MEFMI
Macroeconomic and Financial Management
Institute of Eastern and Southern Africa

Crown Agents
Investment Management

REPORT OF THE PROCEEDINGS OF THE 2017 MEFMI DEPUTY GOVERNORS AND DEPUTY PERMANENT / PRINCIPAL SECRETARIES FORUM

Theme:
REGIONAL INTEGRATION

Angola Botswana Burundi Kenya Lesotho Malawi Mozambique Namibia Rwanda Swaziland Tanzania Uganda Zambia Zimbabwe

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Theme: Regional Integration

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ACRONYMS

ABF	Asian Bond Fund
AGOA	African Growth and Opportunity Act
AMU	The Arab Maghreb Union
AU	African Union
BIS	Bank for International Settlements
CFTA	Continental Free Trade Area
COMESA	Common Market for East and Southern Africa
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
ETF	Exchange Traded Funds
EMEAP	Executives' Meeting of East Asia and Pacific Central Banks
EU	European Union
FDI	Foreign Direct Investment
FTAs	Free Trade Area
GDP	Gross Domestic Product
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
PIDA	Programme for Infrastructure Development in Africa
RECs	Regional Economic Community
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UNCTAD	United Nations Conference on Trade and Development

FOREWORD

The Deputy Governors and Deputy Permanent/Principal Secretaries' Forum is one of the MEFMI Executive Fora activities. The major objective of this biennial event is to generate discussions and formulate strategies on how best to ensure that key policy makers and implementers within the Central Banks and the Ministries of Finance/ Economic Planning are championing and influencing policy direction for the benefit of the region. The Forum also serves as a platform for exchange of ideas, experiences, challenges and opportunities on some of the emerging issues in the region, as well as from distinguished speakers. The outcomes of the Forum, are presented in this report. The theme for the 2017 Forum was ***Regional Integration***.

Over the past decade, countries in the African region have implemented transformation programmes in an effort to strengthen their economies and promote trade. A key element of Africa's economic strategy is the promotion of regional economic integration with the aim of increasing cooperation. Closer economic cooperation is intended to create a larger regional market for trade and investment. The objective is to lower trade barriers and reduce the cost and risks of trade.

As a regional capacity building institute, MEFMI has positioned itself to serve its member countries' needs by adopting regional economic integration as one of its strategic objectives under **Pillar I: Programming Relevance and Effectiveness**, of its 5 year strategic plan for the period 2017 to 2021. The plan will ensure that capacity building initiatives in this area are met across the different levels, hence the choice of the theme for the 2017 Deputy Governors and Deputy Permanent Secretaries Forum.

The Forum provided a platform for policy makers to deliberate and strategize on the broad African integration initiative. This is one of the many strategies to be employed by the Institute in its endeavour to ensure progress towards regional economic integration.

The Forum was hosted jointly by Banco de Mocambique and the Ministry of Finance. MEFMI is grateful for the support that the two (2) institutions provided for logistics that included processing of VISA applications for delegates, sourcing interpreters, provision of ground transport, security and arranging an excursion for the delegates.

For the first time, MEFMI partnered with Crown Agents Investment Management (CAIM) for this event. CAIM's parent company, Crown Agents had in the past provided technical support for other capacity building events in the areas of domestic debt management and financial markets. However for this event, CAIM provided part of the financial and technical. Impressed by the quality of discussions at the event, CAIM pledged to increase their funding for this forum to be held annually. The commitment by CAIM is demonstration of the effectiveness of MEFMI's influence in the region.

Caleb M. Fundanga,

MEFMI EXECUTIVE DIRECTOR

EXECUTIVE SUMMARY

The African Union (AU) has promoted regional economic integration through the 1991 Treaty, establishing the African Economic Community (AEC). The Treaty came into force in 1994. The major aim was to promote mutual economic development on the African continent through the adoption of a linear model of regional integration. This will ensure the creation of Free Trade Areas (FTAs), customs unions, a single market, a central bank and a common currency. The long term objective is to move towards an economic and monetary union. *Appendix I provides a full detail of the six stages of the linear model of regional economic integration.*

The Deputy Governors and Deputy Permanent /Principal Secretaries Forum sought to bring together policy makers, to discuss the current state of regional integration on the African continent. Currently, there are multiple regional economic communities with several overlapping memberships. The regional arrangement also consists largely of trade blocs with some political and military cooperation. MEFMI member countries belong mainly to the EAC and the Southern Africa Development Community (SADC). In addition, there is also overlapping membership of the MEFMI member countries to the Common Market for Eastern and Southern Africa (COMESA). Having representatives of two (2) regional blocs and different FTAs has helped the MEFMI region to assess the progress made in implementation so far, and the effectiveness of the implementation initiatives of the adopted model.

The purpose of this report is not only to provide a summary of the Forum, but also highlight some key considerations that will inform the design of MEFMI's future capacity building activities.

A number of key outcomes emerged from the discussions and these include:

a) Awareness of the importance of the Social Economic Transformation

There was consensus among delegates of the importance of defining the framework that Africa should work towards achieving for its markets, infrastructure and productivity. This may include fast tracking of trade remedies, recognising the growing role of the informal sector and leveraging on value addition and diversification of commodities. These reforms should be development in a systematic and measureable manner to promote socio-economic development and poverty reduction in Africa.

As a regional capacity body, MEFMI pledged to support the process by continuing to conduct capacity building on the different aspects of regional integration at different levels of staff within the region. This will ensure transference of skills to member institutions' technical staff in specialised areas such as statistics, governance, tax reforms among others.

b) Importance of Strong Leadership to drive Implementation of the RECs agenda

The delegates agreed that strong leadership of the African Union is key to ensuring that resolutions are given the attention that they deserve and that they are communicated to the highest level. In terms of implementation of policies, RECs were noted to have had more success than the AU itself, and therefore a recommendation was made for RECs to be considered for championing regional integration implementation.

c) Lesson for Africa from The Asian Bond Fund

The discussion on the success of the Asian Bond Fund that was set up by the Meeting of East Asia and Pacific Central Banks (EMEAP) to promote the Asian domestic bond market by pulling resources to build trust and to accelerate local bond markets development demonstrated to the delegates that it is possible to pull a group together to participate in a common goal and committing to a project. This lesson can be replicated in the region.

The question for African countries would be who can take the lead should such a venture ever be considered. It was also noted that African needs for financing infrastructure required large volumes of money hence the lack of motivation on the part of countries.

The conclusion was that where there is a will there is a way. And as the topic of regional integration continues to be discussed in such forums, progress will be made.

1. OPENING AND WELCOME REMARKS

1.1 REMARKS BY MEFMI EXECUTIVE DIRECTOR, DR. FUNDANGA

Dr. Caleb Fundanga, the MEFMI Executive Director, welcomed the delegates to the **2017 MEFMI Region Deputy Governors and Deputy Principal/Permanent Secretaries Forum.** He thanked the delegates for taking time off their busy schedules to attend the event, which is one of the Executive Fora programmes on the MEFMI calendar. He commended the Governor of Banco de Moçambique for all the assistance with logistics that included visa processing, sourcing of interpreters, provision of transport and security, as well as the excursion for the delegates on the last day of the Forum. All this was key to ensure success of the Forum.

Dr. Fundanga introduced CAIM and welcomed the representatives to the event. Dr. Fundanga stated that CAIM was the new financial partner for the Forum. While this was the first time that CAIM was a financial partner for a MEFMI event, the parent company, Crown Agents, was no stranger to MEFMI, as it had previously provided technical services, on gratis, to some of MEFMI's regional workshops. Dr. Fundanga stated the importance of having a financial partner as it helps to reduce the financial burden on the Institute. Financial partners also ensure that such high level activities continue to be conducted at international standards, as the financial partner helps to finance a portion of the total budget of the event. Dr. Fundanga expressed hope that MEFMI and CAIM will continue with this partnership as they contemplate new and wider areas for future collaboration.

Dr. Fundanga also took the opportunity to explain to the delegates what the objective of the Forum was, which is to provide a platform for Deputy Governors and Deputy Principal or Permanent Secretaries from the MEFMI region to discuss issues pertaining to macroeconomic policy management in the MEFMI region, and relate them to global developments. In addition to policy discussions, the Forum is also a platform for networking and strengthening relationships amongst peers. To the request that had been made during the last event that was held in Maseru, Lesotho in 2015 to make the event annual, Dr. Fundanga informed the delegates that MEFMI was still not able to meet the request due to financial constraints, though efforts were still being made to address the request.

The Executive Director welcomed the other two speakers, Dr. Francis Mangeni from COMESA and Dr. Wanyama Masinde from the Centre for Regional Integration. He noted that the speakers had extensive experience on the theme and assured the delegates that they would come out of the forum better informed and geared to make a change for the benefit of the MEFMI region. He pointed out that the Forum was part of the efforts being made by MEFMI to drive the region towards meeting the goal of regional integration as it is enunciated in the Agenda 2030 for Sustainable Development Goals (SGDs). He expressed his hope that through the Forum it will be possible to continuously strengthen regional cooperation schemes for the MEFMI region. He noted that the Forum constitutes an opportunity for enriching the strategy for the region and to make regional integration a reality.

With regards to the programme, Dr. Fundanga explained that the 2017 Forum was intentionally structured in a manner that would allow the delegates to discuss issues arising from the presentations. The format would also provide more time for discussions and interaction as well as brainstorming on possible solutions.

Dr. Fundanga pointed out that the Forum stood to benefit from the experiences of two regional bodies namely the EAC and SADC, as both are represented in the MEFMI membership. He challenged the delegates and encouraged them to embrace diversity by learning other languages as learning languages is key to regional integration. He took the opportunity to inform the delegates that all MEFMI staff were now taking Portuguese lessons. He stated that MEFMI had taken a deliberate stance to learn languages of its member countries in order to build a stronger organisation which can effectively serve the region.

1.2 OFFICIAL OPENING: DR. ROGERIO LUCAS ZANDAMELA, GOVERNOR, BANCO DE MOÇAMBIQUE

The Forum was officially opened by Dr. Rogerio Lucas Zandamela, Governor of Banco de Moçambique. The Governor welcomed guests and thanked them for finding time to attend the Forum. Dr. Zandamela commended MEFMI for ensuring that there is continuous dialogue amongst policy makers on economic policy development and management in the MEFMI region. He stated that the MEFMI region cannot afford to lag behind on matters of economic development, particularly those of regional integration, which is a critical component to meet the Agenda 2030 Sustainable Development Goals.

The Governor enunciated the benefits of regional integration that include acting as a vehicle to help the continent achieve higher economic growth, job creation for fast growing populations and poverty alleviation.

The Governor noted that the lack of integration has been singled out as one of the major hindrances to the continent's economic growth and development. He added that many development and economic experts argue that if Africa is to have a stronger voice on the global fora, there is need to strengthen its economic position, and regional integration is the vehicle through which this can be achieved.

Citing Mozambique as an example of how countries can contribute to regional integration, the Governor stated that both East and Southern Africa can benefit from the Moçambique Channel, which in the past served as a key transit and trade hub linking the Indian Ocean to the world (Middle East, India, and East Asia with Europe and Brazil). The Moçambique Channel is approximately 1,000 km long and 250 km wide at its narrowest point. The Channel can still have a significant role in international trade and traffic which could benefit countries in Africa immensely, particularly the natural gas players from the Rovuma Basin, which contains on estimation, over 100 trillion cubic feet of recoverable natural gas, making it one of the largest gas finds in the world.

The Governor called for a proactive approach to building capacity in regional integration in light of the Channel's growth in offshore energy trade, traffic, and infrastructure in the coming years. He urged delegates to craft strategies which MEFMI member countries could implement to deal with impediments that have bedevilled regional integration over decades, which include but are not limited to:

i. The need to eliminate customs duties and other charges of equivalent effect in respect of the import and export of goods;

ii. The abolition of quantitative and administrative restrictions on trade among member countries;

iii. The establishment of a common customs tariff and a common commercial policy towards third countries;

iv. The abolition of obstacles to the free movement of persons, services and capital amongst member countries;

v. The harmonisation of agricultural policies and the promotion of common projects in member countries, notably in the fields of marketing, research and afro-industrial enterprises;

vi. The harmonisation of economic and industrial policies of member countries and the elimination of disparities in the level of development of member countries; and

vii. The harmonisation for the proper functioning of monetary policies of member countries.

The Governor challenged delegates to always discuss ways in which the region can address language barriers, social and cultural differences. He stated that these continue to hinder regional integration and trade as well as the establishment of an economic union through the adoption of common policies in the economic and financial sectors.

The Governor wished delegates a comfortable stay in Moçambique and a fruitful forum. He wished participants an enjoyable excursion of the city, which the Bank had taken the pleasure to organise as part of networking for the delegates.

2. FORUM PRESENTATIONS AND DISCUSSIONS

This section of the report is on the proceedings and discussions during the Forum:

2.1 SESSION 1: CONTINENTAL FREE TRADE AGREEMENTS AND BOOSTING INTER-AFRICA TRADE

Presenter: **Dr. Francis Mangeni, Director Programs, COMESA, Zambia**

Moderator: **Dr. Sehliselo Mpofu, Director, Macroeconomic Management Programme, MEFMI**

The presentation and discussions during this session focused on the state of regional integration in Africa and the potential for Africa to achieve growth. Emphasis was on what has been achieved towards the Agenda 2063[1], integration theories, comparing the old and the new and elaborating on the vision and the roadmap.

2.1.1 Regional Economic Integration: A Historical Perspective

Dr. Mangeni outlined the regional integration path taken in Africa, which has evolved over a 34 year period. He stated that the learning experience has been through experimentation, mostly guided by regional macroeconomic factors prevailing at the time. He gave examples of specific developmental challenges such as pursuit of peace and democracy in West Africa for the policies of the Economic Community of West African States (ECOWAS); infrastructure ruins inflicted by the liberation struggles and apartheid governments in Southern Africa for the policy objectives for the Southern African Development Community (SADC); drought and desertification in the Horn of Africa for the Intergovernmental Authority on Development (IGAD); increasing the size of the regional market to enable critical levels of investment in production and infrastructure in Eastern and Southern Africa for the Common Market for Eastern and Southern Africa (COMESA); speedy integration on a range of issues such as free movement of persons, communication, and education in East Africa enforced by the East African Community (EAC).

He pointed out that to some extent, these initiatives have been successful in achieving most of the set goals and Africa could now boast of achievements that include the end of colonialism in 1990 with the independence of Namibia, the mobilisation framework under regional integration (African Union), political leadership and governance (Botswana, Mauritius, Rwanda), debt cancellation achieved through (HIPC initiative), political stability (largely achieved in the region except for a few countries such as Burundi and the Democratic Republic of Congo), macroeconomic stability, business environment and regulatory reforms, the rise of the middle class (increased consumer spending), government spending on infrastructure and access to markets in the region (SMEs). He added that these programmes were encapsulated in legal systems, as constitutive instruments with a raft of organs established to oversee and apply them. It was also necessary to continuously review and make them more fit for purpose.

1 African Union Commission, Agenda 2063, paragraph 4. "an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena

2.1.2 Regional Economic Integration – Old and New Theories

Dr. Mangeni drew comparison between the old and new regional economic theories to demonstrate what could be learnt from them. He pointed out that in olden days, empires glorified the abundance of resources. Treaties were created to protect resources. In later days this moved to peace agreements. In the modern world, treaties are based on the dynamics of benefits of goods and services such as trade diversion, import substitution and functional cooperation, open regionalism and deep Free Trade Areas.

He stated that for African integration, the past lays irreversibly behind, and the future provides immense opportunities for creativity, learning, and social political engineering. Lessons can be drawn from the challenges that members usually face in their quest to join such regional entities as ECOWAS, IGAD, SADC and COMESA. Complex adaptive systems, which is akin to moving from chaos to order, through learning, innovation and social political engineering could lead to development integration.

Dr. Mangeni stated that the vision of developmental integration should include markets, industry, infrastructure, agriculture, and innovation, political and macroeconomic stability. The 18th Ordinary Session of the Assembly of Heads of State and Government of the African Union, held in Addis Ababa, Ethiopia in January 2012, adopted a decision to establish a Continental Free Trade Area (CFTA) by an indicative date of 2017. The Summit also endorsed the Action Plan on Boosting Intra-Africa Trade (BIAT) which identified seven (7) priority action clusters: trade policy, trade facilitation, and productive capacity, trade related infrastructure, trade finance, trade information, and factor market integration. The CFTA is expected to bring together 54 African countries with a combined population of more than one billion people and a combined gross domestic product of more than US $3.4 trillion.

2.1.3 Regional Integration - Rationalisation

Dr. Mangeni stated that there are 14 regional bodies in Africa. 26 countries belong to at least two (2) and 20 countries to three (3) simultaneously, with the Democratic Republic of Congo enjoying the distinction of belonging to four (4) organisations. Only six (6) African countries belong to one (1) regional economic community[2].

The problems brought about by multiple and overlapping regional economic communities (RECs). These include:

- High cost that can accrue to a country in terms of subscriptions or mandatory contributions to the budgets of these organisations;
- Time constraints, given the number of meetings that countries have to attend across nations attending the inter-governmental processes.
- Difficulties in implementation of obligations, especially where the obligations arising from the various organisations conflict;
- High administrative cost in trying to comply with the rules on a day to day basis (rules tend to be contradictory); and
- Cost of understanding and utilising complex rules (particularly producers and the logistics industry).

Dr Mangeni noted that the Africa-wide systemic problem has been that multiple regional economic communities run counter to the design and mapping of the continental integration process. The five (5) regions of Africa (East, West, South, Central and North) were each supposed to have one (1) regional economic community, which in turn could make the five (5) building blocks for the African Economic Community[3]. The 14 regional economic

2 Economic Commission for Africa, Assessing Regional Integration in Africa, Volumes I, 2004, page 39; and Volume II, 2006, on rationalisation. Available at http://www.uneca.org/publications/serie/assessing-regional-integration-in-africa.

3 Article 1(d) of the Abuja Treaty establishing the African Economic Community at http://www.wipo.int/edocs/lexdocs/treaties/en/aec/trt_aec.pdf

communities were therefore too many in this context. The African Union, following a report by the African Union Commission and the 2006 Report of the Economic Commission for Africa, a rationalisation program to put some order into the integration process was commissioned. The rationalisation program was based on two (2) principles of:

1. Each country should be in one (1) REC; and

2. Each region should have one (1) REC.

In the African Union meeting held on 30-31 March 2006, Ministers responsible for economic integration agreed to put a moratorium on the establishment of new RECs in Africa, and to recognise eight (8) regional economic communities as the building blocks for continental integration, namely,

i) East African Community (EAC),

ii) Common Market for Eastern and Southern Africa (COMESA),

iii) Intergovernmental Authority on Development (IGAD) and

iv) South African Development Community (SADC) in Eastern and Southern Africa;

v) Economic Community of Central African States (ECCAS) in North Africa;

vi) Economic Community of West African States (ECOWAS) in Central Africa;

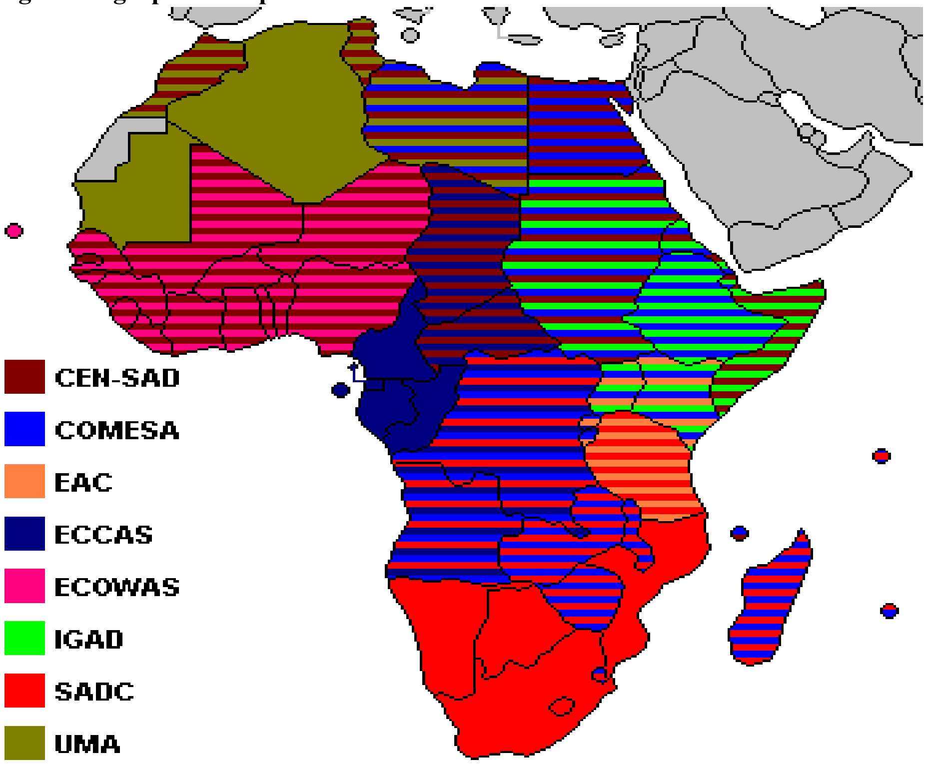
vii) Community of Sahel-Saharan States (CENSAD) in West Africa spanning North, Central, and Eastern Africa; and the

viii) Arab Maghreb Union (AMU/UMA) in North Africa.

This continental rationalisation program did not achieve the objectives of one (1) country one (1) REC or one (1) region one (1) REC. Dr Francis Mangeni and Calestous Juma, in their paper entitled, **Emergent Africa – The Evolution of Regional Economic Integration in Africa (2017)**, note that the opposition was quite predictable. They argue that countries join organisations as sovereign decisions taken on the basis of national interests. Tunisia, for instance, sought to join COMESA in 2017, to get access to a large market for its vibrant Information Communication Technology (ICT), tourist, airline and apparel industries. In the same vein, they note that countries may join organisations purely for political reasons that trump arguable economic downsides. Other reasons may be cultural and historical. For instance, Tanzania and Zimbabwe made it categorically clear that they were in SADC because they had fought apartheid in South Africa, and it was a solidarity organisation for Frontline States that fought decolonisation in Southern Africa. For the East African countries, the Presidents of this region said it was almost unthinkable that the EAC could be dissolved as a block and took it upon themselves to ensure its continued existence as well as its formal recognition as a REC.

In addition, regional specifications or challenges may catalyse formation of a REC. For instance, the Intergovernmental Authority on Drought and Desertification was formed to address the harsh climatic conditions, as well as endemic conflicts in the horn of Africa and neighbouring countries. The Authority has subsequently been renamed the Intergovernmental Authority for Development with a wider development mandate covering among other areas, transportation, energy, communication and trade. The map below shows the geographical representation of the RECs.

Fig 1: Geographical Representation of RECs



Source: Wikipedia Map of Africa

As depicted in Fig. 1, the upshot of the continental rationalisation program did not achieve the objectives of one (1) country one (1) REC or one (1) region one (1) REC. The stripes indicate countries with overlapping membership.

2.1.4 Progress made by the Regional Economic Communities

Dr. Mangeni highlighted the documented progress that was achieved over the years. The African Economic Community is to be established progressively in six (6) stages over a 34-year period from 1994, when the Abuja treaty entered force, to 2028, using the regional economic communities as building blocks. The six (6) stages are as follows:

i. The establishment of regional organisations and strengthening them by 1999;

ii. Coordination and harmonisation of activities and gradual removal of tariffs and non-tariff barriers at the regional level by 2007;

iii. Formation of free trade areas (FTAs) and customs unions (CUs) at the regional level by 2017;

iv. The merger of the REC customs unions to form the continental customs union by 2019;

v. The transformation of the continental customs union into the continental common market by 2023; and

vi. Establishment of the African Economic and Monetary Union (to be completed in 2034).

The RECs have on the whole made good progress along this trajectory. According to the plan, the RECs are to have formed free trade areas and customs unions by 2017. This is in readiness for the merger into a continental customs union by 2019. The continental customs union is to be transformed into a continental common market by 2023. It must be kept in mind that an FTA requires free movement of goods, while a customs union requires a common external tariff and commercial policy as well as a common customs law. The common market requires free movement of goods, services, labour and capital as well as the right of establishment. The table below shows the progress made by RECs so far.

Table I: Status of RECs Implementation of FTAs and Customs Unions - May 2017

REC	PROGRESS
EAC	• The EAC has made the most progress and is already a common market since 2010. • Established its customs union on schedule in 2005 and followed up with adoption of a single customs territory program to progressively allow free circulation of goods. • Working on monetary integration; established a parliament, court and other intergovernmental and professional institutions
COMESA	• COMESA is a functional free trade area since 2000, and launched its customs union in 2009 on a transitional basis. • Implemented a visa relaxation program to facilitate movement of persons. • Completed negotiations to liberalise trade in the transport, communication, financial and tourism services sectors.
SADC	• SADC has established a free trade area since 2008 and shelved its customs union program. • Deepened its FTA beyond the 85% trade liberalisation achieved in 2008 to 97% by 2017.
ECOWAS	• ECOWAS is a functional customs union since 1 January 2015 after implementing a trade liberalisation program, and has made significant progress on movement of persons through adoption of a common passport, which was improved into a biometric system by 2017.
IGAD	• IGAD has discussed establishment of the free trade area, and consultations continues as of 2017. • The region has made significant progress in road transport and energy interconnectivity, water resource management and tackling climate change challenges of drought and desertification.
ECCAS	• ECCAS has a free trade area programme. And so did the Community of Sahel-Saharan States (CENSAD) adopted in 1998 and confirmed in 2001 and the Arab Maghreb Union adopted in 1991.

REC	PROGRESS
CENSAD	• Dogged by debilitating political instability and internal conflicts; CENSAD has suffered from competing membership in COMESA, ECCAS and ECOWAS of its members. • The regional integration programmes of CENSAD has therefore been behind schedule and remains largely unimplemented. The importance of this REC has diminished despite its geographical reach from the North, through the Central to Eastern Africa.
AMU	• AMU was established in 1989 and adopted a trade regime in 1991. • In December 2009, AMU formed the Maghreb Bank for Investment and Foreign Trade and in 2014 established a committee for boosting intra-Africa trade. • However, AMU has been hobbled by rivalry between Algeria and Morocco and the Western Sahara crisis for years. It is worth noting that member states of the AMU are actively seeking a prominent presence in the rest of Africa, especially Tunisia and Morocco, which applied for membership in COMESA and ECOWAS respectively. Morocco was formally re-admitted into the African Union in 2017.

Source: African Union publications

The top four (4) RECs have also made progress in other areas of integration including industrial and infrastructure cooperation. The last four recognized RECs have been established, thus completing the third stage, but have not achieved functional free trade areas or customs unions.

2.1.5 Towards a Work Programme for Social Economic Transformation

Dr. Mangeni stated that regional bodies have made progress to address developmental challenges in the areas of markets and infrastructure. However, there remains some questions that are not addressed at regional level. These are highlighted below:

2.1.5.1 Markets

The fundamental question is what sort of framework does Africa want for its markets? Should there be trade remedies, and if so, what kind of trade remedies should be offered? For instance, SADC has rules that are mainly guided by the origin of the product and COMESA has trade remedies on anti-dumping.

Africa is also facing a growing informal sector. The growth of this sector is being buoyed by technological advancements in the area of payment systems as evidenced by the popularity of mobile payment systems such as MPESA and other mobile money providers. The framework to be put in place for the markets should also take into account the informality of the market.

Small and Medium Enterprises (SMEs) in the region face challenges mainly in the areas of information, technology, non-tariff barriers, but above all cannot operate effectively on regional and global markets. There is therefore a need to provide incentives in order to grow this sector.

2.1.5.2 Industrialisation

In general, African business is commodity based, with about 400 companies which have annual revenue of over USD1 billion. Despite this, it is still below global peers. While commodity based industrialisation is still elusive for Africa, the region can still get lessons from the experience of China, Singapore and Hong Kong.

Value addition and diversification needs a logical approach which can go beyond the middle income trade. Governments play a key role to drive this. For example, Taiwan moved away from mushrooms farming to producing computer chips. In Asia values are prefixed on education, hard work and savings. Singapore is considered to have the best practices in education and re-tooling. African governments could learn from that experience and create opportunities for high growth and high technology content products.

2.1.5.3 Infrastructure

There is need for the region to improve its infrastructure development in a systematic and measureable manner. The establishment of the Programme for Infrastructure Development in Africa (PIDA), provides a vision and strategic framework for the development of regional and continental infrastructure (Energy, Transport, Information and Communication Technologies (ICT) and Trans-boundary Water Resources). The PIDA initiative is being led by the African Union Commission (AUC), NEPAD Secretariat and the African Development Bank. The Bank's role as Executing Agency covers the responsibility for contractual, financial, technical and administrative management of the programme, including responsibility for procurement procedures, in conformity with its existing regulations, budget management and disbursements. The overall goal of PIDA is to promote socio-economic development and poverty reduction in Africa through improved access to integrated regional and continental infrastructure networks and services.

2.1.6 Conclusion

In conclusion, Dr. Mangeni pointed out that the COMESA Convergence Council requires that monetary and fiscal policy initiatives and the real economy should work together. He posed questions to the delegates on their views as to which government ministry should drive the coordination of regional integration given that countries have Ministries of Finance/Economic Planning; Industry and Trade and/or Regional Integration. He also stated that it is critical to determine whether or not there should be a national coordinating or permanent task force to run with the agenda of regional integration. He stated that although these are questions that need to be addressed, it is important to mainstream regional integration into budgeting cycles and to recognise that capacity building on regional integration remains top priority if anything meaningful is to be achieved.

2.1.7 Discussions

Delegates pointed out that there was need to further discuss why regional integration was not achieving economic growth as it is expected to. The understanding has always been that it would help to distribute resources from less productive activities to other sectors, thereby generating job creation opportunities and alleviating poverty. It was highlighted that so far, South Africa was the main benefactor of regional integration in SADC and other countries have become markets for South Africa.

It was also pointed out that regional economic integration should not be viewed in a dogmatic way, in order to critically assess its challenges. Delegates lamented that products from African countries always end up being priced high for local consumption, resulting in consumers preferring products from outside the region. Examples were given of products from Brazil and China being more attractive because of their cost. It was pointed out that SMEs must be supported by national Governments in order for them to be competitive and produce affordable products. Technology and innovation is critical in order to be able to increase trade in the region and RECs should develop strategies in how to address that.

The delegates all agreed that leaders need to prioritise their policies to ensure that regional trade is increased. This may mean going back to the drawing board to address policies to ensure that they are realistic and take into account challenges such as high transport cost, implementation of value chains, implementation of policies and need for competitiveness.

2.2. SESSION 2: THE FUTURE OF REGIONAL ECONOMIC INTEGRATION IN AFRICA

Presenter: **Dr. Wanyama Masinde, Regional Integration Specialist, Centre for Regional Studies, Kenya.**

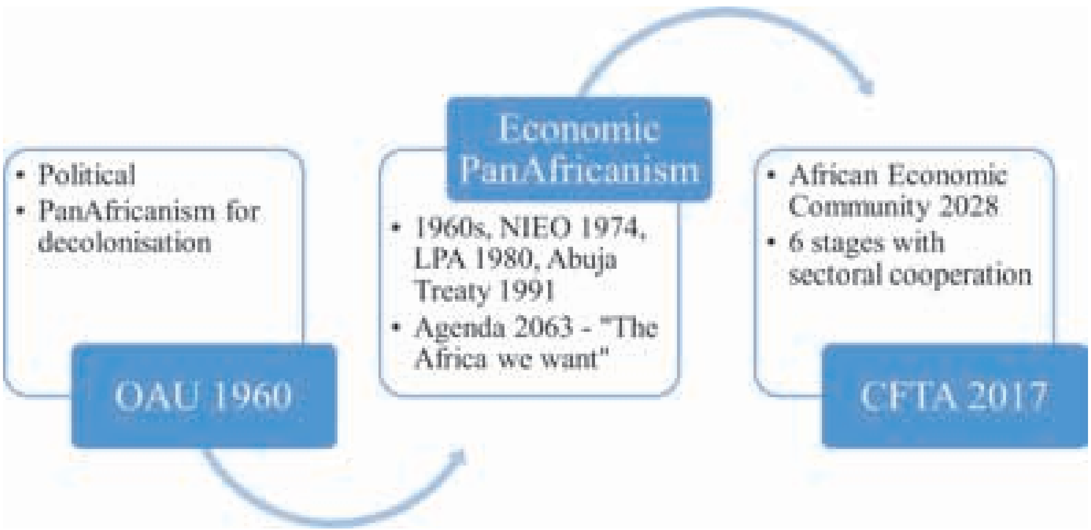
Moderator: **Dr. Caleb Fundanga, Executive Director, MEFMI**

This session discussed the future of regional integration with different scenarios prevailing in the continent highlighted. Current deficiencies in the implementation of regional economic integration policies in the region and some of the economic theories that need to be met for it to be effective were highlighted.

2.2.1 Understanding Africa

Dr. Masinde narrated the journey of regional integration in Africa starting from 1960 as outlined in Fig. 2 below

Fig: 2 African Vision



Source: Sipho Makamba

He spoke about the birth of the African Union to the present. He also spoke about the 2012 AU Summit on Boosting Intra African Trade (BIAT) and the Decision to establish a Continental Free Trade Area (CFTA). He stated that the continent is bedevilled by the poor transport infrastructure which makes it difficult to move goods from one country to another, cost effectively. He pointed out that the numerous borders between countries contribute to the barriers in the movement of goods as most of the boarders are bureaucratic and lacking in essential facilities. In addition to the logistics challenges, foreign exchange risk arising from numerous trading currencies in the region increases the cost of doing business in Africa. He stated that while monetary and financial integration is important for facilitating intra Africa trade, there is still need to break down the barriers to doing business if regional economic integration is to succeed. He called on African leaders to conduct a self-introspection and actively examine the effectiveness of policies on regional integration with a view to improving them.

Dr. Masinde stated that integration has multiple meanings for different actors. At times the integration schemes are ad hoc creations that are tailor made or constructed to suit specific national and international realities. For instance, the EU has developed its own "model" either to develop its own instruments and/or to evaluate achievements. In the case of Africa, governance agenda gave birth to the Organisation of African Union (OAU) now known as the African Union. NEPAD was established at national level as democratic elections became the norm. With regards to trade, the Continental Free Trade Area (CFTA) was proposed.

2.2.2 Drivers of Regionalism and Multilateralism

Dr. Masinde indicated that countries are driven into regionalism by market pressure, to realise reduction in transaction costs, eliminate policy externalities, and ensure economies of scale and technological innovation and consequently, more foreign direct investment. He stated that society also plays a part in influencing regional sub-state networks. For instance, countries that have perceived common identity may have an expectation that they will rescue each other in the event of crisis (regionalism as a source of domestic power) or regionalism as social construction (a result of norms transfer and common identity). In some cases, it can be driven by external drivers (diffusion or hegemony); for example the USA's involvement in solving security dilemmas and Europe's role as external moderator.

He stated that the key principles for regional integration to be effective are:

i. **Openness –** where national and regional markets are too small, openness to the rest of the world is essential ;

ii. **Subsidiarity** - regional organisations to restrict their operations only to what national governments cannot do;

iii. **Private sector leadership** - integration must be for the people; private sector should be the engine that drives of integration ; and

iv. **Pragmatism**: Variable geometry (countries join when they are ready and appropriate); variable speed (not all issues simultaneously); variable depth (degree of supra-nationality).

He stated that as a continent, Africa is still far from meeting these key principles and is not yet ready to trade as a single entity with other regions. He highlighted some of the constraints that have contributed to the phenomena and these include fragmented economic spaces and approaches to regional integration, increased cost of membership in RECs, constraint to economic efficiency, contradictory obligations/loyalties for member countries and inconsistent objectives and conflicting operational mandates. He added that at regional level, countries have to be willing to trade with one another and not be forced by a statute. Fundamental to that, there has to be goods for trading, that is industrialisation value chains and free movement of goods and people.

2.2.3 The Future of Regional Integration in Africa

Dr. Masinde stated that Africa's strength is its population which is only 100 million behind China's population. With a young, energetic and increasingly well-educated workforce, he pointed out that Africa could easily learn from China, as that country's rise to economic supremacy was driven by a large population. He stated that even in its current growth slowdown to a GDP of 6.5% in 2015, the Chinese growth is still equivalent high compared to most countries.

He noted that whereas China is still the success story of the last 30 years, it has the advantage of not being divided into 54 states, each with its own borders, customs rules, currency and national infrastructure that rarely link with its neighbours. Dr. Masinde further stated that the comparison explains why economic integration is critical to Africa, as ultimately, in a globalized economy, size really does matter. Comparing with the European Union

(EU), he noted that the single market has been the EU's greatest achievement. A large internal market provides a strong platform needed to compete across the world, driving industrialisation and attracting investment. Africa could potentially have a single market with twice Europe's number of consumers, yet it still finds itself hopelessly divided into fragmented national markets, which are often too small to benefit from economies of scale.

Dr. Masinde stated that the problems in Africa are known and have been documented and discussed in many regional integration fora. Despite the many discussions, trade tariffs in Africa are still 50% higher than in Latin America and Asia. There are is still slow and onerous customs procedures at borders in the continent, which means that it could potentially take three times longer than the OECD average to move goods across borders. This has resulted in trade between African countries being much lower than the level in Europe or Asia. He added that Africa's infrastructure, which is already inadequate, is so disjointed that transport links stop at borders. He attributed that to a failure of imagination and national self-interest, which has prevented regional answers to energy shortages.

On the future of regional integration, he stated there is need to remove barriers blocking trade, preventing industrial co-operation and discouraging investment. Of note, is the Tripartite Free Trade Area aimed to create a trading zone from Cairo to Cape Town. However, its viability is not clear. Also of note, is the development of technology platforms such as mobile financial services and mobile money that are helping entrepreneurs to get around these barriers across countries. Technology and the consumer power of Africa's emerging middle-class are increasingly driving change. However, technology alone cannot build the regional power infrastructure or provide new cross-border transport links, or slash tariffs or customs red tape fast enough. Governments has to take action as it is now time that rhetoric on regional integration was turned into reality.

2.2.4 Recommendations

In conclusion, Dr. Masinde outlined the factors which could guide the future of successful regional integration. He stated that the establishment and success of regional integration would have to be structured and implemented within agreed rules. He stated that the way RECs are structured and operated affect their viability. RECs can only operate effectively if:

- They have been structured to do so;
- The leadership is willing;
- They are innovative to meet new and emerging challenges;
- There is mutual trust and synergy;
- There is rule of law;
- They have adequate resources, including manpower and skills; and
- They are able to set their own agenda and prioritise it.

Dr. Masinde emphasised that the future for Africa could be bright if the following could be pursued:

1. Stability is pursued. The need for peace and stability can not be overemphasized. He stated the impact of the current Burundi crisis on the EAC. Burundi had been in a civil crisis since 2014, and this has affected the progress of regional integration implementation policies, as well as its ability to pay subscriptions to the REC ;

2. Capacities are enhanced to implement policies as institutions are strengthened, people are trained and budgets made available to finance regional integration;

3. Policies are reviewed to assess their effectiveness in negotiation, management and coordination of the agenda;

4. There is commitment to the cause by political leadership. This would assist in ending the contradictory policies at national and RECs level;

5. Industrialisation could ensure value addition to goods. Trade development and competitiveness would have to be pursued aggressively;

6. Deliberate action is taken to support local goods/products;

7. People are carried along in order to ensure that everyone understands and buy into the vision of regional integration; and

8. Old colonial ties are broken to have Africa work as a united entity.

Dr. Masinde challenged the delegates with this remark; *"…**IMPLEMENTATION** ….we don't need further commitments; let's just implement what has been agreed this far and Africa will change …"*

2.2.5 Discussion

The delegates' first reaction was to seek clarification from Dr. Masinde on what should be the ideal model for the Africa economic integration and who should lead it. They stated that Africa is made up of independent states and the leaders are afraid of losing sovereignty, hence some of the challenges that have been seen are driven by that fear of loss of sovereignty. In response, Dr. Masinde proposed the linear model as it ensures the efficient movement of trade of goods, encourages development of infrastructure, promotes free movement of people, and encourages financial integration and technological innovation.

The linear model is quite similar to the European Union model which has a single economic market and uses a single currency. It can be described as a sequential process that allows for incremental changes and linear progress which gives members the discretion to proceed at their own pace.[4] The linear model also allows for sub-groups that enter into deeper forms of integration. McCarthy (2008) argues that the linear model is more likely to benefit members if the member economies are at a certain level of development and diversification. The weaker the economies are, the greater the chances for trade diversion. The linear model also allows for an anchor economy in each region.

Delegates noted that for regional economic integration models that have strong anchors such as the EU's France and Germany seem to be able to drive the integration agenda successfully. They wondered if that could be the key missing in Africa.

A question was asked on how regional integration could be structured to benefit the ordinary men in the street particularly, in improving their welfare. The delegates noted that in the development of economic integration policies the business community is never involved in driving regional integration and yet the business sector is expected to implement it.

Delegates pointed out that even though parts of the presentation reflected failures by the RECs, there was merit in acknowledging aspects of cooperation that have been successfully implemented, as these could encourage implementation of other segments of RECs. Examples of success by ECOWAS was in facilitating change of power in Gambia, Sierra Leone and Liberia; SADC peace deal for Lesotho and the success of EAC programmes on payment systems (currency convertibility, licensing and closing of banks) that have been championed by central banks. Delegates recommended that policy makers could consider allowing implementers of policies to operate independently from politicians so as to ensure progress.

4 McCarthy C, 2008 The Roadmap Towards Monetary Union in Southern Africa – Is the European experience commendable and Replicable?

On the budget structure, delegates noted that for most countries in the region, the budget is geared towards state security not welfare of the masses. This brings the question of the accuracy of the reviews that are being conducted on the Framework for Macroeconomic Convergence on SADC. If countries do not have adequate budget allocation for regional integration, it then becomes difficult to reconcile how the regional integration programmes could be implemented. It was also stated that there was a lot of informal trade in the region and governments still do not have the means to capture all the data from this sector. This in effect shows the inaccuracy of some of the reports.

Delegates wondered how regional integration could still be implemented given the problems that have been raised in the presentation. In response, delegates were urged to focus on what is working while finding ways of handling what is not working. Dr. Masinde reminded delegates to keep in mind why regional integration was necessary, and for what purpose.

The delegates pointed out the need to have similar discussions with the Ministers of Finance in the region. It was also discussed and agreed that;

i. Leadership of the African Union should only be assumed by senior officials such as former heads of states. This would ensure that resolutions are given the attention that they deserve and that they are communicated at the highest level.

ii. Focus should be on a few resolutions, so that they could be implemented fully, rather than having too many issues. Ambitions have to be managed to ensure implementation.

iii. There has to be mutual trust within countries in the same RECs. For example, when goods move from one country to another, the process should be simplified to facilitate this movement.

iv. The question of who should champion the implementation of regional integration agenda between AU and the RECs was also raised. It was agreed that the RECs had more success than the AU itself, and should therefore be considered to champion regional integration implementation, but reporting to the AU.

v. The role of ministries of interior e.g. Immigration, Customs and the police should be incorporated in the regional integration agenda in order to facilitate smooth movement of goods and people across borders.

vi. There is need to be innovative as the role of technology to achieve results cannot be overemphasised.

vii. Support for SMEs should be pursued so that they can be integrated into the mainstream economy.

2.3 SESSION 3: LESSONS FROM THE ASIAN BOND FUND

Presenter: **Mr Slawomir Soroczynski, Head of Banking Department, Crown Agents Investment Management, England**

Moderator: **Mr. Patrick Mutimba, Director of the Financial Sector Management Programme, MEFMI**

This session sought to draw lessons of other regions to the African context. The discussion was on the success of the Asian Bond Fund that was set up by the Meeting of East Asia and Pacific Central Banks (EMEAP) to promote the Asian domestic bond market by pulling resources to build trust and to accelerate local bond markets development. EMEAP consists of eleven (11) countries represented by the Reserve Bank of Australia, The People's Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, The Bank of Korea, Bank Negara Malaysia, and Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore and Bank of Thailand.

2.3.1 Asian Bond Fund - Background

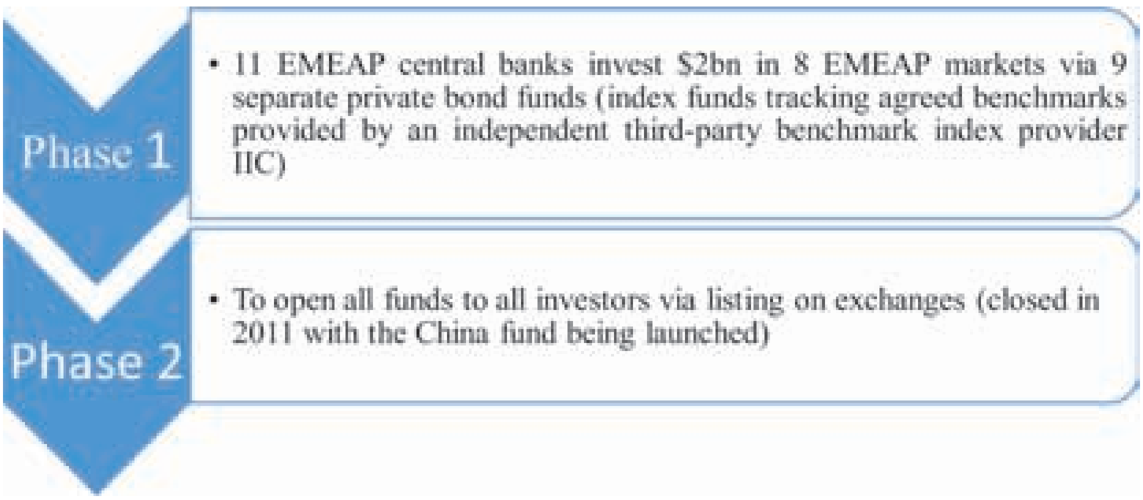
In June 2003, the Meeting of East Asia and Pacific Central Banks (EMEAP) group allowed its members to invest in bonds issued by Asian sovereign issuers in EMEAP economies. The fund was managed by the Bank for International Settlements and was valued at US$1 billion. The main goal of this bond fund was to further enhance the underdeveloped bond markets of EMEAP member countries by improving the efficiency of financial intermediation and promoting financial stability. Another reason for the establishment of this class of bond funds was to give some Asian countries, who had built massive foreign reserves, the opportunity to invest in financial assets that would return benefits back to the region.

In December 2004, the EMEAP central banks launched the second stage of the Asian Bond Fund (ABF2). The ABF2 would invest approximately US$2 billion in domestic currency bonds issued by sovereign and quasi-sovereign issuers in the eight EMEAP markets other than Australia, Japan and New Zealand. Its initial objective was to provide an innovative, low-cost and efficient product in the form of passively managed index bond funds, so as to broaden investor participation, identify impediments to bond market development in EMEAP economies, and act as a catalyst for regulatory reforms and improvements to market infrastructure. The ABF2's catalytic role included accelerating tax reforms to exempt withholding tax of non-resident investors; enhancing the regulatory framework for exchange traded funds (ETFs); further liberalising foreign exchange administration rules; improving regional market infrastructure and reducing cross-border settlement risk; promoting adoption of documentation in line with international best practices; and introducing a set of credible, representative and transparent bond indices.

2.3.2 Asian Bond Fund – Presentation

Mr Soroczynski explained that the objectives of the Asian Bond Market (shown in Fig 3 below) were to pull resources together and build trust as well as to share knowledge on the operations of bond markets (learning by doing).

Fig 3: Structure of ABF 2 (two phases)



Source: Presentation by Slawomir Soroczynski

Mr Soroczynski stated that the stage approach enabled each fund to proceed at its own pace and timing. In early stages, the market focused on the issuer perspective (primary market targets to be met) and developing the secondary market liquidity (primary dealership, brokers, repo market).

2.3.3 Performance of the ABF Funds

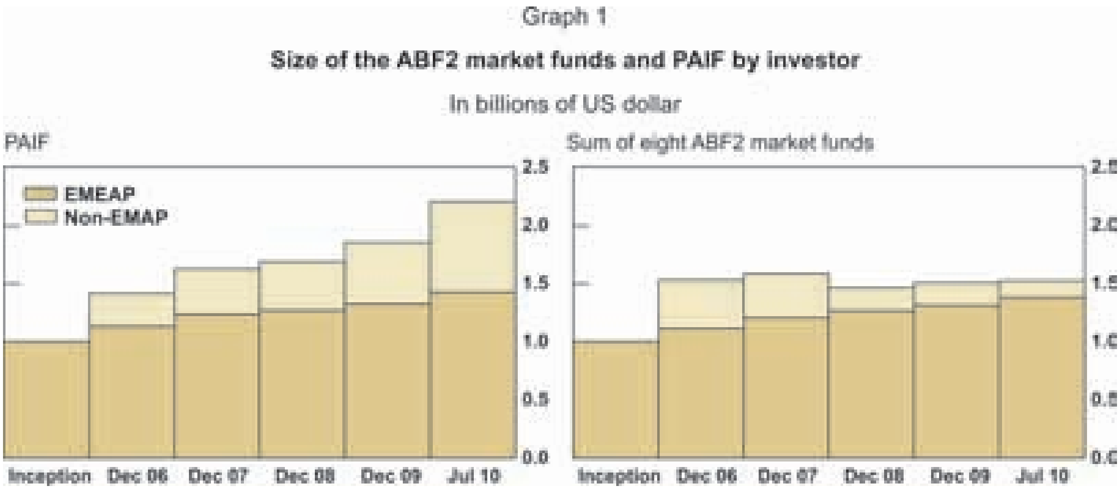
One of the key objectives of the ABF initiative was to provide an innovative, low-cost and efficient investment product to broaden investor participation. As investment vehicles, the ABF funds performed well, and represented the successful introduction of a new asset class in Asia, laying the foundation for broader investor participation in bond markets. Up to end-April 2010, the Pan Asia Bond Index Fund (PAIF) gained cumulatively 40% in local currency terms. The best performing funds were the ABF Indonesia Fund, returning 86% and the ABF Philippines Fund, returning 51%. In each of the three years to end-2008, all but the ABF China Fund recorded positive annual returns. The China Fund fell by 2% in 2007 before gaining 13% in the following year. Performance of the funds was mixed in the immediate aftermath of the Lehman Brothers bankruptcy.

In 2009, the best performer was the ABF Indonesia Fund, gaining 22%. The ABF Thailand Fund, which declined by 3% in 2009, was the worst performer. Fig 4 below shows the performance of PAIF by geographical structure.

Fig 4: PAIF by Geographical Structure

Source: Bloomberg

The ABF China and Hong Kong SAR Funds also fell slightly. Despite their good performance, the success of these ABF2 funds in attracting investors other than EMEAP central banks was mixed. The left-hand panel of Graph 1 shows that the size of non-EMEAP central bank investment ("non-EMEAP investment") in the PAIF increased steadily since its inception. By contrast, the initial strong increase in non-EMEAP investment in the eight market funds was followed by a gradual redemption (Graph 1, right hand panel)



Source: BIS

By the end of July 2010, total non-EMEAP investment in the ABF2 market funds was US$129 million, compared with US$716 million in the PAIF fund. However, it should be noted that single market funds were designed to target resident investors while non-resident investors were expected to gain exposure to individual markets through the Pan-Asia Index Fund. That might help explain the higher proportion of non-EMEAP investment in the latter.

2.3.4 Lessons from ABF 2

Over its life, the ABF2 invested in eight local currency bond markets, and authorities of the EMEAP economies continued to implement various measures to promote local currency bond markets. During this period, most of these government bond markets made significant strides. Liquidity improved considerably and yield curves became more reliable. These improvements may be attributed to three (3) factors:

(a) The growth of bond issuance in general and the consolidation of issuance in a few benchmark maturities;

(b) The increase in market making activity, as reflected in the development of interdealer markets and the active role of interdealer brokers; and

(c) The reduction of barriers to entry of non-resident investors.

In each of these factors, the ABF2 project seemed to play an important catalytic role, although the BIS notes that the significance of this role was hard to quantify[5]. The ABF2's catalytic role included accelerating tax reforms to exempt withholding tax of non-resident investors; enhancing the regulatory framework for exchange traded funds (ETFs); further liberalising foreign exchange administration rules; improving regional market infrastructure and reducing cross-border settlement risk; promoting adoption of documentation in line with international best practices; and introducing a set of credible, representative and transparent bond indices.

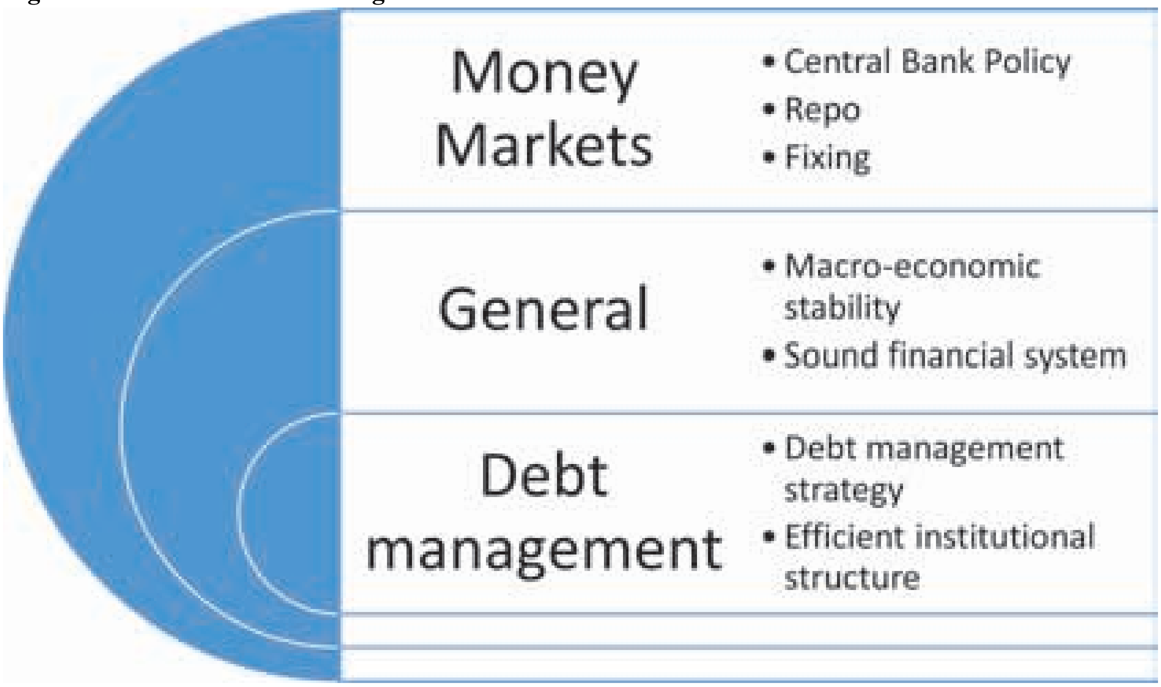
From the African regional integration perspective, valuable lessons can be drawn from the ABF initiative. These include the need for a solid framework, outlining the development of the primary market and defining the distribution channels. Mr Soroczynski stated that central banks could play an important role in mobilising and

5 The report prepared for Mr Akinari Horii, former Assistant Governor of the Bank of Japan and Chair of the EMEAP Working Group on Financial Markets in 2011 by Eric Chan, Michael Chui, Frank Packer and Eli Remolona from BIS.

structuring the distribution channel. For instance, the central bank could define the bulk market whereby auctions are used as a preferred issuance mechanism via primary dealers system, and a retail market where preferred issuance mechanism (subscriptions) are defined. In that case, there would be need for clear benchmarks e.g. a few issues only per maturity bucket; size built through re-openings and roll risk managed via active policy (switch or buy-back auctions).

Mr Soroczynski encouraged delegates to develop in their markets, appropriate bond markets infrastructure that include a strong central bank, pursue macroeconomic stability and put in place a debt management strategy. Fig 5 below shows the ideal DNA for a domestic market.

Fig 5: Domestic Market – looking for a Perfect DNA



Source: Presentation by Slawomir Soroczynski

2.3.5 Recommendation

Mr Soroczynski concluded his presentation by recommending that delegates should build institutions that support domestic bond markets, whether as a region or at individual country level. He stated that what Asian countries were able to achieve could be replicated. He highlighted the pillars below as the challenge for central banks to aspire to achieve.

Fig 6: Domestic Market – looking for a Perfect DNA

Source: Presentation by Slawomir Soroczynski

2.3.6 Discussions

The delegates pointed out that while lessons from the ABF were appreciated, clarity was lacking on the link of the topic with the theme of the forum, which is regional integration. They also noted that it was clear in the presentation that the ABF helped with the growth of domestic market, however there is nothing linking it to regional integration. The delegates also stated that whereas the bond was meant for Asia Pacific countries, only Australia was discussed leaving the question of whether other countries did not participate in the issue.

Delegates also stated that from the lessons presented, a conclusion could be reached that it is better to have two (2) domestic investors than 20 foreign investors. It was stated that this, however, contradicts the concept of regional integration, especially in the context of Africa that is looking for international investors. It was also pointed out that the African markets are small and fragile and the intention is to see them grow. The question was how the lessons from ABF would assist African markets as the mechanics for the two (2) funds were different; with ABF being foreign currency denominated while ABF 2 was domestic currency denominated, thereby looking at different target markets compared to what Africa is currently looking at.

The size of the fund was also questioned by the delegates as they wondered how both ABF and ABF2 could be called a success when the funds failed to grow beyond their markets, and could not be relied on to finance big projects like infrastructure, which is what Africa requires funding for. For instance, ABF raised US$4 billion, while Africa requires about US$90 billion annually, and hence amounts being discussed could be considered too small for the African context. In the context, it could be argued that beyond lengthening the yield curve, the ABF funds could in fact, not be considered successful.

In response, Mr. Slomackz advised that the success of the ABF funds was based on the principle behind its formation; that is, pulling a group together to participate in a common goal and committing to a project. He added that the amounts involved may have been low, but given the Asian context, the figure was high. He advised that they used a “learn by doing” approach, and it was a good starting point. He noted that this demonstrates that it could be done.

In response to the question of how the ABF lessons relate to regional integration, he advised that regional integration is a common market; it involves harmonisation of macroeconomic conditions. ABF success was about harmonisation of macroeconomic conditions, not how many countries participated or how much was raised, but what was achieved. He argued that although for African markets the goal is to attract international investors to fund infrastructure, infrastructure bonds are not common even in Europe, with only ten (10) big issuers looking at Germany, Italy and France. Africa is not considered so much because of the perceived high risk; an opinion which delegates stated is misplaced, as Africa offers many opportunities.

Delegates noted that lack of knowledge about Africa by potential investors has remained a hindrance to the continent's growth. The realisation of this fact has prompted private sector companies like The Wellcome Trust to independently document the real potential for transformation in Africa for potential foreign investors, so that those who are not on the ground would not make decisions based on perception. Africa's potential for success could be high because of the following reasons:

1. Demographics – the region has a high number of young people.

2. High rates of growth – Africa has high GDP growth compared to other continents.

3. Infrastructure growth – there is high demand to fund infrastructure, which provides for opportunities to raise funds to participate in long term bonds

Delegates noted that as ABFs were initiated by Central Banks, it fully demonstrates the influence that Central Banks have on the economic landscape. It was pointed out that many African sovereigns have a lot of reserves that are being invested at low and often sub-zero rates abroad, and yet the capital preservation tranche of these funds could be invested in bonds issued by well rated African Supra national institutions like the African Development Bank (AfDB), while adhering to global best practice in reserves management.

The role of sovereign wealth funds was also discussed. Delegates pointed out that sovereign wealth funds could play a role in developing domestic financial markets, as participants.

Also raised were the technical difficulties that Central Bank Governors face in tapping into foreign reserves to boost savings. After the 2007 global financial crisis, central banks want assurance that reserves will not lose value when invested, although it is difficult to insure against volatility. At the same time, no one wanted to support infrastructure bonds, as they tend to be illiquid. In addition, some investors discount the bonds, hence their unattractiveness to central banks. Central banks end up opting for zero return rate investments in Europe, with a goal of preserving value, rather than positive returns that they could earn from institutions like AfDB, PTA bank, Afrexim Bank. They stated that there was need for more liquid instruments in the market.

Delegates also stated that African markets were dominated by commercial banks, and initiatives such as the bond market may not work as they are supposed to, since they need the market to be diversified beyond being bank led. It was also stated that in Africa, the landscape for bonds may not be successful as prices tend to follow commodity prices. Examples were given of Ghana and Zambia, whose Eurobond programmes seem not to have played out well, as both countries have reverted to using IMF facilities.

In response, the presenter stated that bond market performance is influenced by the nature of the financial crisis. For instance, if the crisis is endemic, then it will affect the market and people will stay away from bond markets. He urged countries to diversify growth across sectors, not just for commodities.

3. CONCLUDING REMARKS

3.1 Closing Remarks by the MEFMI Executive Director, Dr Caleb Fundanga

Dr Fundanga commended delegates for their constructive contributions towards discussions during the Forum. He noted that this made the event one of the most successful and informative dialogues that the Institute had organised during the year. He reminded the delegates that regional integration is a living topic, and it would be revisited from time to time, to ensure implementation.

He expressed gratitude to the Banco de Moçambique and the Ministry of Finance for all the support towards hosting the event. Dr. Fundanga also expressed gratitude to CAIM for supporting the Forum. He announced that CAIM had committed to a partnership with MEFMI that would ensure the Forum would become an annual event. He pointed out that in order for the Forum topics to always be inclusive and relevant, there was need to set up a stirring committee. The committee would help to guide the Secretariat to identify emerging issues relevant for the Forum, as well as ensuring implementation of recommendations from the Forum. The following committee was constituted:

i)	Dr. Louis Kasekende	Deputy Governor of Bank of Uganda
ii)	Dr. Bwalya E.K Ngandwe	Deputy Governor of Bank of Zambia
iii)	Mr. Ebson Uanguta	Deputy Governor of Bank of Namibia
iv)	Mr. Victor Pedro Gomes	Principal Officer, Ministry of Finance, Moçambique

3.2 Closing Remarks by Mr. Domingos Julia Lambo, Permanent Secretary, Ministry of Finance, Moçambique

Mr. Domingos Julio Lambo, the Permanent Secretary in the Moçambique Ministry of Finance, gave the closing remarks. He opened his remarks with a Moçambique proverb that says "if you want your dreams to come true, Wake Up!" He urged delegates to wake up and seek ways to upgrade the continent of Africa. He stated that Africans have the driving principle, the desire to move forward and should indeed move forward. He stated that from the presentations, it was clear that politics and economics of the region were paramount to the future of Africa.

He stated that the challenge was to advance competitive advantages and work towards leveraging on it and to counter political hindrances. He urged delegates to strengthen productive capacity and improve skills to continually grow as countries and be ready to compete. He acknowledged that Africa had a long way to go in terms of regional integration, however innovative ways could be found to finance regional integration.

He thanked MEFMI for its intervention by providing the Forum as a platform to discuss and propose interventions on the important topic of regional integration. He urged the Institute to continue forging relationships with organisations such as CAIM.

APPENDIX 1 The Context: African Economic Integration

The following six stages of regional integration have been identified:

1. **Preferential Trade Area:** This trade bloc gives preferential access to certain products for participating member countries. Tariffs are reduced but not abolished completely. An example of preferential trade area would that formed between the EU and the African, Caribbean (ACP) countries. This is regarded as the first stage of the economic integration.

2. **Free Trade Area:** A group of countries in a free trade area would eliminate tariffs, quotas and preferences on most goods and services between them. A free trade agreement would be signed between two or more countries. This is considered to be the second stage of economic integration. In this stage, countries should find complimentary things amongst each other. Non-members will be subjected to a different set of rules and tariffs to members. Rules of origin should be in place to prove that goods are indeed produced within the free trade area and qualify for duty free access. It is important to note that a free trade area does not have to be in the same geographical proximity. The EU had signed free trade areas with Algeria (2005), Egypt (2004), Jordan (2002), South Africa (2000) and Tunisia (1998).

3. **Customs Union:** A customs union is a free trade area plus a common external tariff. The common external tariff requires countries to a common trade policy. A regional competition policy also becomes important to avoid abuse of dominant position and buffer uneven levels of economic development. A customs union can increase economic efficiency and establish closer political ties between countries. It is regarded as the third stage of economic integration. Members of a customs union also negotiate multilateral trade negotiations as a single bloc. A customs union does require a common trade policy which impacts upon independent trade policy formulation. Customs unions do not have the same rules of origin systems as a free trade area. Any product entering the customs union would be subject to the same tariff regardless of the point of entry. Examples of a customs union include SACU, EAC. ECOWAS, SADC, COMESA and ECCAS proposed but have not yet implemented.

4. **Common Market:** A common market is a customs union plus common policies on regulations and the free movement of factors of production and enterprises. The movement of capital and labour should not be hindered by national regulations. This is regarded as the fourth stage of economic integration. The common market addresses trade barriers such as borders, technical standards and taxes among member states. Removing these barriers to trade requires countries to relinquish in some way policy sovereignty to a regional body. Free movement of labour will require agreement on worker qualification and clarification. The common market had many benefits including the reduction of trade barriers, free movement of factors of production, allocation of efficiency, increased competition, increased economies of scale, lower cost, cheaper products, wider choices, and innovation and consumer benefits. On the negative, business failure and unemployment. In the African context in which there are certain dominant economies in the different regions, the weaker economies and enterprises would stand very little chance of competing. Countries would need to ensure that they strengthen national competitiveness and competition policies.

5. **Economic and Monetary Union:** The monetary union is a single market plus a common currency. This is the fifth stage of economic integration. The common currency impacts on national monetary policy. Economic unions require formally coordinated monetary, fiscal, labour market, regional development, transportation, and industrial policies. The largest economic and monetary union is the Euro Zone.

6. **Complete Economic Integration:** This is the final stage and highest form of economic integration which includes common economic, monetary, fiscal, industrial and competition policies.

Source: Jawoodeen, E. 2010. A Critical Analysis of the Linear Regional Integration Model. Stellenbosch: tralac

Appendix 2: LIST OF FORUM DELEGATES

DELEGATES LIST - MEFMI CENTRAL BANK DEPUTY GOVERNORS AND DEPUTY PRINCIPAL SECRETARIES FORUM

8 – 10 May 2017, Avenida Hotel, Maputo, Mozambique

	NAME	SEX	POSITION & DEPT.	CONTACT ADDRESS	TELEPHONE/ FAX/ E-MAIL	COUNTRY
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Appendix 3: 2017 MEFMI DEPUTY GOVERNORS AND DEPUTY PRINCIPAL/PERMANENT SECRETARIES FORUM

DATE: MONDAY 8 AND TUESDAY 9 MAY 2017

VENUE: AVENIDA HOTEL, MAPUTO

THEME: ***REGIONAL INTERGRATION***

Time	*Event*	*Speaker/Presenter*	*Moderator*
Monday 8 May 2017			
09:00 – 9:30	***Registration***	**Secretariat**	
09:30 – 09:40	***Welcome Remarks***	**Dr. Caleb M. Fundanga,** *MEFMI Executive Director*	
09:40 – 09:50	***Official Opening Remarks***	**Mr. Rogerio Lucas Zandamela,** Governor Banco de Moçambique	
10:00 – 10:30	*GROUP PHOTOGRAPH AND TEA/COFFEE BREAK*		
1st SESSION ***10:30 – 11:30*** ***11:40 – 12:40***	*Strengthening capacities of African countries in boosting intra-African trade: assessing progress towards establishing the Continental Free Trade Area.* *Floor discussion*	*Dr. Francis Mangeni*	Dr. Sehliselo Mpofu
12:40 – 14:15	*LUNCH*		
2nd SESSION ***14:15 – 15:15*** ***15:30 – 16:30***	*The future of regional economic integration in Africa.* *Floor discussion*	*Dr. Wanyama Masinde*	Dr. Caleb Fundanga
15:15– 15:30	**TEA/COFFEE BREAK**		
18.00 – 20.00	**COCKTAIL**		

Tuesday 9 May 2017			
3rd SESSION **09:00 – 10:00** **10:00 – 11:00**	**Financing of regional integration in Africa** *: Lessons from the Asian Bond fund initiative.* *Floor discussion*	*Crown Agents Bank Limited (Ritesh Anand,)*	Mr. Patrick Mutimba
11:00 – 11:15	**TEA/COFFEE BREAK**		
11:15 – 11:45	*Closing remarks*	**Mr. Domingos Lambo, Permanent Secretary**	MEFMI Secretariat
11:45 – 12.15	***Forum Evaluation*** *– wrap up & official closing remarks*	**MEFMI Secretariat**	MEFMI Secretariat
12.30	**LUNCH**		
14:00	**EXCURSION**		

Appendix 4: REFERENCES

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