AFRICAN UNION
الاتحاد الأفريقي
UNION AFRICAINE
UNIÃO AFRICANA
Addis Ababa, ETHIOPIA P. O. Box 3243 Telephone +251115- 517700 Fax : +251115- 517844
Website : www.africa-union.org

EXECUTIVE COUNCIL
EIGHTH ORDINARY SESSION
16 – 21 JANUARY 2006
KHARTOUM, SUDAN

EX.CL/217 (VIII)

REPORT OF THE COMMISSION ON THE ESTABLISHMENT OF THE FINANCIAL INSTITUTIONS

(ART. 19 OF THE CONSTITUTIVE ACT)

REPORT OF THE COMMISSION ON THE ESTABLISHMENT OF THE FINANCIAL INSTITUTIONS (ART. 19 OF THE CONSTITUTIVE ACT)

1. In the report it submitted to the Sirte Summit in July 2005, the Commission informed Council of the process of implementing Article 19 of the AU Constitutive Act on the establishment of financial institutions. In the said report, the Commission highlighted the road map leading up to the establishment, as quickly as possible, of these financial institutions, namely the African Investment Bank (AIB), the African Monetary Fund (AMF) and the African Central Bank (ACB).

2. This report gives an account of the progress so far made and the approach adopted for the establishment of these institutions which, no doubt, constitute veritable tools for continental integration. A consultant was recruited to conduct studies relating to:

- the Concept Paper on the African Investment Bank, together with a draft protocol on the *modus operandi* of this Bank;
- the Concept Paper on the African Monetary Fund;
- the Concept Paper on the African Central Bank.

Thereafter, in September 2005, the Commission convened a meeting of independent experts to examine the outcome of these studies and come up with appropriate recommendations. At the end of their deliberations, the experts made the observations listed hereunder, together with the relevant recommendations (see attached report).

AFRICAN INVESTMENT BANK (AIB)

a) Observations

3. After an in-depth discussion the experts raised the following issues:

i) is it necessary to establish the AIB when similar institutions exist in the continent, such as the ADB and regional investment banks and financial institutions? What will be the relationships between them? In this regard, it was recommended that the AIB should be established to fill the financial gap not covered by the existing financial institutions. The experts however observed that some of the objectives assigned to the AIB, such as economic growth, poverty reduction and human development were already handled by the ADB. Consequently, they should be reviewed to avoid duplication;

ii) What orientation will be given to the AIB? Will it be a growth-based bank or a social development-based bank? The experts proposed that the AIB should be focusing on promoting the private sector, financing commercially viable projects and mobilizing financial resources for socio-economic development;

iii) What role Governments are expected to play in the functioning and working of the AIB, bearing in mind that African States have not succeeded in sustaining viable financial and development institutions? They expressed the view that the involvement of Governments should be oriented to supervision and regulatory functions, while AIB should be a joint venture between Governments, public enterprises and the private sector whose shares will be jointly determined;

iv) How to create conducive conditions for sustainable development of the AIB by financing commercially viable projects? It was proposed that the shares be divided equitably between the governments and the private sector to ensure viability and a mix of vitality, innovation and accountability;

v) How can AIB access the international capital market in order to mobilize adequate financial resources so as to be able to handle loans as well as grants, including special funds?

vi) How to come up with innovative schemes for investment guarantees such as MIGA so as to minimize the risk factor?

vii) What will be the role of the African private sector, individuals and the diaspora in the functioning and working of the AIB?

b) **Recommendations**

4. In spite of the constraints, the experts underscored the need to establish the AIB to meet the challenges of Africa's economic integration. Consequently, the following recommendations were made:

- **Mandate of the AIB**

i) to mobilize financial resources for economic integration and development;

ii) to promote investment in infrastructures;

iii) to promote the private sector for economic development;

iv) to promote the development of national/regional capital markets as well as financial systems, including micro-finance systems to facilitate access to credit by all categories of society, including the informal sector; and

v) to provide special financing for promoting intra-regional trade.

The experts further recommended that the concept paper and the draft protocol should be reviewed in line with the above recommendations.

They also proposed that a clear definition of the major stakeholders and their respective shares in the AIB should be made. In this respect, there was a need to involve both public enterprises and private business in the functioning of the AIB.

- **Sources of financing**

5. In discussing this issue, the meeting arrived at the following recommendations:

i) AIB should be financed by Member States subscriptions, private sector and diaspora subscriptions and foreign capital with a limit to be agreed upon;

ii) To mobilize institutional funds such as insurance and pension funds, venture capital funds as well as special funds including trust funds/grants;

iii) To mobilize resources from commodities through the establishment of trust fund;

iv) To float preferred shares and sell bonds to the general public;

v) To facilitate the repatriation of illegally transferred funds to foreign banks through the trust funds;

vi) To encourage African countries and other donors to establish special trust funds.

- **Membership and Management**

6. The experts recommended the following:

i) The Board of Directors should be appointed for a maximum of two terms of 5 years each;

ii) The private sector should be represented in the Board with no voting right;

iii) There should be an Audit Committee to promote good governance;

iv) A code of ethics should be introduced;

v) The functions of the Chairperson of the Board of Directors and the President of the bank should be separated.

- **Cooperation and Partnership with other Institutions**

7. The experts recommended the following:

i) to promote co-financing with other relevant financial institutions for appropriate projects, especially the private sector where feasible;

ii) to cooperate with financial intermediaries;

iii) to strengthen partnership with other relevant financial institutions for information sharing, technical assistance and other capacity building activities such as feasibility studies and project development and preparation of business plan.

THE AFRICAN MONETARY FUND (AMF)

a) **Observation**

8. The idea of the African Monetary Fund is not new. African countries entertained it in the early 1980s, in response to frustration with the International Monetary Fund and dissatisfaction with the perceived inappropriateness of the IMF facilities to address balance of payments problems of African countries. In particular, African countries were dissatisfied with IMF conditionalities, which required countries to pursue structural adjustment programmes, including currency devaluation. Admittedly, however, IMF had certain facilities to assist countries experiencing temporary balance of payments difficulties. The problems the experts struggled with at the time were how:

i) the AMF would be feasible when several countries were experiencing current account deficits, and the global African external payments situation was in deficit (i.e. the surpluses could not cover the deficits);

ii) the AMF could provide financing for balance of payment deficits without also requiring some kind of monetary discipline of the countries using the Fund's resources, especially if their current account deficits were structural.

9. However, the incidence of huge surpluses of the oil-exporting countries could remove issue (i) above. Nevertheless, the second issue remains.

The example of the European Monetary System could inspire the objectives of the AMF. However, the lessons from EMS also inform us that the establishment of the AMF:

i) should help promote monetary cooperation;

ii) should assist in the intensification of efforts towards enhancing regional integration;

iii) should put in place mechanisms to ensure financial discipline.

b) **Recommendations**

10. The experts acknowledged the necessity of setting up the AMF whose role will be to assist Member States in overcoming their balance of payments deficit, promoting monetary cooperation and ensuring financial supervision and discipline. They suggested that when the African Central Bank will be established, the role of the AMF should focus on financial supervision and discipline. Therefore, they made the following recommendations:

i) the AMF should concentrate on the following mandate:
- to provide short term financing to correct imbalances in the balance of payments;
- to promote monetary cooperation among Member States;
- to assist Member States in ensuring discipline, supervision and regulation of the banking system as well as effective audit mechanisms in the management of budgetary and financial resources; and
- to facilitate the enhancement of intra-African trade, investment and regional integration processes.

ii) it is expected that the AMF would be most efficient if it operates within monetary union zones;

iii) the AMF should work and interlink with different monetary unions which have the common interest to resolve their balance of payments deficit and the possibility to access loans from AMF, when necessary;

iv) the AMF should assist in the establishment, between Member States, of monetary cooperation, harmonization of macro-economic policies with a supervision and control mechanism as well as the collaboration with external financial institutions including IMF;

v) the resources of the AMF should come, inter alia, from subscriptions and countries' reserves;

vi) regarding the timing, it is expected that the AMF would be established sometime after the operationalization of the AIB, which is expected to have created conducive environment for increased trade, infrastructure and communication exchanges.

THE AFRICAN CENTRAL BANK (ACB)

a) **Observation**

11. The main objective of the Central Bank includes the following:

i) to harmonize and coordinate monetary policies;

ii) to ensure better monetary management and development of a common currency as part of the regional integration process;

iii) to issue legal tender notes and coins; and

iv) to exercise a leadership and supervisory role with respect to National and Sub-regional Central Banks which may undertake open market operations, among others.

The African Central Bank should be independent while taking into account the developmental exigencies and ensuring the sound regulation and supervision of National or Regional Banks.

b) **Recommendations**

12. The experts recognized the necessity to set up the African Central Bank (ACB) at the appropriate time, whose role will be to promote economic growth within the context of price stability. They also suggested that the ACB would be the culmination of the process, in that it would be gradually established through the creation of Regional Central Banks. The meeting underscored the need to create the AIB first in order to speed up economic integration before the establishment of the other institutions. In the processing of establishing the ACB, the experts proposed that lessons be drawn from the experiences of successful central banks such as those of some African countries and Caribbean region. The experts made therefore the following recommendations:

i) establish a common currency and enforce its credibility;

ii) contribute to the economic integration, growth and development;

iii) conduct monetary policy in the continent; and

iv) promote financial sector stability.

THE WAY FORWARD

a) **Observation**

13. Furthermore, it is worth pointing out that to ensure effective conduct of the process for the establishment of these financial institutions, the Commission shared with the experts the approach it intends or plans to adopt. This consists in setting up technical steering committees for each of the institutions to be established, whose main function will be to carry out all the tasks necessary for the establishment of these financial institutions within reasonable timeframes. These tasks include preparation of feasibility studies, drafting of protocols relating to the daily functioning of these institutions and conduct of studies on the operationalization and other activities prior to the effective functioning of these financial institutions. The experts welcomed the Commission's proposal and after examining it, recommended as follows:

b) **Recommendations**

14. As a way forward, the experts welcomed the proposal to set up technical committees for each of the three financial institutions and strongly recommended that they be implemented. However, for the sake of efficiency, they suggested that the implementation be staggered in two phases:

i) the first phase which is the preparatory phase would focus on the following activities:

- feasibility study;
- drafting of protocols;
- other activities such as workshops, consultations with stakeholders and partners, etc.

The experts further proposed that this preparatory phase be conducted from the AU Headquarters under the supervision of the Economic Affairs Department.

ii) the second phase which is implementation, would focus on the effective setting up and operationalization of the institutions. The experts proposed that this phase be conducted from the location of the respective institutions.

Consequently, the experts recommended as follows:

i) establish the three technical steering committees as soon as possible;

ii) ensure robust momentum and send a strong message to the African public about both progress and commitment in setting up these institutions;

iii) work closely with all relevant institutions and partners;

iv) form steering committees for each institution, with each committee comprising no less than 5 members and no more than 8 members; and

v) identify qualified institutions and individuals to serve on the various committees, and where institutions are concerned, formal letters should be sent.

15. The brainstorming on the establishment of the financial institutions will continue in 2006, with the convening of a meeting of government experts to examine, like the independent experts, the texts referred to above which were prepared by the Commission. A synopsis of the reports will be made and submitted for the consideration of the Ministers of Economy and Finance during the second CAMEF scheduled to take place in 2006. The report of this second CAMEF will be submitted for consideration by the AU policy organs at their next sessions.

<u>REPORT OF THE MEETING OF INDEPENDENT EXPERTS ON THE AU FINANCIAL INSTITUTIONS</u>

<u>19-20 SEPTEMBER 2005</u>
<u>ADDIS ABABA, ETHIOPIA</u>

ACRONYMS

ACB	African Central Bank
ACP	African, Caribbean and Pacific
ADB	African Development Bank
AFD	Agence française de Développement
AIB	African Investment Bank
AMF	African Monetary Fund
AU	African Union
AUC	African Union Commission
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BEAC	Banque des Etats d'Afrique Centrale
CEN-SAD	Communauté des Etats Sahelo-Saheriens
CGIAR	Consultative Group on International Agricultural Research
COMESA	Common Market for Eastern and Southern Africa
DBSA	Development Bank of Southern Africa
EIB	European Development Bank
EU	European Union
IF	Investment Facility
IFC	International Financial Corporation
IMF	International Monetary Fund
MDG	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
OCT	Overseas Countries and Territories
REC	Regional Economic Community
SADC	Southern African Development Community
UEAC	Union Economique de l'Afrique Centrale
UMAC	Union Monétaire de l'Afrique Centrale
UMOA	Union monétaire Ouest Africaine

EXECUTIVE SUMMARY

In spite of the constraints, the experts underscored the necessity to create the African Investment Bank (AIB) in order to meet the challenges of Africa's economic integration. Its implementation should be particularly based on partnership between public and private sectors.

The experts acknowledged also the necessity of setting up the African Monetary Fund (AMF) whose role will be to assist Member States in overcoming their balance of payment deficit, promoting monetary cooperation and ensuring financial supervision and discipline. They suggested that when the African Central Bank will be established, the role of the AMF should focus on the financial supervision and discipline.

The experts recognized the necessity to set up the African Central Bank (ACB) at the appropriate time, whose role will be to promote economic growth within a context of price stability. They also, suggested that the ACB would be the culmination of the process, in that it would be gradually established through the creation of Regional Central Banks. The meeting underscored the need to create the AIB first in order to speed up economic integration before the establishment of the other two institutions. In the process of establishing ACB, the experts proposed that lessons be drawn from the experiences of successful central banks such as those of some African countries and Caribbean region.

As a way forward, the AU Commission shared with the experts the proposal to set up technical steering committees for each of the three financial institutions. The experts welcomed these proposals and strongly recommended that they be implemented. However, for the sake of efficiency, they suggested that the implementation be staggered in two phases:

- The first phase which is the preparatory phase, would concentrate on the following activities:
    - . Feasibility study
    - . Drafting of protocols
    - . Other activities such as workshops, consultations with stakeholders and partners, etc.

The experts proposed that this preparatory phase be conducted from the AU Headquarters under the supervision of the Economic Affairs Department.

- The second phase which is implementation, would concentrate on the effective setting up and operationalization of the institutions. The experts proposed that this phase be conducted from the location of the respective institutions.

I. INTRODUCTION

1. Within the framework of the implementation of Article 19 of the Constitutive act of the African Union (AU) on the establishment of the Financial Institutions (African Investment Bank, African Monetary Fund and African Central Bank), the AU Commission has convened a meeting of independent experts in Addis Ababa, Ethiopia, from 19 to 20 September 2005 in order to consider the concept papers and draft Protocols prepared by the Commission on the three institutions. The List of Participants is attached.

A) Opening

2. The meeting was opened on behalf of the Chairperson of the AU Commission, by the Director of Economic Affairs who highlighted the mandate of the meeting, namely to advise on the practical modalities for operationalizing the three financial institutions. He mentioned the challenges faced by the continent such as the chronic shortage of financial resources for Africa's development, the burden of Africa's debt, the need to enhance the African Banking systems, etc. He concluded by inviting the Experts to advise the AU on how best to create the conditions for effective launching of the three financial institutions according to Article 19 of the Constitutive Act of the AU.

B) Election of Officers

3. Following consultations, the following Experts were selected to conduct the affairs of the meeting:

- Chairperson: Dr. Yves Ekoué Amaizo,
  Coordinator of Africa's strategic issues, UNIDO
- Rapporteurs:
  1. Dr. Cherif Salif Sy, V/President, Africa-Asia Business Council
  2. Ms. Amoussou Félicité, Former Banker
  3. Mr. Admassu Tadesse, Head of Corporate Strategy, DBSA

4. In his acceptance statement, the Chairperson underlined the issues of focus as follows: facilitation of access to credit to promote purchasing power of African people and its participation to developments efforts, including the increased participation of civil society, in particular the private sector, the realization of MDGs, the establishment of financial institutions networks, the avoidance of duplication of efforts and the creation of conducive conditions for the AU and its NEPAD program to fulfil their objectives.

C) Adoption of the Agenda

5. The Meeting adopted its agenda as attached.

6. After the adoption of the agenda, the meeting discussed the three institutions one by one.

II. THE AFRICAN INVESTMENT BANK (AIB)

A) Presentation by African Union Commission (AUC): *of the Concept Note on the creation of the AIB and the draft protocol*

7. The paper underscores the difficult socio-economic conditions facing the continent which will impede the realization of the Millennium Development Goals (MDGs) set by the United Nations for 2015 and would not enable Africa to take the opportunities offered by the process of globalization. Many African countries have designed and implemented homegrown development policies with the support of bilateral and multinational financial institutions. Unfortunately these policies did not enable them to take off economically because of the failure to create a favorable environment for private sector development and accelerate the process of economic integration in Africa. Based on the experience of Asian countries, the implementation of strong financial and structural policies in an environment characterized by transparency and the application of good governance practices can be essential for accelerating regional integration, strengthening the private sector and modernizing rural economic activities, through appropriate policy actions.

8. Regarding financial policies, it has become increasingly evident, in other parts of the world, that the provision of financial services to households, private and public enterprises, and to governments contributes significantly to the acceleration of overall output growth and poverty reduction.

9. To increase the volume of bank credit, the AU must act on two fronts. First, it must urge African countries to pursue their efforts aimed at making the existing financial systems more efficient. Second, it must assume leadership in the establishment of new financial institutions, at the continental level, that will be able to attract foreign resources, mobilize domestic savings (in part by developing capital markets), and allocate investible funds efficiently. It is in this context, that the creation of the AIB will come to reinforce the capacity of Africa to meet its socio-economic challenges.

10. Regarding the mandate, the AIB would serve as an intermediary between issuers and ultimate purchasers of securities. It would advise governments and financial corporations on how to raise capital for their investment undertakings. Ultimately, the AIB would cover the financing gap that presently exists in priority areas defined by the African Union in its medium-term Strategic Plan in order to achieve the objectives of economic growth, reduce poverty, improve the status of women, support human development (education and health) and protect the environment in the African countries, mainly in rural areas.

11. It will also finance investment projects that are most likely to accelerate the physical and economic integration of African countries. These projects will focus on the development of: (1) transport infrastructure (national and international roads and highways, ports, airports, pipelines); (2) sources of energy, including oil exploitation; and

(3) telecommunications. Also, it will support private sector development and make African economies more complementary with the view of promoting intra-regional trade.

12. It would finally coordinate its actions, to the extent possible, with bilateral and multilateral public organizations as well as national entities whether public or private, which provide investment financing in Africa.

13. In addition to the mandate, the paper also discusses the Membership, the management and the structure, the cooperation with other institutions and partners and finally makes recommendations on the follow-up activities.

B) Presentation by the African Development Bank: *AfDB's Policy on the financing of Regional integration projects (for example multinational infrastructure projects, private sector and granting of guarantees).*

14. According to its statutes, the mandate of the ADB is to promote the integration of African countries individually and collectively. Since its establishment, ADB has financed multinational investment studies and capacity building of continental and sub-regional institutions.

15. The ADB has adopted in 1999, a Vision Statement, which included fostering economic cooperation and regional integration and facilitating Africa's integration in global economy as well as creating enabling environment for private sector to become engine of growth.

16. The presentation further emphasized the major guiding principles of the ADB policy as well as its integration strategy, including the promotion of regional growth and poverty reduction, the support to the AU/NEPAD program, the earmarking of ADF Resources for multinational operations.

17. The Bank has been selective and concentrating on collaborating with other partners to promote conducive environment for integration through the private sector-led activities, trade liberalization and policy harmonization.

18. The presentation further highlighted the efforts made to enhance the efficiency of some shared regional resources through investments/studies such as Manantali (OMVS) Energy Project, the Integrated Pest Management for subsistence farming in Lake Chad Basin, the Regional Environment Information Management System in the Congo Basin, as well as the OMVG Electric Power Transmission Studies. The presentation also covered the support of the Bank to continental intitiatives/programs such as NEPAD/APRM, African Water Facility and the Rural Water and Sanitation Intiative and the provision of support to Regional Capacity Building Initiatives (SADC, COMESA and CEMAC). The presentation also highlighted the constraints in the implementation of regional programmes that must be addressed.

C) Presentation by the European Development Bank (EIB): *EIB's Policy for the financing of the private sector development in Africa and in other regions of the world*

19. The European Investment Bank (EIB) is the European Union's (EU) long-term lending institution. It is a policy-driven bank, established in 1958 under the Treaty of Rome to finance capital investment promoting European integration. It has a subscribed capital of EUR 163.7bn. Its shareholders are the 25 Member States of the EU.

20. Whilst the bulk of its lending activities are focused on projects in the EU Member States, the Bank also helps to implement the EU's external cooperation and development policies. Outside the EU, the Bank's lending activities are carried out under specific mandates given to it by the EU. Currently, it operates in the African, Caribbean and Pacific (ACP) States and the Overseas Countries and Territories (OCT) under the financial aid package provided under the Cotonou Partnership Agreement signed between the ACP States and the EU on 23 June 2000 and the OCT Council Decision of 27 November 2001. Pursuant to these agreements, EIB manages the EUR 2,037m Investment Facility (IF) and the EIB's own resources (EUR 1,700m).

21. The IF and the EIB's own resources, focus on offering long-term funds for investment by private enterprise. This recognizes that the private sector is the principal source of economic growth and that development cannot rely solely on government planning, but needs the initiative and competition of private enterprises. Private sector investment plays a crucial role in improving the prospects for long-term sustainable economic growth and the alleviation of poverty, which is the central objective of ACP-EU cooperation.

22. Alongside the private sector, the Bank also supports commercially viable public sector investments that are critical for the private sector, and economic development generally, to flourish, typically in the power, communications and water utilities.

23. The IF operates as a risk bearing "revolving fund", with re-flows being reinvested in new projects in the ACP countries. Its financial sustainability is supported by the implementation of risk pricing, whereby any credit risk taken is priced accordingly, as well as by careful selection of projects.

24. The IF provides foreign currency and local currency whenever feasible, priced to reflect market conditions. Various instruments are possible, from plain vanilla loans, various forms of mezzanine finance and quasi equity (participating loans, subordinated and conditional loans, performance-linked repayments etc.), as well as convertible bonds and pure equity. The IF can also be used to provide guarantees for loans or bond issues. Lending up to 50% of the cost of projects (average 30%), the EIB aims to play a catalytic role by mobilizing local resources and encouraging other financiers to become involved.

25. As of 30 June 2005 (i.e. 2 years of operations under the IF), total approvals amounted to EUR 888m, with signatures amounting to EUR 595m, and disbursements of EUR 159m. The pipeline of potential projects amounts to EUR 2000m (representing more than the IF endowment!).

D) Presentation by the World Bank/International Financial Corporation, (IFC): *World Bank's Policy for the Financing of Multilateral Projects, Private Sector Development, and Modernization of Rural Development.*

26. The World Bank in early September 2005 adopted a new results-oriented Africa Action Plan, which is designed to support African countries in their efforts to increase economic growth, tackle poverty, and achieve the Millennium Development Goals (MDGs), in collaboration with other development partners. The Action Plan supports four major themes: building capable states and improving governance; supporting the drivers of growth; participating in and sharing growth; and strengthening partnerships.

27. The theme, "Support the drivers of growth", specifically addresses issues related to financing multilateral projects, private sector development, and modernization of the rural sector. Specific actions that the Bank will take in the next three years under the Action Plan to address these issues include the following:

- Substantially scale-up financing for infrastructure development in Sub-Saharan Africa to $1.8 billion in FY2006 and to $2.4 billion by FY2008.
- Work as part of the African Infrastructure Consortium to mobilize additional donor support for infrastructure, leading to about a $2.5 billion increase by FY2008.
- Facilitate public-private sector participation in infrastructure development such as energy, transport and water resources development.
- Expand the World Bank Group's Africa Micro, Small, and Medium Enterprises Initiative to reach eight countries by FY2007, with a major emphasis on the capacity and access to credit by women-owned enterprises.
- Working through Investor Councils, develop concrete programs to remove critical constraints to private investment.
- Increased physical investment, especially for irrigation, water resources management, rural roads and infrastructure, and research and extension.
- Eliminate policy discrimination against rural goods, and increasing service delivery for rural areas in agriculture and other sectors such as health and education.
- Higher agricultural productivity through the use of more sustainable agricultural practices.
- Scale-up support to farmers and agri-business through improved market access and rural finance.
- Mobilize global programs such as the Consultative Group on International Agricultural Research (CGIAR), to expand investment in agriculture science and technology and to strengthen national innovation systems in agriculture.

- Increase public and private financing to expand irrigated agriculture by 50% between FY2005 and 2008.

E) Presentation by the Development Bank of Southern Africa (DBSA): *Government-Private sector partnership in the financing of multinational infrastructure projects*

28. The broad mandate of the DBSA (referred to as Bank hereafter) in terms of the DBSA Act, 1997 (Act 13 of 1997), is to promote economic development and growth, human resources development and institutional capacity-building. The Bank was first established in 1983, and started operations in the region after it was transformed in the new dispensation obtaining in South Africa post-1994, and after the Governments of the Southern African Development Community (SADC) requested it to play a wider sub-regional development banking role.

29. The Bank's mission is to mobilize not only financial resources, but also knowledge resources from the national and international, as well as private and public sectors, for sustainable development projects and programmes. This is reflected in the Bank's triple role of financier, advisor and partner. The Bank's geographic scope of operations is Southern Africa, where its direct financing and investment activities are concerned. Where the Bank's advisory and partnership activities are concerned, however, the geographic scope is broader and extends to the wider region of Africa south of the Sahara to ensure strategic engagement and response to NEPAD.

30. The Bank has a specific focus on infrastructure development, across sectors, spanning the economic, social and institutional spheres. It also seeks to facilitate private sector investment and involvement in infrastructure projects, through co-financing, public private partnerships and general procurement.

31. The regional investment focus in SADC is largely on commercially viable projects and programmes that can absorb market related terms and conditions. Specific areas that constitute the Bank's portfolio holdings and scope in the region include:

- Energy and power, (including oil and gas);
- Mining;
- Transport systems;
- Commercial agriculture;
- Dams and water systems linked to commercial uses;
- Telecommunications and ICT;
- Local capital markets developments, through lines of credits to financial institutions and bond issues to fund infrastructure and other economic growth areas; and
- Projects that promote regional economic integration.

32. Outside the SADC region, the Bank plays an advisor and partner role. An example of this is its partnership with Agence Française de Développement (AFD) with

which it has created a project preparation facility of R25 million in support of NEPAD projects. The importance of sub-regional and continental partnerships has been recognized by the establishment of an African Partnership Unit (APU) which has day-to-day liaison with the NEPAD Secretariat, and undertakes advisory and advocacy activities.

33. The DBSA's capital and reserves at 31 March 2004 stood at R11, 1 billion. The Bank's financial resources are made up of the share capital contribution of the Government of South Africa, direct borrowings in the financial markets, repayments on loans granted by it, and internally generated funds. In addition to these resources, the Bank mobilizes loan capital from other international sources. It has established lines of credit with reputable and highly rated international institutions such as the African Development Bank and the European Investment Bank. It also raises funds from bilateral sources such as the German Kreditanstalt für Wiederaufbau, the Japanese Overseas Economic Co-operation Fund, and the Agence Française de Développement. The DBSA has also entered into agreements with a number of development entities to administer funds on their behalf such as the World Bank Prototype Carbon Fund.

34. The Board directs and controls the operations of the Bank through a number of Board Committees set up to deal with financial and risk management and control; knowledge strategy; credit extension and employment practices – including employment equity and remuneration policies. The committees are the Audit and Finance Committee; the Credit Committee; the Knowledge Strategy Committee and the Remuneration Committee.

F) Discussions

35. Following these presentations, the debate concentrated on the following issues and made appropriate recommendations on each.

36. After an in-depth discussion, the experts raised the following issues:

i) Why is it necessary to establish the AIB when similar institutions exist in the continent such as the AfDB and regional investment banks and financial corporations and what would be the relationship between them? In this regard, it was recommended that the AIB be created to fill the financial gap not covered by the existing financial institutions. The Experts observed however that some of the objectives assigned to AIB, such as economic growth, poverty reduction and human development were already handled by the AfDB. Therefore, they should be reviewed to avoid duplication.

ii) What orientation could be given to AIB? Is it a growth-based Bank or a social-based one? The Experts proposed that AIB should be focusing on promoting private sector, financing commercially viable projects and mobilizing financial resources for socio-economic development.

iii) What role Governments are expected to play in the functioning and working of the AIB, bearing in mind that African States have not succeeded to sustain viable financial and development institutions? The experts expressed the view that the involvement of Governments should be oriented to supervision and regulatory functions, while AIB should be a joint venture between Governments, public enterprises and private sector whose shares need to be determined.

iv) How to create conducive conditions for sustainable development of AIB by financing commercially viable projects? It was proposed that the shares be divided equitably between the governments and private sector to ensure that viability and a mix of vitality, innovation and accountability.

v) How AIB could access to the international capital market in order to mobilize adequate financial resources, so as to handle loans as well as grants, including Special Funds?

vi) How to come up with innovative schemes for investment guarantees such as MIGA so as to minimize the risk factor?

vii) What will be the role of the African private sector, individuals and Diaspora in the functioning and working of AIB?

G) Recommendations

In spite of the constraints, the experts underscored the necessity to create the AIB in order to meet the challenges of Africa's economic integration.

37. Therefore they made the following recommendations:

- **Mandate of the AIB**

i) To mobilize financial resources for economic integration and development;
ii) To promote investment in infrastructures;
iii) To promote private sector for economic development;
iv) To promote the development of national/regional capital markets as well as financial systems, including micro-finance systems to facilitate access to credit by all categories of society, including the informal sector; and
v) To provide special financing for promoting intra-regional trade.

38. The Experts further recommended to review and adopt the concept paper and the Draft Protocol according to the above recommendations.

39. They also suggested that a clear definition of the main stakeholders and their respective shares in the AIB should be made. In this respect, there was a need to involve both public enterprises and private business in the functioning of the AIB.

- **Sources of financing**

40. In discussing this issue, the meeting arrived at the following recommendations:

i) AIB should be financed by Member States subscriptions, private sector and Diaspora subscriptions and foreign capital with a limit to be agreed upon;
ii) To mobilize institutional funds such as insurance and pension funds, venture capital funds as well as special funds including trust funds/grants;
iii) To mobilize resources from commodities through the establishment of trust fund;
iv) To float preferred shares and sell bonds to the general public;
v) To facilitate the repatriation of illegally transferred funds to foreign Banks through the trust fund;
vi) To encourage African countries and other donors to establish special trust funds.

- **Membership and Management**

41. The Experts recommended the following:

i) The Board of Directors should be appointed for a maximum of two terms of 5 years each;
ii) The private sector should be represented in the Board without any voting right;
iii) There should be an Audit Committee to promote good governance;
iv) A code of ethics should be introduced;
v) The functions of the Chairperson of the Board of Directors and the President of the Bank should be separated.

- **Cooperation and partnership with other institutions**

42. The Experts recommended the following:

i) To promote co-financing with other relevant financial institutions for relevant projects, especially private sector where feasible;
ii) To cooperate with financial intermediaries;
iii) To strengthen partnership with other relevant institutions for information sharing, technical assistance and other capacity building activities, such as feasibility studies and project development and preparation of business plan.

III. THE AFRICAN MONETARY FUND

A) Presentation by African Union Commission (AUC): *Concept note on the creation of the AMF*

43. In introducing the concept paper, the Consultant underscored the intention of the African Heads of State and Government to create the African Monetary Fund which was to facilitate the Integration of African economies though the elimination of trade restrictions, observing that the international Monetary Fund (IMF) has not been able to solve the balance of payments problems of the African countries. He added that the main objective was to provide financial assistance to Member States facing balance of payments problems. He intimated that the activities of the AMF will be complementary of those of the Central Bank, including the management of international reserves and its lending operations.

44. The Consultant also highlighted the purposes of the AMF, membership, funding and management.

45. The Consultant stated that the creation of the AMF would facilitate greater cooperation and common monetary policy and would contribute to the following operations:

- Correct imbalances in the balances of payments of Regional Economic Communities (RECs);
- Contribute to the removal of restrictions current payments between the members states;
- Settle current payment between member states;
- Coordinate the positions of member states on international monetary issues;
- Provide short-term and medium-term loans to member states;
- Strengthen borrowing capabilities of Member states and RECs;
- Coordinate monetary policy; and
- Promote cooperation between the monetary authorities.

46. The Consultant further dwelt with the proposals on the lending operations and their modalities as well as the organization and structure of AMF as reflected in the concept paper.

B) Discussions

47. The idea of the African Monetary Fund is not new. African countries entertained it in the early 1980s, in response to frustration with the International Monetary Fund and dissatisfaction with the perceived inappropriateness of the IMF facilities to address the balance of payments problems of African countries. In particular, African countries were dissatisfied with IMF conditionalities, which required countries to pursue structural adjustment programs, including currency devaluation. Admittedly, however, IMF had

certain facilities to assist countries experiencing temporary balance of payments difficulties. The problems that experts struggled with, at the time was how:

i) the AMF would be feasible when several African countries were experiencing current account deficits, and the global African external payments situation was in deficit (i.e. the surpluses could not cover the deficits);

ii) the AMF could provide financing for balance of payments deficits without also requiring some kind of monetary discipline of the countries using the Fund's resources, especially if their current account deficits were structural.

48. Currently, however, the incidence of huge surpluses of the oil-exporting countries could remove issue (i) above. However, the second issue remains.

49. The example of the European Monetary System could inspire the objectives of the AMF. However, the lessons from EMS also inform us that the establishment of the AMF:

i) Should help promote monetary cooperation;
ii) Should assist in the intensify efforts of towards enhancing regional integration; and
iii) Should put in place mechanisms to ensure financial discipline.

C) Recommendations

The experts acknowledged the necessity of setting up the AMF whose role will be to assist Member States in overcoming their balance of payment deficit, promoting monetary cooperation and ensuring financial supervision and discipline. They suggested that when the African Central Bank will be established, the role of the AMF should focus on the financial supervision and discipline.

50. Therefore, they made the following recommendations:

i) The AMF should concentrate on the following mandate:

- To provide short term financing to correct imbalances in the balance of payments;
- To promote monetary cooperation among Member States;
- To assist Member States in ensuring discipline, supervision and regulation of the banking systems as well as effective audit mechanisms in the management of budgetary and financial resources; and
- To facilitate the enhancement of intra-African trade, investment and regional integration processes.

ii) It is expected that the AMF would be most efficient if it operates within monetary union zones;

iii) The AMF should work and interlink with different monetary Unions which have the common interest to resolve their balance of payment deficit and the possibility to access to loans from AMF when necessary;

iv) The AMF should assist in the establishment, between member states, of monetary cooperation, harmonization of macro-economic policies with a supervision and control mechanism as well as the collaboration with external financial institutions including IMF;

v) The resources of the AMF should come, inter alia, from subscriptions and countries reserves;

vi) Regarding the timing, it is expected that the AMF would be established some time after the operationalization of the AIB, which is expected to have created conducive environment for increased trade, infrastructure and communication exchanges.

IV. THE AFRICAN CENTRAL BANK

A) Presentation by African Union Commission (AUC): *The issues in the creation of an African Central*

51. The Consultant introduced the issue on the creation of the African Central Bank and referred to the experiences of Europe and Africa in this matter. He underscored the main objective of a Central Bank which include the following:

i) To harmonize and coordinate monetary policy;
ii) To ensure better monetary management and development of a common currency as part of the regional integration process;
iii) To issue legal tender notes and coins; and
iv) To exercise a leadership and supervisory role with respect to National and sub-regional Central Banks which may undertake open market operations among others.

52. The African Central Bank should be independent while taking into account the developmental exigencies and ensure the sound regulation and supervision of National or Regional Banks.

B) Presentation by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO): *Can the Franc Zone arrangements serves as an example for the monetary integration of African Countries*

53. Formally established in 1939, the Franc zone was the result of the evolution and transformations of the former French colonial empire. After attaining independence, most of the new States chose to remain within a homogeneous entity structured around a common exchange system.

54. The monetary co-operation agreements exiting among the African countries of the franc zone is underpinned by three international treaties concluded between France and respectively, the countries of the West African Monetary Union (UMOA), the countries of the monetary union of Central African States (BEAC) and The Comoros, and by the relevant operations account conventions. These agreements were completed by the treaties establishing UEMOA and CEMAC, two economic and monetary unions endowed with common institutions. The monetary policy within these two spaces is implemented by BCEAO and BEAC, the two central banks in the region.

55. Analysis of UEMOA experience in terms of monetary policy reveals that strict discipline dictated by this model has conferred on the union a monetary stability strengthened by the adoption of the treaty establishing UEMOA.

56. However, proper currency management was not always reflected in the conomic performances of these countries. The results have shown that in terms of African monetary integration, the effectiveness of monetary activity in an integrated economic space requires structural reforms based on convergence of economic performances, diversification of the productivity base and removal of impediments to movement of goods and persons.

C) Presentation by the Bank of Central African States (BEAC): Policy and institutional issues in the management of a multinational Central Bank

57. Sound management of a multilateral central bank requires the putting in place of an independent and credible institutional framework devoid of any political interference. Furthermore, the effectiveness of a common monetary policy can only be guaranteed in an integrated economic space endowed with a mechanism to ensure co-ordination between this common monetary policy and national budgetary policies, and harmonization of sectoral policies, particularly in the financial domain.

58. The Bank of Central African States (BEAC) which came into being following the November 1972 Brazzaville Agreements is a multinational public institution which prints banknotes and mints metallic coins that are legal tender in the countries concerned.

59. On the institutional plane, the decision-making and administrative organs include the Assembly of Heads of state, the Ministerial Committee, and the Board of Directors and the National Monetary and Financial Committees. The Bank is controlled by the College of Advisors, the Auditorship and the Audit Committee.

60. The objective of the BEAC common monetary policy is to ensure currency stability which is measured by the rate of inflation and the currency reserve ratio.

61. Indeed, during the prosperous post-independence years this monetary policy had shown its effectiveness but it was quickly shattered by the economic crises that had dogged a number of the Members countries in the 80s. As a result, the sustainability of the currency stability was comprised by the advent of expansionist budgetary policies and the extreme vulnerability of the economies to external shocks, which led to a significant fall in the foreign currency reserves, the weakening of the sub-regional financial system and an exacerbation of enterprise financing difficulties.

62. It was against this background that the Member States bowed to the devaluation of the CFA franc in 1994. However, the effects of this devaluation, though positive, were deemed inadequate to correct the structural weaknesses of the economies. The need was felt to carry out radical reforms in order to revitalize the production machinery and maintain the equilibrium between the common monetary policy and the national budgetary policies, thereby taking on board the external effects of national policies.

63. These reforms formed part of a new configuration of the sub-region characterized by the signing in 1999 of two conventions establishing the Central African Economic Union (UEAC) and the Central African Monetary Union (UMAC) respectively.

64. The reform of the BEAC intervention provision was carried out in three phases. The first phase was initiated in October 1990 when the Central Bank introduced more flexibility and rationality in the management of the money rental.

65. The second was characterized by the adoption of currency programming to ensure consistency between the monetary objectives and the projected macro-economic framework. The establishment of the monetary market on 1 July 1994 was the last phase of the reform whose objective is to gear the monetary policy towards the use of indirect instruments.

Recommendations

The experts recognized the necessity to set up the African Central Bank (ACB) at the appropriate time, whose role will be to promote economic growth within a context of price stability. They also, suggested that the ACB would be the culmination of the process, in that it would be gradually established through the creation of Regional Central Banks. The meeting underscored the need to create the AIB first in order to speed up economic integration before the establishment of the other two institutions. In the process of establishing ACB, the experts proposed that lessons be drawn from the experiences of successful central banks such as those of some African countries and Caribbean region.

66. The experts made therefore the following recommendations:

i) Establish a common currency and enforce its credibility;
ii) Contribute to the economic integration, growth and development;
iii) Conduct monetary policy in the continent; and
iv) Promote financial sector stability.

V. THE WAY FORWARD

A) Presentation by African Union Commission: *Steering committees*

67. As a way forward, the AU Commission shared with the experts the proposal to set up technical steering committees for each of the three financial institutions. In this regard, the AUC informed the experts that the AU Assembly had already taken a decision on the location of these institutions as follows:

i) AIB in Syrte, Libya;
ii) ACB, West Africa; and
iii) AMF, Central Africa.

68. Each technical steering committee would comprise 5 members who will be working under the supervision of the Economic Affairs Department and would be located in the respective host country.

B) Recommendations

As a way forward, the experts welcomed the proposal to set up technical steering committees for each of the three financial institutions and strongly recommended that they be implemented. However, for the sake of efficiency, they suggested that the implementation be staggered in two phases:

The first phase which is the preparatory phase would concentrate on the following activities:
Feasibility study
Drafting of protocols
Other activities such as workshops, consultations with stakeholders and partners, etc.
The experts further proposed that this preparatory phase be conducted from the AU Headquarters under the supervision of the Economic Affairs Department.

The second phase which is implementation, would concentrate on the effective setting up and operationalization of the institutions. The experts proposed that this phase be conducted from the location of the respective institution.

69. Therefore, the experts recommended as follows:

i) Establish the three technical steering committees concurrently as soon as possible;

ii) Ensure robust momentum and send a strong message to the African public about both progress and strong commitment in setting these institutions;
iii) Work closely with all relevant institutions and partners;
iv) Form steering committees for each institution, with each committee comprising no less than 5 members and no more than 8 members; and
v) Identify qualified institutions and individuals to serve on the various committees, and where institutions are concerned, that formal letters be sent.

VI. CLOSING STATEMENT

70. On behalf on the Chairperson of the AU Commission, the Director of the Economic Affairs reiterated the appreciation and gratitude of the AUC to the participants for a work well done. He hailed the high quality of the debate, which enables the meeting to arrive at sound recommendations. He reassured the participants that the AUC will appropriately use the outcome of the meeting to improve and enrich the final documents related to the financial institutions. He also informed the participants that the AUC will continue to cooperate with them in the follow up and future activities forwards the effective operationalization of the institutions.

INDEPENDENT EXPERTS' WORKSHOP ON THE ESTABLISHMENT OF FINANCIAL INSTITUTIONS IN AFRICA – 19-20 SEPTEMBER 2005

I. LIST OF INVITEES

	NAME	TITLE	INSTITUTION	ADDRESS
1.	Dr. Cherif Salif Sy	Vice President	Africa-Asia Business Council	Cité Fayçal N.30 Dakar, BP 5248 FANN Tel/Fx: 00221-8358773 00221-6442031 Email: cssy@REFER.SN / cherifsalif@SENTOO.SN
2.	Mr. NAKA Léon	Ancien président	Conseil régional de l'Epargne publique et des marchés financiers	01 BP 8101 Abidjan, Côte d'Ivoire Tel : 225-22410947 Email : nakadjagros@yahoo.fr
3.	Mr. KOMANYANE Maphoi	Second Secretary	Botswana Embassy	Box 22282, Code 1000 Addis Ababa Tel : 0113715422 Fax : 0113714099 Email : maphoi77@yahoo.co.uk
4.	Mr. Amaizo Yves Ekoué	Economiste spécialisé en stratégie	UNIDO	P.O.Box 400 – UNIDO Wagramerstrasse 5 A-1400 Vienne Autriche Tel : 0043 1260265102 Fax : 0043 1260266864 Email : yeamaizo@yahoo.com eamaizo@unido.org
5.	Mr. Felleke Mammo	Advisor to the Executive Director, Africa Group I Constituency	The World Bank Group	1818 H Street NW Washington, DC, 20433 USA Tel: 202-458 2117 Email: fmammo@worldbank.org

6.	Ms. Amoussou Félicité	Administrateur de Banque à la retraite	République du Bénin	01 BP 3237 Cotonou Tel : 229-21 37 41 61 95 95 28 29 Fax : 229-21 33 64 77 Email: gnahouifelicite@yahoo.fr
7.	Mr. NTSIMI Antoine	Secrétaire général Adjoint	Communauté économique des Etats de l'Afrique centrale - CEEAC	241 44 47 31 44 47 32 Libreville, Gabon
8.	Mr. Guerard Gilles	Directeur général adjoint	ECOBANK	01 BP 1280, Cotonou, Bénin Tel : 229-21313069/ 229-21313788 Email : gguerard@ecobank.com
9.	Mr. MIALE Rodolphe	Administrateur directeur général	Compagnie nationale de Crédit	BP 1051 Yaoundé, Cameroun 237-222 36 07 761 25 85/974 70 54 email: mialerodolphe@yahoo.fr
10.	Mr. ZEIDY Ibrahim Abdullahi	Senior Monetary Economist	COMESA	P.O.Box 30051 Lusaka, Zambia Tel: 260-1-229 726 Ext.326 Fax: 260-1-225 107 Email: izeidy@comesa.int
11.	Mr. Touati Mohamed Hedi	Directeur adjoint des affaires financières	CEN-SAD	Tripoli 00218 925232318 Fax : 00218 021 4440076
12.	Mr. DOSSOU Antonin	Directeur de la Recherche et de la Statistique	BCEAO	BP 3108 Dakar Tel : 221-839 0779 Fax: 221-823 9335 Email: adossou@bceao.int
13.	Mr. Mahamad Amine Ben Barka	Directeur adjoint des Relations financières extérieures	BEAC	C/o BEAC BP 1917, Yaoundé, Cameroun 237-2238239/237-9795342 Email: amine@beac.int
14.	Mr. Brown Philippe		European Investiment Bank	Email: p.brown@eib.org

15.	Mr. Herbert Acquay		World Bank	662 77 00 Email: Hacquay@worldbank.org
16.	Mr. Michael Mahmoud	Financial Sector Advisor	ADB	Email: momahmoud@afdb.org
17.	Mr. Lewis Musasike	Vice President	DBSA	Email: lewism@dbsa.org
18.	Mr. Admassu Tadesse	Dept. Head, Strategy	DBSA	Email: admassut@dbsa.org
19.	Mr. Seya T. Pierre	Resident Representative	ADB	Email: t.seya@afdb.org
20.	Mr. Joseph Atta-Mensah		UNECA	011 5445379 Email : jattamensah@uneca.org
21.	Mr. IDULE AMOKO		Uganda Embassy	Cell : 0911407031 Email : idel_amok@yahoo.com
22.	Mr. Diery Seck	Director	IDEP	Tel: 011 221 823 1020 822 2964 Email: dseck@unidep.org

II. LIST OF AU STAFF

1.	Mme Elysabeth Tankeu	Commissioner	Trade & Industry	Tel: 011 5511094 eltankeu@consultant.com tankeuE@africa-union.org
2.	Dr. Kouassi R. N'Guettia	Director	Economic Affairs Department	Tel: 011 5510595 Email: nkouassi2003@yahoo.com
3.	Mr. Ben Kioko	Legal Counsel		Tel: 011 5522965 Email: ben_kioko@yahoo.com
4.	Mr. Jean Mfasoni		AU Regional Delegate	Email : jmfasoni@hotmail.com
5.	Ms. Drocella K.		Cabinet Chairperson, AUC	Email : drocella@hotmail.com
6.	Mr. Foday Bojang		Department of Rural Economy & Agriculture, AUC	African Union
6.	Dr. Ben Hadj	Statistician &	AUC	Tel: 911 250606

	Abdellatif	Economist		Email: BHABDELLATIF@YAHOO.FR
7.	Mr. Cosme Amoussou	Legal Consultant	Legal Office, AU	47 19 95 Email: amocosme@yahoo.fr
8.	Mr. Dossina Yeo	Financier/Statistician	Economic Aff. Dept.	Email: dossinay@africa-union.org
9.	Mr. Dawit Mekonnen	Senior Economist	Economic Affairs	Email: dawitm@africa-union.org
10.	Dr. Sall Salif Sada	Director, Strategic planning Policy,Monitoring	SPPME - AUC	011 551 11 64 Email: ssall@ucad.sn ssall@africa-union.org
11.	Dr. Magdi Khalifa	Head of Plan SPPM	SPPME - AUC	Email : KhalifaM@Africa-union.org
12.	Dr. Mohamed NAÏMI	Ag. Head,Policy Analysis & Research	SPPME - AUC	Email:naimim@africa-union.org
13.	Ms. Wynne Musabayana	Communications	AUC	011 5517700 Ext. 118 Email : musabayanaw@africa-union.org
14.	Mr. Tshimanga Mukadi Mutake		Political Dept., AUC	Tel :011 514238 Email : mukaditshimnaga@yahoo.com
15.	Dr. Simon N'Guiamba	Consultant	Bureau of The Chairperson	Ext. 207 Email : NguiambaS@africa-union.org

2005

Report of the commission on the establishment of the financial institutions (Art. 19 of the constitutive act)

African Union

African Union