Policy Brief

African Economic and Governance Forum Towards an African Monetary Union, Central Bank and Fostering Sustainable Development

Output from: A Joint International Conference on Currency Floatation

January 23-25, 2025 Addis Ababa Ethiopia

Special Issue No 2, March 2025

Partners of the Conference

1. Executive Summary

Approximately thirty-three years ago, in 1991, African leaders, under the auspices of the Organization of African Unity (OAU), later transitioned to the African Union (AU), adopted the Abuja Treaty. This landmark agreement articulated a vision for the creation of the African Economic Community (AEC), with the overarching goal of promoting economic, social, and cultural development across the continent. In response to regional challenges, the AU is pursuing a strategy of rationalizing and consolidating Regional Economic Communities (RECs), alongside accelerating the establishment of key institutions as mandated by the Constitutive Act. These institutions include the African Central Bank, a unified African currency, the African Monetary Fund, and the African Investment Bank.

The concept of a unified African currency has long served as a central tenet of Pan-Africanism, symbolizing the potential economic and political power anticipated to arise from continental unification initiatives. Monetary policy is the process by which governments and Reserve/Central Banks control the supply and cost of money to attain a set of objectives oriented towards the growth and stability of the economy. The envisioned structures aimed to improve the welfare of citizens within member states and, ultimately, to coalesce into a unified economic entity. While OAU/AU agencies and RECs have nominally aligned with this vision, progress has been hampered by ideological divergences and complex financial infrastructures, resulting in the non-materialization of the treaty's core objectives.

This policy brief concisely addresses the complex issue of African economic governance, outlining overarching objectives and presenting information on continental policy framework challenges. Designed to be a thought-provoking document, it aims to stimulate dialogue among policymakers, practitioners and researchers by highlighting key problems, potential solutions, and actionable recommendations to influence relevant stakeholders. Specifically, the brief examines the critical role of a single currency and a central bank in advancing African Economic Governance through the African Economic and Governance Forum (AEGF).

2. Introduction

The aspiration for a unified and economically prosperous Africa has long been central to the Pan-Africanist ideal. The realization of this vision is contingent upon the establishment of a robust economic foundation, characterized by sound economic governance and a high degree of integration among African economies. A single currency, managed by a centralized banking institution, has the potential to act as a powerful catalyst in this transformative process, facilitating deeper economic integration by reducing transaction costs and enhancing price stability across the continent. This policy brief undertakes an examination of the potential benefits and inherent challenges associated with this ambitious endeavor, drawing upon insights gleaned from existing regional integration initiatives and informed by African Nations best practices.

A key point of discussion at the African Economic and Governance Forum centered on the rationale for establishing an African Central Bank, a unified African currency, the African Monetary Fund, and the African Investment Bank. The enthusiasm for African monetary union is driven by two principal factors that extend beyond conventional economic goals such as increased growth and lower inflation. Firstly, the successful implementation of monetary unions elsewhere, notably the Eurozone, has generated interest in replicating such a model within the African context. While acknowledging the potential for accelerated progress by learning from the European experience, it is recognized that Africa's fiscal vulnerabilities, including issues of credibility and the relative fragility of its monetary institutions, present significant challenges that must be addressed. Secondly, African monetary union is motivated by the desire to address perceived economic and political weaknesses, ultimately strengthening Africa's negotiating position in global and bilateral trade arrangements.

As the world moves towards knowledge-based economic structures and information societies, with similar vain African economic governance should be shaped with local realities. In a way, which comprise networks of academia, private sector, civil society, to materialise the power of a single African currency that has become paramount importance in assuring equity in the world. A single African currency needs to be realized, which ultimately redefine Africa’s social, political and economic landscape and position the continent on a solid footing to tackle the enormous challenges of the 21st century.

A single African currency has many promises in terms of boosting trade across the continent and benefits for all member states through ***synergy and interdependence***. It has the capacity to increase economic cooperation among member AU nations and stimulate faster development efforts across the continent. Many African nations are still oriented in trade toward outside of the continent rather than immediate neighbours and across African capitals. There is an understanding that currency unification could be a key catalyst to transforming the continent. The major challenge is how the continent could develop the plan to have this unified monetary union considering the disproportionate economic structures among the nations, which can affect response strategy during economic predicaments.

Envision a unified currency facilitating seamless transactions from Djibouti to Dakar, Cape Town to Cairo, a realization of the African Union's ambitious vision. A single currency for Africa, whether unitary or common, signifies a complete monetary union, encompassing a single currency, a unified central bank, and a harmonized monetary policy. Achieving such uniformity across the continent necessitates convergence among the diverse RECs, harmonizing their constituent nations, policies, and systems. This further entails political, economic, sociocultural, and technological convergence, highlighting the profound and extensive nature of regional harmonization required for the proposed single African currency. Consequently, the preconditions for establishing a single common currency are demonstrably demanding.

Within the context of a potential African common currency, a significant factor mitigating the probability of divergent economic shocks is a high degree of trade integration among participating member states. Additional mechanisms, such as robust labor mobility and a well-functioning system of intraregional fiscal transfers, can further reduce the potential costs associated with monetary union. Four critical considerations warrant detailed examination: the compatibility of economic convergence, often measured by indicators such as the real exchange rate, GDP per capita, GDP per worker, or labor productivity within the manufacturing sector. Specifically, further investigation is needed into the role of the distribution sector in influencing the real exchange rate, the relationship between the exchange rate and changes in per capita GDP (both in absolute and growth terms), and the correlation between the relative prices of non-traded and traded goods.

This consideration is of paramount importance, as the non-participation of major regional economic powers, potentially motivated by concerns of net losses, could significantly jeopardize the realization of continental integration objectives. The technical complexities inherent in enhanced monetary integration, including the implementation of fixed exchange rates, centralized control over monetary and fiscal policies, and the eventual establishment of a single African Central Bank, necessitate the presence of robust institutional frameworks at both the domestic and regional levels.

3. Methodology

This policy brief is informed by a comprehensive review of scholarly literature pertaining to monetary integration, regional economic cooperation, and African economic development. The analysis draws upon relevant reports and publications from the AU, RECs, international financial institutions, and academic research. Furthermore, it integrates insights derived from diverse disciplinary perspectives, encompassing economics, political science, and expertise in regional integration.

4. Implications and Recommendations

The establishment of a unified African currency and a centralized banking institution presents a substantial opportunity to deepen economic integration, promote sustainable development, and elevate the continent's global economic standing. While acknowledging the inherent challenges, a meticulously planned and phased implementation strategy, coupled with demonstrable political will and unwavering commitment from African leaders, can pave the way for the successful realization of this ambitious vision.

A critical component of this process involves the restructuring of existing Regional Economic Communities, potentially moving towards a model of "one country, one REC" or consolidating smaller geographical areas into RECs comprising three to five countries. Enhancing the capacity and effectiveness of these RECs is paramount. This includes fostering greater inter-REC coordination, harmonizing regulations and standards, and facilitating the free movement of goods, services, capital, and people within each regional bloc.

Addressing existing economic asymmetries among participating nations, promoting regionally specialized development, and enhancing industrialization and infrastructure are crucial for strengthening intra-African trade. The implementation of fiscal transfers between member states is essential to mitigate the impact of asymmetrical economic shocks. The establishment of sub-national and supranational fiscal mechanisms is therefore vital to create a robust system of economic insurance. Furthermore, implementing mechanisms to address economic disparities among African countries is critical. This may necessitate targeted development programs, the creation of regional investment funds, and the implementation of fiscal transfer mechanisms to provide support to less developed economies in Africa.

Cultivating consensus and political will necessitates the active engagement of influential leaders and respected figures to champion collective action. Promoting inclusive dialogue and fostering a shared narrative centered on continental sovereignty, economic growth, and global positioning is essential. Strengthening Pan-African institutions is crucial to facilitate these dialogues and cultivate trust, accountability, and transparency. Furthermore, fostering political will and consensus among African leaders is paramount. This requires open and inclusive dialogue, transparent decision-making processes, and a demonstrable commitment to shared objectives. Finally, the development of economic policies that prioritize poverty reduction, address inequality, and create opportunities for all Africans, with a particular focus on women and youth, is critical.

A phased approach to implementing African Economic Governance is essential, though this does not necessitate an extended timeframe. The establishment of a common currency and a centralized bank necessitates strategic planning and a gradual implementation process. One potential phased approach involves the development of a monetary policy roadmap, alongside the establishment of a specialized working group for currency integration under the auspices of the African Union.

The creation of a Pan-African payment system, utilizing electronic platforms to facilitate intra-African trade, is another crucial step. A gradual and phased approach to monetary integration is likely more feasible than a rapid and complete transition. This could entail initial steps such as harmonizing monetary policies among participating nations, establishing a common unit of account, and progressively reducing exchange rate volatility.

Strengthening regional financial institutions, most notably the African Central Bank (ACB), is crucial, with its role evolving from an advisory capacity to that of a regulatory and monetary authority. The establishment and reinforcement of regional financial institutions, such as the African Investment Bank, are essential for supporting economic integration and development. Convergence of macroeconomic policies across participating nations is necessary to ensure fiscal discipline, inflation control, and budget alignment. Expanding capital markets is vital to create a unified financial market capable of supporting investment needs. Finally, the introduction of a basket-pegged currency mechanism, utilizing a reference basket of African currencies, can contribute to stabilizing economies.

This framework serves as a foundation for the development of a comprehensive research agenda exploring the design and implementation of a single currency and a central bank as critical instruments in advancing African Economic Governance. Complementary investments in human capital, specifically in education, skills development, and infrastructure, are essential to enhance human capital and support sustainable economic growth. Standardization of financial regulations, including the adoption of common frameworks and the strategic integration of digital and blockchain technologies, can facilitate transparency and efficiency in currency operations. This phased approach is designed to ensure economic stability, foster political buy-in, and allow for gradual adaptation to a fully integrated African economic system.

5. Conclusion and Call to Action

The time for decisive action on African Economic Governance (AEG) is now. The continent's potential remains untapped due to fragmented economic systems, weak institutions, and a reliance on external models that fail to address Africa's unique challenges. The vision of a unified, prosperous Africa requires a fundamental shift in approach, one that prioritizes African-led solutions and empowers the continent to chart its own economic destiny.

- **Call to Action**- a fundamental shift towards an Afrocentric paradigm is imperative. This necessitates a rejection of the limitations inherent in externally imposed economic models and a concomitant prioritization of indigenously derived solutions. These solutions must be firmly grounded in African indigenous knowledge systems, reflecting the continent's diverse cultural contexts and addressing its specific socio-economic realities. Support reforms, promote intra-African trade, and foster innovation for shared prosperity;
- **Foster inclusive dialogue** among all stakeholders, including governments, the private sector, civil society, and academia, to build consensus and ensure that policies reflect the needs and aspirations of African people;
- **Immediate action**- following our deliberations from January 23rd to 25th, 2025, a summary of our findings will be submitted to the Heads of State, accompanied by a formal request for their endorsement and continued engagement. We respectfully request that African governments endorse this initiative at the upcoming Heads of State Summit in February 2025, or at a subsequent summit;
- **Summary-** An African Economic Governance framework is pivotal for sustainable growth and global competitiveness.

The future of Africa rests on our collective commitment to action. By embracing these principles and working together, we can unlock Africa's vast potential and build a more prosperous and equitable future for all. **Join us in this call to action!**

6. Gratitude and Announcements

A subsequent phase of the African Economic and Governance initiative will involve biannual academic conferences and workshops designed to critically assess Africa's economic landscape and evaluate progress in implementing the AEG plan. The organizing committee expresses its sincere gratitude to the more than one hundred and thirty-eight delegates from diverse disciplines who participated in and contributed to the Currency Flotation Conference and the inaugural African Economic and Governance Forum.

We especially acknowledge the valuable engagement of representatives from the African Union, the African Continental Free Trade Area (AfCFTA), the AU-Economic, Social, and Cultural Council (ECOSOCC), the Intergovernmental Authority on Development (IGAD), the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), the African Development Bank (AfDB), the Africa Export-Import Bank (Afreximbank), Institute Foreign Affairs (IFA), the Trade and Development Bank (TDB), and the United Nations Economic Commission for Africa (UN-ECA). We also recognize the expressions of solidarity from the East African Community (EAC) and the Southern African Development Community (SADC).

The organizing committee also wishes to acknowledge the invaluable contributions of the following institutions and scholars: Addis Ababa University College of Business and Economics, Bahir Dar University Faculty of Social Sciences, and the University of Johannesburg Faculty of Humanities. We further extend our sincere appreciation to Prof. Harold Ngalawa (University of KwaZulu-Natal), Prof. Ferdinand Ahiakpor (University of Cape Coast, Ghana), Ambassador Williams Wallace Afrocacy Association Head, Prof. Costantinos Berhe, Dr. Alemayehu Seyoum Tafesse (IFPRI), Prof. Olufemi Muibi Saibu (University of Lagos), Prof. Njuguna S. Ndung'u (Chairman of the TDB Academy Board), Dr. Tewodros Makonnen (IGC), Dr. Tigest Zelalem, Prof. Abebe Shimeles, and Mr. Abie Sano (President of the Commercial Bank of Ethiopia) for their expertise and support.

The conference, culminating in its successful implementation, was the result of six months of dedicated preparation. This endeavor originated with CGIATS as the idea generator, with the EEA serving as a key promoter and knowledge hub, and the PSI acting as host and research center. Instrumental to this process were Dr. Seife Tadelle (Chairperson), Mr. Solomon Tesfasilassie, Mrs. Almaz Amine, Mr. Aklilu Solomon, Dr. Binyam Agegn, Prof. Mengistu Ketema, Dr. Abule Mehare, Dr. Alekaw Kebede, and Dr. Tewelde Girma, each contributing their expertise in various capacities to bring the Currency Flotation and African Economic and Governance Forum to fruition.

7. Closing Remarks

The conference concluded with a shared understanding of the potential transformative impact of this policy shift on currency and monetary systems for African economic development. Participants expressed optimism regarding the theoretical and practical advantages of a unified currency administration. A consensus emerged that strategically researched and implemented indigenous knowledge-based policies and measures could position Africa as a competitive and equitable participant in the global economy. The organizing committee gratefully acknowledges the generous financial support provided by the Commercial Bank of Ethiopia, Ethio-Telecom, the UN-ECA, and Ethiopian Airlines, which made this important event possible.

References:

- Abuja Treaty: Establishing the African Economic Community;
- ·AU Constitutive Act;
- ·Reports from the African Development Bank (AfDB)
- ·Research papers on African monetary integration and regional economic cooperation;
- Relevant publications from international organizations such as the IMF, World Bank, and UNECA.