CONCEPT NOTE
ON
SINGLE CURRENCY AND FINTECH
TO BOOST INTRA AFRICA TRADE
AND ENHANCE AfCFTA IMPLEMENTATION

DAKAR, 23 – 24 August 2021
INTRODUCTION

This is the 3rd Roundtable on equity/fairness in Boosting Intra-Africa Trade-African Continental Free Trade Agreement (BIAT-AfCFTA) Trade-induced Industrialisation and Integration organized by the United Nations Economic Commission for Africa (UNECA), Pan-African Strategic and Policy Research Group (PANAFSTRAG), in partnership and the African Association for Public Administration and Management (AAPAM). It is a continuation of a series of annual Roundtable on enabling equity/fairness in BIAT-AfCFTA.

The outcomes of the first and second Roundtables were the transformation of NEPAD to African Union Development Agency-AUDA. In addition, the AU, Technology and Innovation Unit accepted the initiative and organised the inaugural AfCFTA Stakeholders Forum in Dakar in December 2018. The Forum is now part of the permanent AfCFTA Framework and will be an annual activity.

The third Roundtable is focused on Trade Finance and Regional Integration in Africa, within the context of the Boosting Intra-African Trade cluster of the African Union Regional based Continental integration agenda within the Continental Free Trade Agreement (CFTA).

The roundtable will also consider the ongoing efforts of a gradual build-up of a sub-regional/Continental Payments System within the emerging framework of digital trade finance tools such as FINTECH which will continue to enhance financial inclusivity and accessibility for traders and rural/urban consumers.

The African Development Bank (AfDB) has a multi-million dollars ParTech Africa Fund for Fintech, Insuretech, pay as you go, off-grid energy for online and mobile consumers as well as tech innovation enterprises. This is part of the boosting intra-African trade programme of Partech with the support from AfDB/EU Partnership. There are increasing numbers of international and continental institutions and organisations supporting increasing numbers of Start-Ups which are realising the objectives of Boost Intra-African Trade. A good example is the Alliance for Financial Inclusion with support from Bill Gates Foundation.

In line with the above, both Common Market for Eastern and Southern Africa (COMESA) and Economic Community of West African States (ECOWAS) have institutionalised digital services in their various structures and programmes which other Regional Economic Communities (RECs) may soon follow, signifying future growth, impact, resilience and sustainability of the national, regional and continental payment system.

OBJECTIVE

The objective of the Roundtable is to interrogate the progress towards a Monetary Union at Regional levels as a priority for achieving continental monetary policy harmonisation leading to a single currency - AFRO by 2023. To what extent can this enhance the implementation of AfCFTA?

The Roundtable will review experiences of other RECs, especially ASEAN, that have very high intra-regional trade without monetary union and draw useful lessons for African RECs.

The Roundtable will also examine the extent to which the Digitalised Trade Finance mechanisms can foster industrialization and economic growth through more financial inclusion/accessibility in Africa.

RATIONALE

The Abuja Treaty signed on June 3, 1991 in Abuja established the African Economic Community (AEC) which anticipates the establishment of an African Central Bank by 2028. However, the present plan is to do so by 2023. The advantages of African member-states of Boosting Intra-African Trade (BIAT)/Boosting Intra-Regional Economic Communities African Trade (BIRECAT) are transaction costs reduction to a single currency, reduction of exchange rate fluctuations risks, single market, better price, transparency, prevention of competitive devaluation and speculation, the possibility of becoming an International currency, act as a powerful driver of convergence with the trade creation effect leading to a greater degree of net to boost harmonization cycles and facilitate the achievement of Regional Monetary Policy to begin with (Stankovic, March, 2013).

On the other hand, there is the need for member states in the Union to tolerate an adjustment of national sovereignty, loss of autonomy in monetary policy and large financial costs associated with the introduction of the single currency. The single currency is no doubt the ideal instrument of trade finance, but it is taking more years to meet the challenges. While the President of Ghana committed as a regional champion to reducing the time frame, technology has brought new digital tools for open payment mechanism within and across national borders.

As RECs continue to work towards their separate single currencies, the existing single currency CFA Zones in West and Central Africa provide good lessons in trade finance for the AfCFTA kick-off. However, COMESA provides an on-going model for the Trade Finance Cluster of the BIAT-AfCFTA with its 4-stage approach and, like East African Commission (EAC), the technology-enabled payment structure and mechanisms.

The introduction of digital and blockchain technology using unique software and algorithms shifts the focus from the “backend systems of established financial institutions to consumer-oriented services and therefore a more consumer-oriented definition that includes innovation from automation of lending, borrowing, retail banking, money payments/transfers and even cryptocurrencies.

According to D. Yermack, Fintech is growing fast in Sub-Saharan Africa with the successful introduction of M-Pesa in Kenya in 2007 and will continue to grow as access to broadband internet improves with more consumers being able to afford smart phones.

Therefore, it would appear that the challenges to the growth of Fintech in Africa is more of a supply side issue, especially in countries with low banking network, rather than demand side which if resolved with improved infrastructure with growing domestic and international investments, can boost inclusion and economic growth.
It is obvious that African Fintech Start-ups are impacting the Payment System, Remittances, Micro-Credit and slowly the Cryptocurrency-Bitcoin and blockchain-based identity and verification systems. Many African Central Banks are also considering digital currencies.

**SINGLE CURRENCY**

A single currency is a currency used by two or more members of an economic community. The Currency Union also known as Monetary Union has two or more members sharing the same currency with or without any form of political or economic integration. Three forms of currency Union exist as described below:

1. **Unilateral adoption** of foreign currency, e.g: Liberia with U.S dollars. A single formal adoption of a currency by multiple countries with common monetary policy and issuing authority for the common currency e.g: Fcfa owned by West and Central Africa.

2. **Formal adoption**: is the adoption of foreign currency by virtue of unilateral or multilateral agreement with the issuing Authority, sometimes supplemented by issues of local currency in currency peg regime. These are the following Currency Unions in Africa:

3. 2-Fcfa, 2 members of West and Central Africa. The proposed single currencies in Africa are:
   a. Regional Eco for ECOWAS
   b. Shilling for EAC-Region
   c. Afro for Continental

4. **Informal adoption**: is the adoption of a foreign currency by another country. Example is South African Rand adopted by Namibia, Swaziland and Lesotho.

**Macro-economic Convergence** is the harmonization of fiscal and monetary policies of members of a currency Union. It means the meeting of the criteria for harmonisation in terms of rising gross domestic product, low rate of inflation, declining fiscal deficit and relatively balanced current account.

Monetary Union is two or more countries sharing a common currency with the aim of becoming an integrated economic union and not necessarily political integration. The bottom line is current and capital account convertibility but with separate currencies and Central Banks with parities that are perfectly fixed. The 3 types of Monetary Unions are:

1. Full Monetary Union with Single Currency and Central Bank with Customs Union e.g 2 – Fcfa zones
2. Formal Exchange Rate Union with strong degree of coordination, e.g: CUA with South African Rand.
3. Adoption of another country’s currency, e.g dollarization with no Monetary Union.

**Ongoing Integrated Monetary Initiatives in Africa are:**

1. Re-establishing the Shilling in EAC
2. Establishing the West African Economic Monetary Union (WAEMU) to merge with West African Monetary Union (WAMU) to create the ‘Eco’ as the single currency for WAEMU and ECOWAS. The recent adoption of Eco by WAEMU member states and the withdrawal of France from the Board of the French West African Central Bank are significant developments. Once WAMZ member states achieve the convergence criteria, ECOWAS would become Eco Zone.

3. The Common Monetary Area (CMA) is like a monetary arrangement in Southern Africa namely the South African Rand to Namibia, Lesotho and Eswatini. These countries still have their own separate banks and currencies. CMA is designed for Southern African Common Union (SACU).

4. COMESA Monetary Institute has a comprehensive well-grounded 4-step arrangement towards a Monetary Union-for ‘Single Currency’. It is also developing a working payment system.

THE QUESTIONS:

The roundtable will attempt to answer the following questions:

1. Are the minimum convergence criteria necessary for harmonization in monetary policy? Some Economists disagree. This is to put the debate in an African context between Economists who consider that the introduction of a single currency requires a full ex-ante convergence of the criteria for monetary policy and the Monetarists whose position is that the introduction of a single currency would in itself constrain member states’ economies to converge.

2. What complementary policies and framework would be required to fast-track regional monetary union?


4. What are the strengths and deficiencies of existing national/regional payment mechanisms?

5. What can the rest of Africa learn from West Africa and East Africa in terms of payment mechanism, financial inclusivity and accessibility?

6. What are the challenges we face for convergence of both monetary and fiscal policies in RECs?

7. What is the state of progress with the COMESA Monetary Institute (CMI), its Trade Finance mechanism with its 4- stage approach that includes Preparation stage; Harmonization stage, Cooperation stage, and Integration stage?

In considering the above themes, how do we build the principles of fairness and equity in ensuring inclusivity in the fintech payment system and future single currency in boosting trade and enhancing implementation of AfCFTA?

In consideration of fairness/equity principles, can Keynes mechanism of a supranational bank like a Clearance Union be applicable to the African context?

FUNDING

The roundtable is supported through an EU/ECA funding dedicated to sensitization and advocacy for implementation of AfCFTA.
METHODOLOGY

It will be a series of plenaries with brainstorming sessions led by Experts on each of the questions in order to generate and document actionable recommendations.

PROPOSED WORK PROGRAMME

The Roundtable on Single Currency is for 2 days.

PROPOSED PARTICIPANTS

Participants will be drawn from African RECs and other stakeholders.

EXPECTED OUTCOMES

1. Document answers to questions raised above, diagnose the challenges and proffer mechanisms that can fast-track the harmonization of policies for a Monetary Union and the establishment of the African Central Bank by 2023.
2. Identify instruments and mechanisms of Fintech with domestic investments for start-ups for boosting intra-African trade with necessary regulatory instruments and structures.
3. Propose workable African Clearing Union that will entrench equity and fairness in trade finance.

PARTNERS

ECA, AAPAM, PANAFSTRAG