wide, thus indicating much faster convergence in fiscal policy within the regions".

4.4 There has been only very modest success in stimulating intra-regional trade because of, among others:

(a) lack of strong industrial capacity in the member States to produce diversified goods for trade within the region

(b) the multiple national currencies in Africa lack convertibility

(c) efforts towards monetary, financial and physical integration have not yielded significant results

(d) the cost of doing business in Africa is generally high due to infrastructure and service gaps, as well as duplicative and cumbersome trade procedures

(e) the free movement of people objective remains largely unrealised

4.5 Ghosh, Guide and Wolf (2008), provide a broader analysis of macroeconomic indicators in three REC, namely, CEMAC, WAEMU and WAMZ, with a comparison made with the Gulf Cooperation Council (GCC). It is concluded that while the average growth performance has been respectable since the turn of the millennium in all the three unions, the difference between the best and worst performers continues to be pronounced. Similar divergences are also apparent for terms of trade shocks. Overall, the differences in terms of trade changes and GDP growth are reflected in large divergences in the current account and fiscal balances. With the increase in oil prices in the recent years, the CEMAC and WAMZ experienced a doubling of growth rates from the levels for the 1980s, while GDP growth in WAEMU has increased by a much lower rate (and decreased in per capita terms). Moreover, the increase in growth rates in CEMAC and WAMZ as in the GCC was not accompanied by an increase in growth volatility, pointing to the increased importance of shared external shock. It is also indicated that while there has been improvements in fiscal balances due to the fiscal benefits of growing oil exports, the improvement in the current account has been muted; in contrast to the GCC all the three regions continue to run significant deficits.

4.5 Overall, it is considered that, while the slow speed of convergence partly reflects exogenous shocks, substantial improvement in overall adherence will require significant policy actions, notably on the fiscal side, including continued determined efforts at broadening and diversifying the tax base (Ghosh, Guide and Wolf, 2008, p181). It is also noted that the slow pace of economic convergence results in pushing back of target dates, for example, the 1987 ECOWAS Monetary Cooperation Programme envisaged the creation of a single monetary zone, but the target date was missed due to macroeconomic divergences; also the target date for completion of the West African Monetary Zone was, due to slow pace of economic convergence, pushed back, first to July 2005, and subsequently to December 2009, with the second stage union tentatively scheduled to follow in 2011.

5. Conclusion

It appears that there is some political ambition to achieve regional integration in Africa and this is matched by setting up of plans and organisational processes towards the ultimate goal of monetary union, with respect to economic institutions and arrangements. In this respect the plans and implementation monitoring within the RECs afford some reasonable degree of institutional and cross-country cooperation towards the common goals of enhanced intra-regional trade, policy coordination and convergence of important macroeconomic indicators, leading to strengthening of policy credibility that would support higher levels of investment in the region. It is, nevertheless, clear that both economic/trade performance and the development of regional institutions do not match the aspirations of the AU programmes. In particular, slow progress in enhancing factor mobility and harmonisation of tariff structures and administrative performance, as well as infrastructure constraints limits intra-regional trade.

Moreover, while there is a tendency for macroeconomic indicators to converge, there is slow progress in actually meeting the convergence criteria for several African countries. In addition, macroeconomic indicators in Africa are particularly vulnerable to external developments, for example, the performance of export markets for major commodities. In the circumstances, implementation programmes are often pushed back. Positively, the agenda for integration inherently focuses attention on higher performance standards with respect to both institutions and policy, while there is continuing market expansion and opportunities for collaborative infrastructure development.

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