DRAFT MEMORANDUM ON THE STATUS OF IMPLEMENTATION OF THE ECOWAS MONETARY COOPERATION PROGRAMME

1.0 Introduction

The idea of creating an ECOWAS monetary zone began with the adoption of the ECOWAS Monetary Cooperation Programme (EMCP) by the Authority of Heads of State and Government in July 1987. This action was based on the assumption that a monetary union was as an essential stepping-stone to the economic integration objective in view of the multiplicity of non-convertible currencies, the low level of trade among member countries, an underdeveloped financial system characterized by macroeconomic instability, low investor confidence, weak cross-border payments system and diverse fiscal, monetary and financial policies.

Thus, the overall objective of the EMCP is to introduce a common currency through the adoption of collective policy measures to achieve macroeconomic convergence and a harmonized monetary system under common management institutions. To achieve this objective, member countries were required to address their macroeconomic imbalances by complying with prescribed benchmarks, harmonize their fiscal, monetary and financial policies and establish the institutions necessary to facilitate the integration process[1]. Other requirements under the programme included the liberalization of the money, capital and labour markets, the maintenance of clearing and payments system and the establishment of a community domestic market through trade liberalization. It was expected that the execution of the above programmes would help create the congenial environment necessary for successful monetary integration.

It should be noted that the 1987 programme originally targeted the establishment of a single monetary zone by the year 2000. Unfortunately, an evaluation of the status of implementation of the EMCP as at end-1999 revealed, that the progress made was inadequate to meet this target. In this regard, the Authority of Heads of State and Government decided at their 22nd Summit held in December 1999 in Lomé to accelerate the integration process. Consequently, the Authority took a number of decisions, including: the extension of the time frame from 2000 to 2004, the intensification of the macro-economic convergence process and the adoption of a fast-track approach. To concretize realization of the 2004 deadline, the Committee of Governors, on their part, approved a three-phased programme of activities geared towards the establishment of the ECOWAS Single Monetary Zone in 2000.

The fast-track initiative, which was intended to involve the creation of Second Monetary Zone (known as the "West African Monetary Zone (WAMZ) comprising

[1] The harmonization requirement included, among others, the adoption of market determined policies, exchange rate mechanism, banking legislation and surveillance regulation and the liberalization of trade, money and capital markets.

the non-CFA zone countries[2], was inaugurated in 2000. Thus, this approach was designed as an integral part of the EMCP framework with the aim of accelerating the programme. It was envisaged that upon its realization, the two sub-regional monetary zones (UEMOA and WAMZ) would be merged to create the single ECOWAS-wide monetary zone.

Following the launching of the second monetary zone arrangement, the West African Monetary Institute (WAMI) was established in January 2001 in Accra, Ghana with an initial two-year mandate to supervise the implementation of the WAMZ project. Even though WAMI discharged its functions assiduously, its member countries were unable to meet the prescribed targets by January 2003. Consequently, the WAMZ Authority rescheduled the launching of the second monetary union to July 2005.

It would be recalled that following the extension of the WAMZ programme, the Committee of Governors made a presentation on the status of implementation of the EMCP at the 26th Ordinary Summit of the Authority of ECOWAS Heads of State and Government held in January 2003 in Dakar, Senegal. After considering the issues raised, the Authority decided to extend the timeframe of the EMCP from January 2004 with the proviso however that the choice of a definite date for introduction of the ECOWAS single currency would be determined at the end of 2005 after an in-depth appraisal of the performance of the second monetary zone and the level of convergence of the economies in the sub-region as a whole.

Thus, this memorandum provides an appraisal of the status of implementation of the ECOWAS Monetary Cooperation Programme (EMCP) as at end-2005. In this regard, the document, which analyses various aspects of the programme, is broadly divided into four main parts. This introductory section presents a brief historical background to the monetary integration process. Section II reviews the status of implementation of the various programmes, particularly, in the areas of macroeconomic convergence, policy harmonization, institutional arrangements and of other policy decisions. Section III outlines the strategies necessary for meeting the programme objectives whilst section IV concludes the presentation.

2.0 STATUS OF THE VARIOUS PROGRAMMES

This section analyses the status of implementation of the various programmes under the EMCP as at end-2005. It considers performance under macroeconomic convergence, policy harmonization issues, institutional arrangements and other policy decisions.

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[2] Five countries (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone) signed the Agreement to become members of the WAMZ, while Liberia and Cape Verde decided to be observers. The CFA zone countries (or UEMOA) are: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger Senegal and Togo.

2.1 STATUS OF MACROECONOMIC CONVERGENCE

The concept of macroeconomic convergence, which is a core component of the ECOWAS Monetary Cooperation Programme (EMCP), focuses on price stability, sustainability of government fiscal position, restraint on budget deficit financing and maintenance of sufficient levels of gross external reserves. Member countries are required to comply with the targets in order to educe the stable macroeconomic environment necessary for successful monetary integration. Compliance with the required benchmarks provides the basis for assessing progress towards macroeconomic convergence. The convergence criteria have been classified into primary and secondary[3] benchmarks as per Box 1.

Box 1: THE PRESCRIBED ECOWAS MACROECONOMIC CONVERGENCE CRITERIA

Primary Criteria
Budget Deficit/GDP ratio (excluding grants) ≤ 4 percent;
Inflation rate ≤ 5 percent;
Central Bank Financing of Budget Deficits ≤ 10 percent of previous year's Tax Revenue;
Gross External Reserves ≥ 6 months of imports cover;

Secondary Criteria
Prohibition of new arrears and liquidation of all outstanding ones;
Tax Receipts/GDP ratio ≥ 20 percent;
Salary Mass/Total Tax Receipts ratio ≤ 35 percent;
Public Investments financed from internal resources/Tax Receipts ratio ≥ 20 percent;
Positive Real Interest Rates; and
Real Exchange Rate Stability.

[3] The primary criteria are the variables considered crucial for the achievement of convergence. The secondary criteria are policy instruments that reinforce achievement of the primary criteria.

A preliminary assessment based on provisional mid-year and end-2005 data indicates that performance under macroeconomic convergence improved marginally during 2005. Performance under the primary criteria remained difficult. Only five out of the fifteen countries met the budget deficit criterion although it showed a marginal improvement over the position in 2004. Eight countries met the target on inflation by end-2005 compared with nine during the preceding year. With all the fifteen ECOWAS countries meeting the required target by mid-2005, performance under central bank budget deficit financing was very encouraging. Regarding gross external reserves, no other country, apart from Nigeria and the eight UEMOA countries that share common external reserves, have been able to meet this target even though the data indicates that most countries recorded marginal gains during the period.

TABLE 2.1: NUMBER OF COUNTRIES THAT MET THE CONVERGENCE TARGETS

Convergence criteria	2000	2001	2002	2003	2004	2005	
						June	Dec*
Primary							
Budget deficit/GDP	6	6	5	5	3	5	5
Inflation	11	10	10	9	9	9	8
Budget deficit financing	11	13	11	11	14	15	15
Gross external reserves	9	9	9	9	9	9	9
Secondary							
Domestic arrears[4]	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tax receipts/GDP	1	0	0	0	2	2	4
Salary mass/tax receipts	6	5	5	8	5	6	7
Public investment/tax receipts	4	6	5	6	7	6	9
Positive real interest rates	12	7	8	9	7	10	10
Real exchange rate stability:	3	10	11	2	2	4	6

*projected end-2005 position
Source: WAMA

As usual, performance under the secondary criteria was generally less than satisfactory even though member countries made some positive efforts towards improvement. Only four countries met the tax receipts/GDP target, confirming the weak tax generation capacity of the various economies. Still, the wage bill constituted a large proportion of domestically generated tax revenue in most countries. Real interest rates turned positive in most countries during the period under review, but the real exchange rate was generally unstable. Table 2.1 above provides an overview of the status of performance of countries under the criteria.

At the national level, there was no clear indication of progression towards realization of the established benchmarks, despite efforts aimed at minimizing the adverse gap between the actual data and the established targets. Table 2.2 indicates that none of the countries has yet been able to meet all the primary and secondary convergence criteria by end-2005 projection. The best performance of six targets was recorded by six countries: Benin, Cote d'Ivoire,

[4] Not evaluated due to inadequate data.

Guinea-Bissau, Mali, Niger and Senegal. Burkina Faso, Cape Verde, The Gambia, Nigeria and Togo followed with five (5) targets each. Ghana met four (4) targets, while Guinea and Liberia realized three each and Sierra Leone met two.

TABLE 2.2: TOTAL NUMBER OF CONVERGENCE CRITERIA MET

		2000	2001	2002	2003	2004	2005	
							June	**Dec***
1	BENIN	5	6	7	6	6	6	6
2	BURKINA FASO	5	5	5	5	5	5	5
3	CAPE VERDE	3	4	3	3	3	4	5
4	COTE D'IVOIRE	5	5	5	5	5	6	6
5	THE GAMBIA	8	2	0	1	5	4	5
6	GHANA	2	1	0	1	2	2	4
7	GUINEA	1	4	3	2	1	3	3
8	GUINEA-BISSAU	3	5	5	4	6	6	6
9	LIBERIA	7	4	4	5	2	3	3
10	MALI	6	5	6	6	6	6	6
11	NIGER	4	5	5	4	5	5	6
12	NIGERIA	5	4	3	4	4	4	5
13	SENEGAL	6	8	8	7	6	6	6
14	SIERRA LEONE	3	4	4	0	1	2	2
15	TOGO	4	5	6	6	5	4	5

Source: WAMA
*projection

The situation at the regional level was also not very encouraging. As considered as an entity, ECOWAS has only achieved convergence[5] under the primary criterion of central bank budget deficit financing, as depicted by the downward trending nature of the trendline below the category axis Figure 2.1. The closeness of the ECOWAS trendlines to the category axis in the graphs for inflation, gross external reserves, public investment/tax revenue and positive real interest rates indicates that most countries have either met or are on the verge of meeting the required target. However the overall performance under budget deficit, salary mass/tax revenue, public investment/tax revenue and real exchange rate stability at the regional level is still poor.

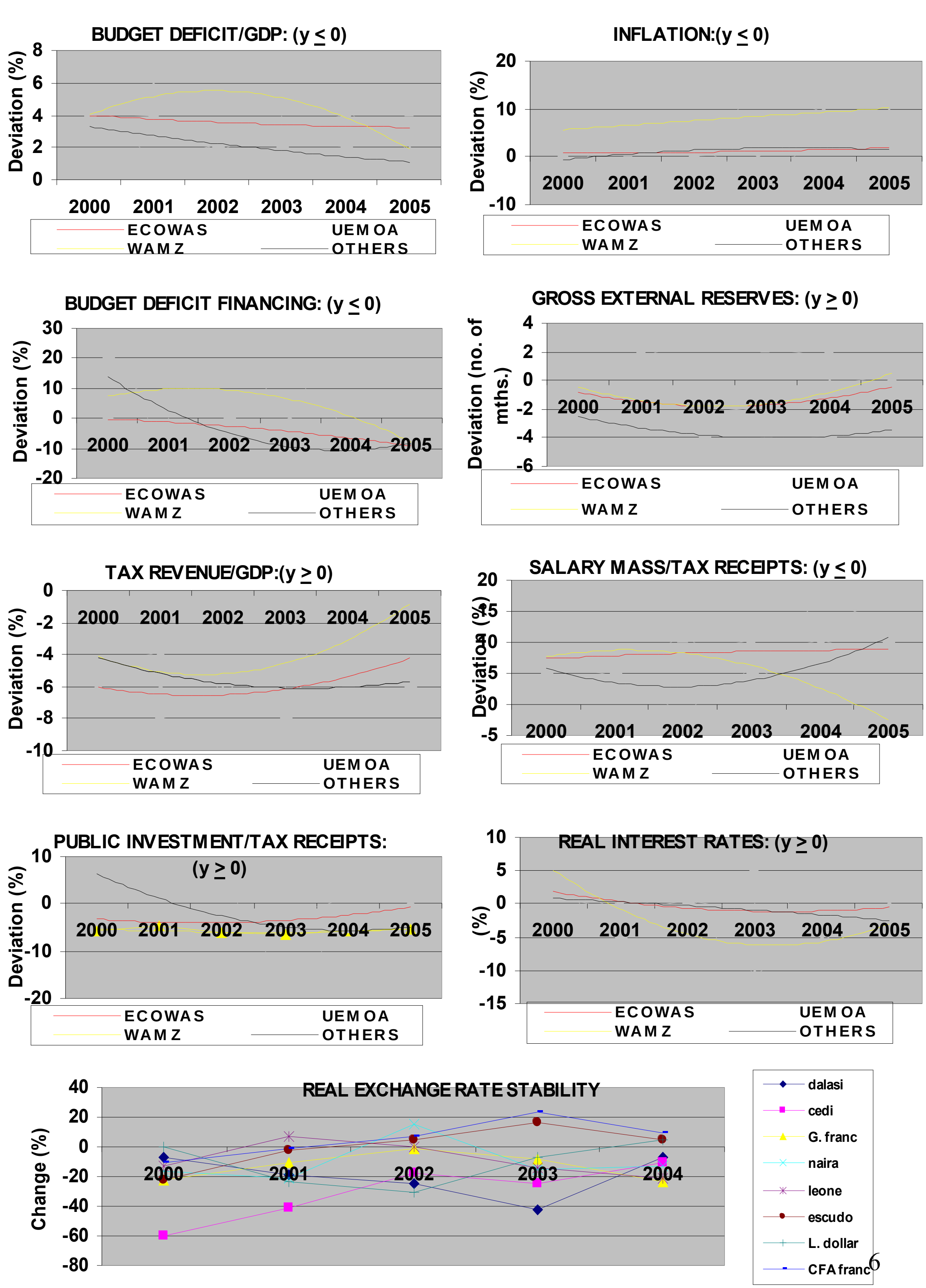
At the sub-regional level, the UEMOA countries achieved convergence under inflation, central bank budget deficit financing and gross external reserves and the group's performance under public investment was also advancing steadily. Nevertheless, these countries have considerable work to do in the areas of budget deficit, tax revenue, and real exchange rate stability.

On the other hand, the WAMZ countries recorded their best performance and achieved convergence for the first time under central bank budget deficit financing and gross external reserves during the relevant period. Most of the WAMZ countries also met the criterion on salary mass. Real exchange rates of the WAMZ currencies were also relatively stable in 2004 and 2005. However, performance under inflation and public investment worsened.

[5] Convergence is defined here to imply the situation whereby the average deviation from target under a particular criterion of all the ECOWAS countries (or sub-groupings thereof) is favourable

The countries outside the UEMOA and WAMZ blocks also made modest gains under management of budget deficit, central bank budget deficit financing, gross external reserves and salary mass. Whilst their recent feat under inflation and positive real interest rates was mixed, performance under tax revenue and public investment continued to deteriorate.

FIGURE 2.1: AVERAGE DEVIATION FROM TARGET TRENDLINES OF THE VARIOUS GROUPINGS AT THE SUB-REGIONAL LEVEL



Performance under the Convergence Criteria

This section gives an overview of the performance of the various countries as at end-2005, using estimated end-of year data.

PRIMARY CRITERIA

Budget Deficit/GDP ratio ≤ 4.0 %

The problem of fiscal unbalance persisted throughout the sub-region as the budget deficits remained high in most countries during the period under review. Only five countries (Cote d'Ivoire, Guinea, Liberia, Nigeria and Togo) met this target during 2005.

With the persistence of high budget deficits above 25.0 percent, Guinea-Bissau is the most non-compliant country despite indications that the fiscal authorities of this country outlined policies aimed at addressing this problem. The performance of Ghana declined in 2004 and the situation also deteriorated in The Gambia. Burkina Faso, Mali and Niger also performed poorly during the year under review. However, some countries, notably, Nigeria, Guinea and Sierra Leone strived to improve performance under this criterion in 2005. In particular, Nigeria contained the deficit problem, recording a marginal deficit of 1.7 percent in 2004 and a surplus in 2005. Benin and Senegal were close to the target. The performance of Cape Verde and Liberia was also encouraging during the period under review.
Considered at the regional level, the long-run improvement in performance towards convergence is marginal due to the persistence of wide deviations. This observation is depicted in Figure 2.2 which shows the deviation trends from target of the various countries categorized depending on their membership of the existing regional monetary arrangements in ECOWAS. Apart from the performance in the 'Other Countries' in which the average deviation trendline tends towards the category axis implying convergence, that of the ECOWAS-wide situation appear to move horizontally. Neither the UEMOA nor the WAMZ countries have been able to achieve convergence under this criterion.

TABLE 2.3: ECOWAS COUNTRIES: BUDGET DEFICIT/GDP RATIO

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec.*
BENIN	3.6	2.6	3.1	4.4	5.5	5.5	5.6
BURKINA FASO	11.7	6.7	9.1	7.8	8.8	9.4	9.5
CAPE VERDE	15.0	9.0	11.1	9.0	7.6	6.7	6.4
COTE D'IVOIRE	1.5	0.4	2.0	3.2	2.6	0.7	0.4
THE GAMBIA	3.6	9.8	9.1	5.2	9.9	9.7	7.8
GHANA	10.1	13.1	7.9	7.7	9.5	10.3	9.5
GUINEA	5.2	3.4	6.2	8.8	5.9	2.3	1.7
GUINEA-BISSAU	24.9	24.7	13.6	23.0	25.4	25.1	25.1
LIBERIA	0.9	1.9	1.0	3.7	4.4	3.5	2.7
MALI	9.0	9.6	6.9	5.1	7.2	8.6	8.8
NIGER	8.9	8.0	8.5	8.3	9.8	8.7	8.7
NIGERIA	2.7	5.8	5.9	2.8	1.7	-1.1	-0.5
SENEGAL	1.6	3.8	1.8	3.2	4.7	4.6	4.8
SIERRA LEONE	17.3	16.7	16.5	19.4	14.3	13.6	10.7

TOGO	**5.0**	**2.3**	**1.0**	**1.8**	**0.9**	**2.3**	**2.4**

Projected data
Sources: WAMA and Central Banks

Summary Performance by end-2005:

Countries that met the target (5): Cote d'Ivoire, Guinea, Liberia, Nigeria and Togo

Countries that failed to meet the target (10): Benin, Burkina Faso, Cape Verde, The Gambia, Ghana, Guinea-Bissau, Mali, Niger, Senegal and Sierra Leone

Inflation Rate ≤ 5%

The inflationary pressures that were experienced in certain parts of the sub-region in 2003 began to abate subsequently, in line with the declining world inflation. Despite the overall reduction in inflationary pressures, the improvement in performance under macroeconomic convergence was marginal. Eight countries met the target by end-2005 compared with nine in 2004.

TABLE 2.4: ECOWAS: END-OF PERIOD INFLATION RATES

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec.*
BENIN	4.2	4.0	1.2	0.7	2.7	2.3	2.3
BURKINA FASO	-3.0	4.9	3.9	3.2	0.7	3.3	3.3
CAPE VERDE	-1.1	4.2	3.0	-2.3	-0.3	-0.5	-0.5
COTE D'IVOIRE	2.5	4.3	4.4	-0.1	4.4	3.2	3.2
THE GAMBIA	0.2	8.1	13.0	17.6	8.0	3.4	5.4
GHANA	40.5	21.3	15.2	23.6	11.8	15.7	16.9
GUINEA	7.2	5.2	6.1	12.9	27.6	40.0	18.6
GUINEA-BISSAU	8.6	3.3	0.9	0.2	0.9	1.8	3.8
LIBERIA	3.2	19.4	11.1	5.0	16.1	15.5	15.5
MALI	-0.7	5.2	4.1	-5.0	1.5	3.4	3.4
NIGER	2.9	4.0	0.6	-1.5	3.6	4.4	4.4
NIGERIA	14.5	16.4	12.1	23.8	10.0	12.0	14.8
SENEGAL	0.7	3.0	1.4	-1.5	1.7	0.5	0.5
SIERRA LEONE	-2.8	3.4	-1.3	11.3	14.4	15.1	15.1
TOGO	1.9	3.9	1.6	-1.7	3.9	5.1	5.1

*projected end-2005 data
Sources: WAMA and Central Banks

Following the pursuance of prudent fiscal and monetary policies, Gambia met the required target during the first half year, although the level increased moderately thereafter. Similarly, the inflation pressure that accelerated in Guinea during 2003 continued its upward trend and hovered around 40.0 percent by mid-2005, but the pressure abated during the second-half of the year. Inflation remained high in Ghana, Nigeria, Sierra Leone and Liberia. Apart from the situation in Togo, inflation within UEMOA was generally low and below the 5.0 percent limit. Thus, the wide disparity in inflationary pressures between the WAMZ and UEMOA persisted during the period under review.

Figure 2.2: Deviation of Budget Deficit/GDP Ratio from Target*

a) All ECOWAS Countries
b) The UEMOA Countries
c) The WAMZ Countries
d) Other Countries
Trends below the category axis imply compliance with the required maximum target 4.0 %

Figure 2.3: Deviation of Inflation Rate from Target*

a) All ECOWAS Countries
b) UEMOA Countries
c) WAMZ countries
d) Other Countries
*Trends below the category axis imply compliance with the required maximum target 5.0 %

Figure 2.3 shows the graphs of the deviations from the required maximum target of 5.0 percent within the various groups of countries. The proximity of the average deviation trendline to the category axis in Figure 2.3(a) indicates that although the ECOWAS countries are close to convergence under this criterion, the efforts being made to reduce inflation are not adequate enough in this direction. The situation is however not the same at the sub-zonal level. Figure 2.3 further reveals that whilst the countries of UEMOA have already achieved convergence, the WAMZ countries rather appear to be diverging, as depicted by the upward average deviation trendline.

Summary Performance by end-2005

Countries that met the target **(8)**: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Guinea-Bissau, Mali, Niger and Senegal

Countries that failed to meet the target (7): The Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone and Togo

Central Bank Financing of Budget Deficit ≤ 10 % of Previous Year's Tax Revenue

With only one country failing this target in 2004 and none in 2005, performance under this criterion was very encouraging. The significant monetization of budget deficit in Guinea was of utmost concern, this practice giving credence to the country's budding difficulties in fiscal policy. The Gambia, Ghana, Nigeria and Sierra Leone, which have been applying this mode of financing on an intermittent basis, strived to reduce the level during the period under review. At the regional level, member countries have achieved convergence under this criterion as depicted by the graphs in Figure 2.4.

TABLE 2.5: ECOWAS: BUDGET DEFICIT FINANCING BY CENTRAL BANKS

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec.*
BENIN	4.3	0.0	4.6	0.0	0.0	0.0	0.0
BURKINA FASO	9.0	0.0	0.0	0.0	0.0	0.0	0.0
CAPE VERDE	59.3	0.1	20.7	6.3	0.2	0.1	0.0
COTE D'IVOIRE	0.0	0.0	0.3	0.0	0.0	0.0	0.0
THE GAMBIA	0.0	80.7	22.0	63.1	0.0	6.5	6.5
GHANA	57.9	0.0	12.0	0.0	1.6	0.2	1.6
GUINEA	24.0	0.7	24.5	14.6	26.2	4.8	7.1
GUINEA-BISSAU	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIBERIA	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MALI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NIGER	0.0	4.9	0.0	0.0	0.0	0.0	0.0
NIGERIA	0.0	29.3	0.0	19.7	0.0	0.0	1.5
SENEGAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SIERRA LEONE	0.0	8.9	0.0	26.4	0.0	8.2	0.0
TOGO	0.0	0.0	0.0	0.0	0.0	0.0	0.0

*end-2005 projected data

Sources: WAMA and Central Banks

Summary Performance by end-2005:

Countries that met the target (15): Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo

Gross External Reserves ≥ 6months of Imports Cover

The overall performance under this criterion improved as most countries endeavoured to increase their reserves. Despite this effort, the number of countries complying with this criterion remained unchanged as Nigeria and UEMOA met the target, as usual.

TABLE 2.6: ECOWAS: GROSS EXTERNAL RESERVES

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec*
CAPE VERDE	2.9	4.0	4.0	3.6	4.3	4.5	4.8
THE GAMBIA	7.5	7.2	2.9	3.1	4.7	4.7	5.0
GHANA	0.8	1.2	2.3	4.1	3.7	4.1	4.0
GUINEA	2.2	2.8	2.3	1.6	1.2	1.3	1.5
LIBERIA	3.6	2.6	0.0	-0.2	0.2	0.3	0.5
NIGERIA	13.6	11.3	9.9	8.5	16.1	16.9	17.4
SIERRA LEONE	2.8	2.3	3.1	1.7	3.3	3.0	2.8
UEMOA	6.9	7.7	8.8	8.2	7.7	7.4	7.4

*Projected data
Source: WAMA and BCEAO

The level of gross external reserves for countries of UEMOA (which are sharing external reserves managed by BCEAO under the first sub-regional monetary union arrangement) declined marginally from 7.7 months of imports cover in 2004 to 7.4 months in 2005. Most of the WAMZ countries also strived to improve their performance. The reserves of Nigeria rose significantly from 16.1 months of imports cover in 2004 to 17.4 months. Following the macroeconomic instability experienced in recent years, the external position of The Gambia improved with an increase in the country's gross external reserves which was estimated at 5.0 months by end-2005. Ghana maintained its reserves at 4.0 months. The continued stress experienced in the balance of payments of Sierra Leone led to a decline in the country's reserves from 3.0 months to 2.8 months. However, of much concern is the external position of Guinea which keeps on deteriorating, implying weakening macroeconomic fundamentals. The external reserves of Cape Verde and Liberia also increased marginally.

Figure 2.4: Deviation of Central Bank Deficit Financing From Target

a) All ECOWAS Countries
b) UEMOA Countries
c) WAMZ Countries
d) Other Countries

*Trends below the category axis imply compliance with the required maximum target of 10 % of previous year's tax receipts.

Figure 2.5 (a) above shows that ECOWAS countries as a group, are on the verge of achieving convergence under this criterion. This is depicted by the movement of the average trendline across the category axis from below. Figure 2.5 (b) and (c) also indicate that both the WAMZ and UEMOA countries have achieved convergence. However, the other counties are still striving to meet the requirement.

Summary Performance by mid-2005:

Countries that met the target (9):	UEMOA Countries and Nigeria
Countries that failed to meet the target (6):	Cape Verde, The Gambia, Ghana, Guinea, Liberia and Sierra Leone

SECONDARY CRITERIA

Figure 2.5: Deviation of Gross External Reserves from Target*
a) ECOWAS Countries
b) UEMOA Countries
c) WAMZ Countries
d) Other Countries

*Trends above the x-axis imply compliance with the required minimum target of 6 months.

Domestic Arrears (Prohibition of new arrears and liquidation of all outstanding ones)

UEMOA provided data on this criterion during the period under review. However data on the WAMZ and other countries were either scanty or not available for review.

The convergence criteria provides for the prohibition of new domestic arrears and liquidation of all outstanding ones. The available data shows that five countries: Benin, Burkina Faso, Guinea-Bissau, Mali and Senegal have already liquidated their domestic arrears in compliance with the requirement and there are indications that the rest will do so with effect from 2005.

TABLE 2.7: DOMESTIC ARREARS OF UEMOA COUNTRIES

(In millions of CFA franc)

COUNTRY	2001	2002	2003	2004	2005*
BENIN	0.0	0.0	0.0	0.0	0.0
BURKINAFASO	0.0	0.0	0.0	0.0	0.0
COTE D'IVOIRE	0.5	22.1	141.8	72.9	0.0
GUINEA-BISSAU	3.4	5.3	19.3	0.0	0.0
MALI	0.0	0.0	0.0	0.0	0.0
NIGER	0.0	2.6	0.0	3.2	0.0
SENEGAL	0.0	0.0	0.0	0.0	0.0
TOGO	17.6	15.1	19.8	26.1	0.0
UEMOA	21.5	45.1	180.9	102.2	0.0

*Provisional data

Source: WAMA and BCEAO

In view of its significance and also the need for effective debt management, it would be necessary for Cape Verde, Liberia and the WAMZ countries to provide the relevant data and information pertaining to this criterion for evaluation.

Tax Revenue/GDP Ratio ≥ 20 %

The volume of tax receipts relative to GDP generally remained low throughout the sub-region during the period under review. The estimates show that only four countries met this target at end-2005. Enhancing performance under this criterion has generally been arduous over the years, a problem that partly explains the fiscal constraint encountered in most countries. However, a few countries are establishing relevant structures aimed at improving the situation.

The improvement in performance has generally been insignificant over the years. Even though The Gambia met the target, this country has also not been consistent. However, Ghana and Nigeria recorded the most significant improvements in performance. Noting that none of the UEMOA countries has ever realized this objective in recent years, Cote d'Ivoire, Mali, Niger and Senegal were progressively moving towards this objective. The performances of Benin, Guinea-Bissau and Togo were generally not encouraging. Concerning the 'Other Countries', Cape Verde also met the target and although the situation improved in Liberia, the country was still far from the minimum requirement of 20.0 percent.

TABLE 2.8: ECOWAS: TAX RECEIPTS/GDP RATIO

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec*
BENIN	12.8	12.6	13.7	14.4	14.6	14.9	15.1
BURKINA FASO	11.8	9.4	9.7	10.3	12.1	12.4	12.1
CAPE VERDE	17.3	18.7	19.7	18.6	19.6	20.1	20.2
COTE D'IVOIRE	14.3	14.6	15.8	14.5	15.2	15.0	15.0
THE GAMBIA	23.3	19.2	14.1	13.8	22.4	18.5	20.3
GHANA	16.3	17.2	17.5	19.3	22.4	25.6	28.4
GUINEA	10.2	11.4	12.0	10.5	9.5	11.0	11.2
GUINEA-BISSAU	11.4	10.4	8.6	9.2	8.3	9.3	9.4
LIBERIA	13.7	11.4	10.7	6.4	9.2	7.6	8.6
MALI	12.3	12.7	12.5	14.2	15.3	15.6	15.8
NIGER	9.1	8.9	10.5	10.5	11.6	11.8	12.0
NIGERIA	16.7	19.5	14.0	15.7	19.8	19.1	23.3
SENEGAL	17.3	16.6	16.9	16.8	18.4	18.2	18.4
SIERRA LEONE	10.8	13.4	11.4	16.7	13.7	13.2	11.4
TOGO	11.0	10.5	11.5	13.9	13.6	12.8	12.8

*Projected data
Source: WAMA and Central Banks

Thus, the ECOWAS countries have not yet achieved convergence under this criterion. This assertion is depicted by the fact that the average deviation trendlines lie far away from the category axis in each of the graphs shown in Figure 2.6.

Summary performance by end-2005:

Countries that met the target (4): Cape Verde, The Gambia, Ghana and Nigeria

Countries that failed to meet the target (11): Benin, Burkina Faso, Cote d'Ivoire, Guinea, Liberia, Guinea-Bissau, Mali, Niger, Senegal, Sierra Leone and Togo

Figure 2.6: Deviation of Tax Receipts/GDP Ratio from Target

All ECOWAS Countries
UEMOA Countries
WAMZ Countries
Other Countries

*Trends above the x-axis (zero deviation line) imply compliance with the required minimum target of 20.0 %.

Salary Mass/Tax Revenue Ratio ≤ 35 %

The provisional data indicates that the overall performance under this criterion improved during the year under review. Seven countries met the required target compared with five in the preceding year.

The difficulty of some counties in complying with this criterion relates to the large size of the public sector wage bill. The ratios in the UEMOA countries were

generally, moderate with the exception of Guinea-Bissau, whose rapidly increasing public sector wage bill exceeded the required target by 101.8 percentage points.

The performance of the WAMZ countries has also been improving in recent years as member countries, particularly, The Gambia, Ghana, Guinea and Nigeria made consistent efforts to reduce their wage burden. Despite efforts being made by Sierra Leone, the ratio rather remained very high. With regard to the other countries, even though Cape Verde has been non-compliant, the adverse deviation declined. The situation worsened in Liberia.

TABLE 2.9: ECOWAS: SALARY MASS/TAX REVENUE

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec*
BENIN	31.1	32.0	31.9	33.5	38.0	37.5	37.8
BURKINA FASO	43.7	45.7	42.8	41.7	38.8	40.4	40.4
CAPE VERDE	57.3	50.6	48.3	55.4	48.0	46.4	45.9
COTE D'IVOIRE	42.1	41.4	41.6	45.3	44.0	44.1	44.2
THE GAMBIA	30.6	39.1	38.0	33.3	23.1	24.8	22.4
GHANA	52.1	52.9	49.1	44.4	38.9	35.4	31.6
GUINEA	38.2	32.0	31.0	34.3	32.5	28.8	28.0
GUINEA-BISSAU	60.0	74.3	88.2	111.9	155.0	134.5	136.8
LIBERIA	24.8	29.0	19.1	26.4	39.0	40.0	43.0
MALI	31.3	29.1	30.6	27.7	31.2	32.2	32.3
NIGER	50.4	40.2	38.2	37.5	35.2	34.8	34.2
NIGERIA	34.5	26.4	47.2	32.6	33.8	28.3	28.2
SENEGAL	32.7	30.7	31.7	30.1	29.5	30.0	30.8
SIERRA LEONE	62.0	55.0	63.9	59.7	56.0	53.8	53.3
TOGO	53.9	51.0	44.7	34.7	36.6	35.6	35.5

*end-2005 projected data
SOURCE: WAMA and Central Banks

The achievement in terms of convergence in the ECOWAS was however marginal under this criterion as depicted by the near horizontal trend-line above the x-axis in Figure 2.7(a). Figure 2.7 (b) and (c) indicate the convergence status of the WAMZ and UEMOA countries. Whilst there was no long-run progression towards convergence in UEMOA, the WAMZ countries progressed consistently towards the target (the category axis).

Summary performance by end-2005:

Countries that met the target (7):	The Gambia, Ghana, Guinea, Mali, Niger, Nigeria and Senegal
Countries that failed to meet the target (8):	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Guinea-Bissau, Liberia, Sierra Leone and Togo

Figure 2.7: Deviation of Salary Mass/Tax Receipts Ratio from Target*

All ECOWAS Countries
b)UEMOA Countries
c)WAMZ Countries
d) Other Countries
*Trends below the x-axis (zero deviation line) imply compliance with required maximum target

Public Investment Financed From Internal Sources/Tax Revenue ≥ 20 %

Performance under this criterion has been improving in recent years. Five countries met the target in 2003, seven in 2004 and nine by end-2005.

A review of the data of the two monetary zones reveals that whilst the countries of UEMOA strived to meet the required objective, the performance of the WAMZ remained poor. Within UEMOA, Benin, Burkina Faso, Guinea-Bissau, Mali and Senegal consolidated their performance. However, Cote d'Ivoire and Togo continued to perform poorly. The projections indicate that The Gambia and Ghana met this target. Nigeria recorded an abysmally poor performance in 2005, having missed the goal in 2004. As usual, the performance of Sierra Leone was also not satisfactory. The performance of Cape Verde was also below expectation. With the restoration of peace and security in Liberia, the authorities stepped up the level of investment, thereby meeting the required target.

TABLE 2.10: ECOWAS: PUBLIC INVESTMENT/TAX REVENUE

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec.*
BENIN	12.4	18.9	19.3	23.2	21.5	20.3	20.6
BURKINA FASO	23.4	24.6	36.0	32.7	41.9	36.3	36.5
CAPE VERDE	4.4	6.2	4.9	5.1	4.9	5.0	5.0
COTE D'IVOIRE	10.6	7.5	11.6	10.5	9.9	10.4	10.4
THE GAMBIA	6.1	7.1	5.6	3.2	9.1	15.1	23.8
GHANA	23.5	16.4	13.6	18.8	18.4	17.4	24.5
GUINEA	7.7	5.5	10.2	12.1	16.1	15.8	15.2
GUINEA-BISSAU	20.0	16.9	5.9	3.7	20.0	30.1	31.3
LIBERIA	39.6	46.1	47.3	0.0	25.6	30.8	30.1
MALI	25.7	22.0	20.5	24.5	22.8	22.6	22.5
NIGER	7.9	20.0	18.7	18.7	20.3	19.4	20.2
NIGERIA	29.3	40.3	30.7	21.4	18.7	5.0	6.0
SENEGAL	19.8	20.5	23.5	24.1	30.0	33.7	34.8
SIERRA LEONE	4.4	6.6	9.4	11.3	8.2	5.8	4.6
TOGO	3.1	2.5	2.6	1.7	2.3	9.5	10.4
Memorandum:							

*projected data
Source: WAMA and Central Banks

Even though close to the category axis, the near horizontal nature of the average deviation trend-line in Figure 2.8(a) indicates that the improvement in performance under this criterion has rather been slow.

Summary Performance by end-2005:

Countries that met the target (9): Benin, Burkina Faso, The Gambia, Ghana, Guinea-Bissau, Liberia, Mali, Niger and Senegal

Countries that failed to meet the target (6): Cape Verde, Cote d'Ivoire, Guinea, Nigeria, Sierra Leone and Togo

Positive Real Interest Rates

In recent years, real interest rates have persistently been negative in some countries despite efforts being made to address the underlying problem of high inflation. Ten countries met this criterion in 2005 compared with seven in the preceding year.
The performance in UEMOA has generally been satisfactory with positive real interest rates, contrary to the situation in the WAMZ where the reverse is the case. The outturn in Guinea improved significantly in 2005 although the rate was

still negative. Negative real interest rates persisted in Ghana, Guinea, Liberia, Nigeria and Sierra Leone.

TABLE 2.11: ECOWAS: REAL INTEREST RATE

	2000	2001	2002	2003	2004	2005	
						June	Dec*
BENIN	-0.7	-0.5	2.3	2.8	0.8	1.5	1.5
BURKINA FASO	6.5	-1.4	-0.4	0.3	2.8	1.5	1.5
CAPE VERDE	4.3	3.7	4.9	8.7	3.8	4.0	6.1
COTE D'IVOIRE	1.0	-0.8	-0.9	3.6	-0.9	1.5	1.5
THE GAMBIA	8.8	0.9	-4.0	-5.1	6.8	11.4	14.8
GHANA	1.5	-6.8	-2.2	-13.9	-2.3	-6.7	-6.9
GUINEA	0.7	2.8	1.3	-8.3	-19.2	-22.5	-1.1
GUINEA-BISSAU	-5.1	0.2	2.6	3.3	2.6	2.0	1.5
LIBERIA	2.6	-13.7	-5.4	-0.6	-11.4	-11.5	-11.5
MALI	1.0	-1.7	-0.6	8.5	2.0	2.5	1.5
NIGER	0.6	-0.5	2.9	5.0	-0.1	2.3	1.5
NIGERIA	-1.5	4.0	-8.4	-20.6	-5.6	-7.9	-10.7
SENEGAL	2.8	0.5	2.1	5.0	1.8	2.5	1.5
SIERRA LEONE	9.3	1.3	8.1	-5.8	-6.6	-7.1	-7.1
TOGO	1.6	-0.4	2.0	5.2	-0.4	2.5	1.5

*end-2005 projected data
Source: WAMA and Central Banks

Figure 2.8: Deviation of Pubic Investment/Tax Receipts Ratio from Target*

All ECOWAS Countries

UEMOA Countries
c) WAMZ Countries
d) Other Countries
*Trends above the x-axis (zero deviation line) imply compliance with required minimum target of 20.0 %.

Figure 2.9: Positive Real Interest Rates*

All ECOWAS Countries
b) UEMOA Countries
c) WAMZ Countries
d) Other Countries
* Trends above the x-axis (zero deviation line) imply compliance with the requirement for positive real interest rates.

At the ECOWAS level, there was no consistent improvement in performance, as depicted by the near horizontal trend of the average deviation trendline in Figure 2.9 (a). The other graphs in figure 2.9 also reveal that whilst the countries of UEMOA strived to maintain positive real interest rates, those of the WAMZ countries were negative below the category axis.

Summary Performance by end-2005:

Countries that met the target (10):	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Guinea-Bissau, Mali, Niger, Senegal and Togo
Countries that failed to meet the target (5):	Ghana, Guinea, Liberia, Nigeria and Sierra Leone

Real Exchange Rate Stability

Two main exchange rate regimes exist in ECOWAS: fixed exchange rate regime operated by Cape Verde and the eight countries of UEMOA and flexible exchange rate policies operated by Liberia and the WAMZ countries. The existence of the two opposing exchange rate regimes therefore makes an assessment based on country comparative analysis inappropriate.

The real exchange rate of most economies fluctuated significantly over the same period. None of the ECOWAS currencies have been stable on consistent basis since 2000. The real exchange rate of the CFA franc, which is pegged to the euro, appreciated during the period under review. This development was largely influenced by developments on the international financial market. Pegged also to the euro like the CFA franc, the escudo also appreciated.

TABLE 2.12: ECOWAS: REAL EXCHANGE RATES

COUNTRY	2000	2001	2002	2003	2004	2005	
						June	Dec.*
BENIN	-14.6	-3.0	5.9	21.7	9.6	8.2	8.2
BURKINA FASO	-15.0	-2.6	7.7	28.9	14.0	11.3	11.3
CAPE VERDE	-8.8	-3.9	5.4	20.1	12.5	10.1	8.2
COTE D'IVOIRE	-11.7	-1.5	6.8	21.4	11.4	9.2	9.2
THE GAMBIA	-6.9	-18.6	-24.6	-42.5	-17.1	-10.0	-14.4
GHANA	-60.1	-40.5	-17.5	-23.1	-11.4	-24.4	-24.4
GUINEA	-22.5	-11.1	-0.7	-8.7	-23.1	-27.0	-11.3
GUINEA-BISSAU	-22.2	-2.2	4.9	21.1	9.8	9.7	9.8
LIBERIA	-0.5	-23.2	-30.1	-7.2	-14.2	-14.8	-15.1
MALI	-12.0	-1.3	5.7	27.4	18.0	11.0	11.9
NIGER	-13.6	-1.5	7.1	26.9	13.1	11.5	10.9
NIGERIA	-16.1	-20.6	-15.7	-14.9	-13.0	-14.4	-16.1
SENEGAL	-13.4	-1.2	6.7	24.4	12.3	11.0	10.2
SIERRA LEONE	-12.7	7.1	0.4	-14.4	-21.7	-9.9	-10.9
TOGO	-13.0	-2.3	5.7	25.1	11.4	10.5	9.5
UEMOA CFA franc	-10.9	-1.6	6.7	23.3	9.7	9.4	9.2

*projected end-2005 data
Source: WAMA and Central Banks

The WAMZ currencies were generally unstable, although there were signs of relative improvement during the period under review. Following the rapid decline in value of the Gambian dalasi during the period 2001 -2003, the authorities contained the real exchange rate in 2004. Ghana and Nigeria also progressed steadily under this criterion. However, the real exchange rate of the Guinean franc, which had been relatively stable in recent years, depreciated significantly. The performance of the leone of Sierra Leone, which attained relative stability in the aftermath of political hostilities in 2002, deteriorated in 2003 and 2004 but stabilized relatively thereafter. The purchasing power of the Liberian dollar also declined significantly during the review period.

Figure 2.10: Real Exchange Rate Stability of the ECOWAS National Currencies*

Fixed Exchange Rate Regimes: Cape Verde and UEMOA Countries
Floating Exchange Rate Regimes: Liberia and the WAMZ Countries
*Stability implies tendency for fluctuations to congregate around the category axis.

a) Fixed Exchange rate Regimes:

Countries with relative stability (4):	Benin, Cote d'Ivoire, Guinea-Bissau and Togo
Countries with relative instability (5):	Burkina Faso, Cape Verde, Mali, Niger, Senegal

b) Floating Exchange Rate Regimes:

Countries with relative stability (0):	none
Countries with relative instability (6):	The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone

Conclusion and Recommendations

Following the poor results obtained in 2003, the overall performance under macroeconomic convergence remained mixed during the period under review. There was no significant progression towards overall convergence as performance under some of the criteria improved whilst others deteriorated. In general, member countries found it difficult to sustain their performance in respect of targets realized in preceding years.

The persistence of fiscal dominance resulted most often in ineffective monetary policies, which underlay the poor performance of member countries. The capacity to generate revenue was very low whilst government expenditure was correspondingly excessive, most often exceeding programmed targets. Another major source of fiscal imbalance was the existence of high levels of public debt in most countries, the servicing of which constituted significant proportions of government recurrent expenditure.

In addition, external shocks continued to have a negative impact on the macroeconomic setting in ECOWAS. The increasing crude oil prices on the international commodities market positively affected the external position of Nigeria (an oil producing country) whilst it impacted negatively on that of the non-oil producing countries, thus, reducing the potential of meeting the target on gross external reserves.

In general, the performance of the countries of UEMOA was comparatively better than that of the WAMZ. Members of the former group made impressive feats in the maintenance of low inflation, sufficient gross external reserves and positive real interest rates, whilst the WAMZ was noted for relatively high budget deficits and high inflation, although the group had unimpressive external reserves. However, the volume of tax revenue was generally low in all countries, leading to high salary burden and low level of public investment.

In the light of the above observations, member countries need to adopt prudent macroeconomic policies to help improve performance under the convergence criteria. The necessity for a concerted effort to achieve macroeconomic stability within the shortest possible time cannot be overemphasized if the monetary integration objective is to remain credible. In this respect, the following recommendations may help guide the design of sectoral policies in member countries:

Fiscal Policy

In order to facilitate the progress towards macroeconomic convergence, it is incumbent for member countries to institute measures to address the problem of fiscal imbalance. Reducing the level of budget deficit on a sustainable basis would greatly aid the achievement of macroeconomic stability. In this respect, member countries may need to adopt prudent principles that require strict expenditure control and programming based on revenue availability. It may also be necessary for governments to undertake tax reforms to enhance revenue mobilization. In this respect, every country needs to adopt VAT, which provides an efficient indirect method of tax collection. In addition, member countries may review their tax exemption policies with the view of reducing the spate of exemptions and tax holidays.

As a matter of urgency, the problem of high public sector wage bill needs to be addressed by enhancing the management of para-statals. Considering the under-developed state of the private sector in most countries, it may be necessary for the fiscal authorities to emphasize public investment until the private sector is sufficiently developed to support growth. The need for private sector-led growth makes government support mandatory.

Monetary Policy
Fiscal policy implementation needs to complement monetary policy objectives. In order to stem inflationary pressures, member countries should avoid excessive increases in money supply, which have most often been due to central bank budget deficit financing. By endeavouring to maintain a high level of independence, the Central Banks should relate money supply increases to programmed nominal GDP growth rates. The monetary authorities also needs to take appropriate measures to minimize the prevalence of negative real interest rates.

The Central Banks should consider the development of attractive money market instruments to facilitate effective management of excess liquidity. In addition, in order to facilitate the avoidance of central bank budget deficit financing, the on-going development of capital markets in most countries should be hastened to provide alternative sources of funding for investment projects.

External Sector Policy
It is conceived that the introduction of automatic and transparent pricing mechanism for petroleum products may have short-term disastrous consequences on weak economies. However, a delay in the implementation of such policies for both political and economic reasons is equally harmful to the financial sector, and may reduce the potential for higher investment, growth and development in the long-run. To enable member countries develop adequate external shock absorbers, the imbalances in the external sector need to be addressed in line with developments in the fiscal and real sectors. Enhancing the level of gross external reserves would certainly provide buffer against external shocks through the vigorous adoption of export promotion and diversification programmes.

Real exchange rate stability has positive effects on the external account. Hence, in order to address the problem of persistent current account imbalances in most countries, the authorities should promote actions geared towards diversifying and increasing exports. Whilst serving to improve the current account, the adoption of this policy will also help to improve domestic demand, and consequently improve output and growth.

Real Sector Policy
Whilst making efforts to achieve programmed macroeconomic objectives, member countries should develop the real sector. For instance, the adoption of a comprehensive agricultural policy to enhance the level of output (emphasizing the provision of linkages between primary and secondary products) would be useful in boosting domestic production and limiting the demand for food imports. Whilst aiding the reduction of domestic inflationary pressures, this policy will enhance the accumulation of gross external reserves and provide the underlying basis for exchange rate stability. In addition, it would also be important to establish linkages between the various aspects of the manufacturing economies.

Other Recommendations

Considering the negative effect of political disturbances on policy implementation, member countries should endeavour to pursue the principles of good governance and democracy. In addition, it would be necessary to accelerate the implementation of the peace agreement in Cote d'Ivoire and consolidate the peace and security currently prevailing in Liberia in order to facilitate sub-regional growth which is indispensable for achieving macroeconomic convergence.

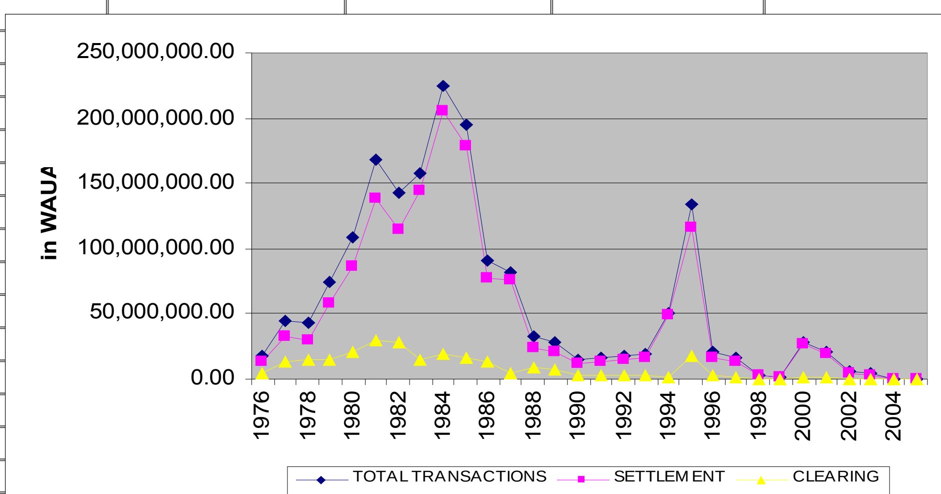
THE ECOWAS MULTILATERAL CLEARING MECHANISM

The West African Clearing House (WACH) was created in 1975, soon after the establishment of ECOWAS, principally to promote intra-ECOWAS trade, which was then very low, below 5.0 percent of total trade of the sub-region). Thus, it provided a multilateral facility through which member countries could use their domestic currencies for current and capital account transactions within the sub-region, thereby, economizing on the use of foreign exchange reserves and reducing transaction costs. The smooth operation of the clearing mechanism depends on the guarantee by member countries to convert their domestic currencies freely into WAUA to finance eligible transactions.

However, the performance of the mechanism has been contrary to expectation. The volume of transactions channelled through the clearing mechanism increased from its inception reaching a peak of peak of WAUA 224.4 million in 1984 and dwindled thereafter to WAUA 1.5 million in 1999. The launching of the ECOWAS Travellers Cheque regenerated the level of activity temporarily in 2002 and 2003 but collapsed in the subsequent years following the emergence of speculative dealings in the instrument. Currently, no commercial transactions are channelled through the mechanism, the only dealings being in respect of the settlement of outstanding net debit positions to a few Central Banks that have until recently been dealing in the ECOWAS Travellers Cheques.

It is pertinent to note that the level of trade, which is still low at about 12.0 percent of the total sub-regional trade, was generally unidirectional, thus leading to the conduct of settlements in large foreign exchange values. In addition, the domestic currencies are generally not acceptable in official trading transactions.

WEST AFRICAN MULTILATERAL CLEARING MECHANISM				
TRANSACTIONS IN WAUA FOR THE PERIOD 1976-2005				
	TOTAL TRANSACTIONS	SETTLEMENT	CLEARING	PERCENTAGE OF CLEARING TO TRANSACTIONS (%)
1976	18,300,000.00	13,990,000.00	4,310,000.00	23.6
1977	45,230,000.00	32,150,000.00	13,080,000.00	28.9
1978	43,791,797.38	29,590,568.82	14,201,228.56	32.4
1979	74,286,266.10	58,673,026.71	15,613,239.39	21.0
1980	108,349,431.07	87,030,012.48	21,319,418.59	19.7
1981	167,650,305.25	138,289,865.48	29,360,439.77	17.5
1982	143,211,988.13	114,291,775.25	28,920,212.88	20.2
1983	158,310,039.42	143,899,128.74	14,410,910.68	9.1
1984	224,398,164.03	205,697,422.79	18,700,741.24	8.3
1985	195,347,681.21	179,118,296.84	16,229,384.37	8.3
1986	90,471,432.81	77,751,149.57	12,720,283.24	14.1
1987	81,240,568.12	76,440,005.82	4,800,562.30	5.9
1988	33,412,633.26	24,523,959.60	8,888,673.66	26.6
1989	28,218,816.20	21,139,833.71	7,078,982.49	25.1
1990	14,930,391.86	11,596,227.73	3,334,164.13	22.3
1991	16,763,214.65	14,062,005.37	2,701,209.28	16.1
1992	17,671,348.21	14,483,927.33	3,187,420.88	18.0
1993	19,390,966.53	17,109,394.73	2,281,571.80	11.8
1994	50,945,555.18	49,143,211.77	1,802,343.41	3.5
1995	134,408,660.18	116,338,948.20	18,069,711.98	13.4
1996	20,095,158.83	17,076,147.03	3,019,011.80	15.0
1997	16,140,541.77	14,039,529.96	2,101,011.81	13.0
1998	3,549,079.58	3,251,632.56	297,447.02	8.4
1999	1,494,622.06	1,350,302.40	144,319.66	9.7
2000	28,557,807.84	27,405,008.61	1,152,799.23	4.0
2001	20,698,572.13	19,279,648.87	1,418,923.26	6.9
2002	5,218,571.40	5,084,122.13	134,449.27	2.6
2003	3,722,295.58	3,024,584.52	697,711.06	18.7
2004	151,906.93	149,538.69	2,368.24	1.6
2005	0.00	0.00	0.00	



As has been reported on most occasions, a number of factors have contributed to erosion of the incentive for continued utilization of the mechanism. The event turnout has largely been influenced by the relaxation of exchange control policies and structural macroeconomic reforms undertaken by all countries in the sub-region during the last two decades, developments that have made foreign exchange increasingly available to the private sector. These developments, coupled with the relative improvement in the sub-regional payments system, encouraged the business community to use the established private financial institutions rather than the ECOWAS Multilateral Clearing Mechanism. In addition, the exchange rates instability of some of the sub-regional currencies, operational delays due to poor telecommunication facilities and the low level of exchanges arising from the lack of complementarily in production, slow pace of industrialization, inadequate trade information and the continued existence of trade barriers impacted negatively on the mechanism.

Notwithstanding the apparent collapse of the mechanism, its prime objective of helping member countries to conserve foreign exchange and minimize transaction costs in sub-regional cross-border transaction is still very valid, basically, in the interim period prior to the single ECOWAS currency. A study conducted to identify the causative effects revealed that the declining trend could be reversed by improving on the payment mechanism, lifting trade barriers, introducing incentives and encouraging the commercial banks enhance the level of their intra-regional trade financing.

2.2 POLICY HARMONIZATION ISSUES:

Under the EMCP, member countries are expected to harmonize their monetary and financial policies and adopt other regional arrangements such as the ECOWAS trade liberalization scheme and exchange rate mechanism. This section considers the status of harmonization of the exchange rate arrangements, capital account liberalization, banking laws and regulation, trade liberalization and statistics.

2.3.1 EXCHANGE RATE ARRANGEMENTS[6]

The exchange rate being a key variable linking various economies under a regional integration scheme, the need for exchange rate policy harmonization also derives from the `optimum currency area'[7] literature that suggests that an enhanced level of policy coordination facilitates intra-regional trade and mitigates

[6] Eight currencies currently circulate in the sub-region: the CFA franc of UEMOA, the Cape Verdian escudo, the Gambian dalasi, the Ghanaian cedi, the Guinean franc, the Liberian dollar, the Nigerian naira and the Sierra Leonean leone.

[7] Theoretically, the optimality of a single currency area or a monetary union is defined in terms of several properties, including the mobility of the factors of production (labor and capital), price and wage flexibility, and economic openness, diversification in production and consumption and similarity in the areas of fiscal and financial integration.

the effects of negative externalities associated with undiversified production, narrow industrial bases and the low volume of primary commodity exports.

Under the EMCP, member countries are required to harmonize their exchange rate regulations by implementing market-oriented monetary policy tools. It was envisaged that a harmonized policy arrangement would pave the way for the adoption of an Exchange Rate Mechanism that was intended to provide the operational framework for coordinating and managing the exchange rates of member States for convergence before the advent of the ECOWAS Single currency. In addition to this regional arrangement, member countries of the IMF are required to accede to article VIII of the IMF Articles of Agreement.

However, the progress made in the various countries is still mixed as the exchange rate policies within the sub-region have not been harmonized. There are two major exchange rate regimes in West Africa: the fixed and floating exchange rate regimes. The countries of UEMOA and Cape Verde operate fixed regimes whilst the rest have floating exchange rates.

The floating exchange rates have varying degrees of flexibility stated variously as independently or managed floating. With the exception of two countries that have a dual/multiple exchange rate structure, all the floating regimes have a unitary arrangement with rates that are variously determined on daily and weekly bases. The extent of administrative controls also varies from country to country. Three countries have not yet acceded to article VIII of the IMF Articles of Agreement. The specific details of the exchange rate arrangements are as follows:

- ❖ The Countries of first monetary zone, UEMOA, maintain a unitary exchange rate arrangement. CFA franc is pegged to the euro (the intervention currency) at a fixed parity rate. Exchange rates for other currencies are derived from the rate for the currency concerned in the Paris exchange market and the fixed rate between the euro and the CFA franc. Authorized banks charge an exchange commission of 2.0 percent on purchases and sales of euros and a freely determined commission on foreign currencies not directly related to transactions abroad. In addition, a commission of 0.25 percent (all of which must be surrendered to the treasury) is levied by banks on transfers to all countries outside the zone. Residents are authorized to contract forward exchange cover for payments related to imports and exports of goods and services. The zone does not tolerate exchange subsidy. Exchange control is administered jointly by the Treasury and the BCEAO, with most of the supervisory authority delegated to authorized intermediary banks. Member countries have acceded to Article VIII of the IMF Articles of Agreement;
- ❖ Cape Verde maintains a unitary exchange rate structure and the domestic currency (the escudo) is conventionally pegged to the euro. There are no exchange tax, subsidy and forward market arrangements. All foreign exchange transactions are under the control of the Central bank and current transactions, investments in securities and foreign borrowing and lending in connection with current transactions have been liberalized. However, Cape Verde has not yet endorsed Article VIII of the IMF Articles of Agreement, although negotiations are underway for eventual compliance;

- The Gambia operates a unitary exchange rate arrangement which has been classified as managed floating with no pre-announced path. The exchange rate of the dalasi is determined weekly by market forces in the inter-bank foreign exchange market with the participation of the Central Bank of the Gambia, Commercial Banks and Foreign Exchange Bureaus. The Central Bank intervenes periodically to arrest excessive exchange rate fluctuations. There are no exchange tax, subsidy and foreign exchange market arrangement. Similarly, there are no administrative control arrangements for payments and receipts. Gambia has endorsed article VIII of the IMF Articles of Agreement;
- Ghana operates a unitary exchange arrangement which has been classified as managed floating with no predetermined path for exchange rate. The exchange rate of the cedi is determined daily in the inter-bank foreign exchange market. There are no exchange tax, subsidy and foreign exchange market arrangements. All foreign exchange transactions by the private sector are approved and effected by authorized banks without reference to the central bank. The country has acceded to Article VIII of the IMF Articles of Agreement;
- Guinea maintains a unitary exchange rate structure and the official exchange rate is determined on weekly basis. However, commercial banks and foreign exchange bureaus are free to buy and sell foreign exchange at any rate. There are no arrangements for exchange tax, subsidy and forward exchange market. Exchange control authority is vested in the central bank which has however delegated minimal authority to the commercial banks to manage foreign currency accounts, allocate foreign exchange to travellers and sign import applications and effect settlements/payments for imports from foreign countries. This country has acceded to Article VIII of the IMF Articles of Agreement;
- Liberia operates a unitary exchange rate structure classified as independently floating. The Liberian dollar is market-determined and all foreign exchange dealers are permitted to buy and sell currencies at market-determined exchange rates. However, the central bank reserves the right to intervene to counter speculative movements. There are no arrangements for exchange tax, subsidy and forward exchange market. However, export and import-licensing regulations are administered by the Ministry of Commerce and Industry. Liberia has not yet acceded to Article VIII of the IMF Articles of Agreement;
- Nigeria operates a multiple exchange rate structure which has been classified as managed floating with no pre-announced path for the exchange rate. There are four exchange rates: the official rates which result from the bi-weekly foreign exchange Dutch auctions by the central bank, the inter-bank market exchange rate (NiFEX) at which commercial banks transact among themselves, the bureau de change and parallel market rates. There are no arrangements for exchange tax and exchange subsidy. Forward exchange transactions in the inter-bank market are permitted among authorized foreign exchange dealers and between the dealers and their customers, subject to prudential limits. The central bank formulates basic foreign exchange policy, supervises the operation of the inter-bank market, approves and revokes the appointments of authorized dealers of foreign currency. Nigeria has not yet

ratified Article VIII of the IMF Articles of Agreement, although negotiations are underway for compliance;

- Sierra Leone has a dual exchange rate structure which has been classified as independently floating. Exchange rates are freely determined in the inter-bank market comprising the central bank, commercial banks and licensed foreign exchange bureaus. The central bank also determines the exchange rate to be used in official transactions, which is based on the average mid-rate of purchases and sales on the inter-bank market during the last five business days and at the weekly auction. There are no arrangements for exchange tax, subsidy and forward market. The Ministry of Finance formulates exchange control policy in consultation with the central bank, but the day-to-day administration of exchange control is carried out by the central bank with the assistance of the commercial banks. Sierra Leone has acceded to Article VIII of the IMF Articles of Agreement;

The divergent exchange rate regulations have not facilitated effective policy coordination at the regional level. Although the ECOWAS Exchange Rate Mechanism (EERM) was developed in 2002, its implementation was delayed due to a number of factors, including the continued existence of restrictions on the use of national currencies in intra-regional trade, restrictions on current and capital account transactions between member States, the weak financial sector with few capital markets, the lack of reliable database and communication infrastructure, the failure of some member countries to accede to Article VIII of the IMF Articles of Agreement and the perceived ineffective multilateral surveillance as the underlying bases for performance assessment and comparability are basically dissimilar.

In addition to these divergent policy arrangements, is the lack of exchange rate convergence of the various currencies. The underlying policies have not contributed effectively in arresting the real exchange rate instability of the currencies within the sub-region. Although there has been a general tendency to liberalise the foreign exchange market in most countries, the wide fluctuations of real exchange rates partly indicate that the various exchange rates have not yet achieved their equilibrium levels. The other issue of concern is the fact that the exchange rate movement on the international financial arena impinges negatively on the various economies in ECOWAS.

Recommendations

The exchange rate instability and disparities in policies are certainly injurious for a region seeking to achieve macroeconomic convergence. In the light of these problems, the following suggestions may help guide policy formulation:

1. considering the fact that the first monetary arrangements are already determined, the non-UEMOA zone countries should accelerate the harmonization process by adopting the flexible exchange rate regime;
2. member countries that have not ratified article VIII of the IMF Articles of Agreement should take appropriate steps to formalize this requirement;
3. the WAMZ and other countries implement appropriate policies to stabilize the exchange rates of their domestic currencies;

2.3.2 STATUS OF CAPITAL ACCOUNT LIBERALIZATION

Capital account liberalization has in recent years been advanced by multilateral cooperation within the framework of regional integration. In this spirit, ECOWAS has also promoted the progressive liberalization of capital movements in conformity of the Revised ECOWAS Treaty that provides for the free movement of capital within the Community through the removal of controls on capital transfer between member States. The process has also been supported by the IMF through its Structural Adjustment Programs (SAPs) that promoted the adoption of market-oriented policies in most developing countries.

A recent survey conducted by WAMA revealed that the process of capital account liberalization in ECOWAS has painstakingly been slow. Most countries still maintain a wide range of controls with the various economies being at different stages of the liberalization process. Controls are generally pervasive in the areas of capital and money market instruments, outward direct investment, personal capital and real estate transactions.

Table 3.1: Status of Capital Account Liberalization in ECOWAS

Measures	No. of Countries with Controls
1. Controls on Capital Transactions	14
2. Controls on Capital & Money Mkt. Instruments	13
3. Controls on derivatives and other instruments	9
4.Controls on Credit Operations	6
5.Controls on direct investment (Inflows)	2
6. Controls on direct investment (Outflows)	12
7. Controls on liquidation of direct investment	2
8.Controls on real estate transactions	13
9. Controls on personal capital transactions	12
10. Provisions specific to institutional investors	8
11.Other controls imposed by securities law	0

On comparative basis, The Gambia and Liberia have largely liberalized their capital account. Guinea, Nigeria and Sierra Leone have rather adopted a cautious approach whilst the countries of UEMOA, Ghana and Cape Verde still maintain an appreciable level of controls. It should however be noted that capital movements between the UEMOA member countries are free of exchange controls while transactions with countries outside the zone are restricted. The status of liberalization within the various economies is as follows:

Situation in the UEMOA Countries

Capital flows and other current transactions in and out of the zone encounter certain controls for both prudential and protective reasons. Generally speaking, all capital movements between Member States of the West African Economic and Monetary Union are liberalized and done without any restriction in line with Articles 76 (paragraph (d) 96 and 97 of the UEMOA Treaty and Article 4 of the West African Monetary Union (UMOA). The financial relations between West African Economic and Monetary Union (UEMOA) member States and foreign countries are governed by Regulation no R09 of 20 December 1998 of the UEMOA Council of Ministers which came into force on 1st February 1999 and whose provisions are applicable uniformly in all of the UEMOA member States. This regulation complements the reforms implemented since 1989 within the context of modernizing the rules and instruments for managing monetary and credit policies. On one hand, it reflects the total liberalization of the current operations of the member states in compliance with Article 8 of the IMF statutes, and, on the other, the willingness to pursue a gradual liberalization of capital operations.

Generally, all the capital inflows into the Union are open, except the importation of gold. Capital outflows by way of loan repayments, liquidation of foreign investments and the purchase of options contract are also liberalized. The legal provisions on capital operations include the following rules:

- The free transfer abroad of proceeds from liquidation of investments made by non-residents (the transfer of profits and dividends are allowed in current operations);
- The authorization for non-residents to open foreign exchange accounts;
- The possibility of concluding options contracts in foreign markets and to freely proceed with the necessary settlement;
- The authorization, generally, for residents to purchase foreign stocks whose issue or sale would have previously been accepted by the Regional Council for Public Savings and Financial Markets.

In the light of the above amendments it can be seen that a gradual process of liberalization of capital accounts in UEMOA was maintained. A detailed presentation of the status of capital account liberalization, containing all the different components of the capital account is provided below.

Regarding capital transactions, capital movements between its members are free of exchange controls, while other outward transfers outside the zone require approval by the Ministries of Finance or institutions performing similar responsibilities. Similarly, all investments (including direct investment) abroad by residents require prior authorization by Finance Ministries and up to 75 % of such investment must be financed by foreign borrowing.

On capital and money market instruments, it should be noted that issues or sale of such instruments by non-residents is subject to authorization from the Regional Council on Public Savings and Financial Markets (RCPSFM- an institution of WAEMU).

On credit operations, commercial credits (by residents to non-residents) may be granted freely in connection with merchandise exports if the due date of the payment is within 120 days of the shipment of the merchandise. However commercial credits relating to services rendered may be granted freely by residents, with no limits set for payment due date. Allocation of financial credits by residents to non-resident requires prior authorization by their respective finance ministries. In order to transfer funds abroad to liquidate such credits, residents need exchange authorization with supporting documents, which must be submitted to country ministries of finance before approval could be granted.

Prior approval is required for outflows of FDI by the Ministries of Finance of the respective countries. There are no controls on inward movements but these should be reported to the Ministries of Finance for recording purposes. On liquidation of direct investments, in general, declaration to national finance ministries for information purposes is required. Reinvestment of the proceeds of liquidation requires prior authorization by finance ministries. Wherein re-investment of such funds is not allowed, the proceeds of the liquidation must be repatriated within one month through an authorized intermediary. The sale of foreign investments in UEMOA is unrestricted but must be reported to the MOF for statistical purposes.

Personal capital transactions, such as loans allocation by residents to non-residents requires authorization by their Ministries of Finance and agreed upon by the BCEAO. On the other hand, loans from non-residents to residents can be made freely but should be declared for statistical purposes to the finance ministries when granted and also upon repayment. In all the UEMOA countries, transfers abroad by emigrants may be done freely through the banking system upon presentation of documents justifying their income. However, it should be noted that transfers more than CFAF 300,000 are subject to the submission of supporting documentation. The table below summarizes the status of capital account openness of the States of UEMOA with respect to other countries outside the zone:

Table 3.2: Status of Capital Account Openness in UEMOA

Measures	Status

1. Controls on Capital Transactions	Yes
2. Controls on Capital & Money Mkt. instruments	Yes
3. Controls on derivatives and other instruments	Yes
4.Controls on credit (financial) operations (to residents from non-residents)	**No controls[8]**
5.Controls on direct investment (outflows)	Yes
6. Controls on direct investment (Inflows)	No Controls
7. Controls on liquidation of direct investment	**No controls**
8.Controls on real estate transactions (purchase abroad by residents)	Yes
9. Controls on personal capital transactions	Yes
10. Open foreign exchange position limits (specific to Commercial Banks & other credit institutions)	Yes
11.Provisions specific to institutional investors	Controls exist[9]
12.Other controls imposed by securities law	No controls
13. Acceptance of Article VIII	Jun.1996 & Jan.1997[10]
14. Total number of measures liberalised (%)	**4/12 (33.3%)**

Situation in the WAMZ Countries

A number of controls exist in the WAMZ, with most countries having adopted a rather cautious approach. Controls are generally pervasive in the areas of capital and money market instruments, outward direct investment, real estate and personal capital transactions. The extent of liberalization in the various economies is as follows:

Table 3.3: Status of Capital Account Openness in the WAMZ Countries

Measures	Gambia	Ghana	Guinea	Nigeria	Sierra Leone
1. Controls on Capital Transactions	No	Yes	Yes	Yes	Yes
2. Controls on Capital & Money Mkt. Instruments	No	Yes	Yes	Yes	Yes
3. Controls on derivatives and other instruments	NA	Yes	No	No	NA
4.Controls on credit (financial) operations	No	Yes	Yes	Yes,	Yes
5.Controls on foreign direct investment (inflows)	No	Yes	No	No	No
6 Controls of Foreign Direct Investments (Outflows)	No	Yes	Yes	No	Yes
7. Controls on liquidation of direct investment	No	Yes	No	Yes	No
8.Controls on real estate transactions	No	No	Yes	No	Yes
9. Controls on personal capital transactions	No	Yes	Yes	Yes	No
10. Open foreign exchange position limits (specific to Commercial Banks & other credit institutions)	Yes	Yes	Yes	Yes	No
11.Provisions specific to institutional investors	No	No	No	No	NA
12.Other controls imposed by securities law	No	No	NA	No	No
13. Acceptance of Article VIII	21/01/ 1993	1994	17/11/ 1995	Accepted	14/12/ 1995
14 Total number of measures liberalized (%)	**10/11 (90.9%)**	**3/12 (25.0%)**	**5/11 (45.5%)**	**6/12 (50.0%)**	**4/9 (44.4%)**

[8] Credits by residents to non-residents requires Ministries of finance authorization and agreement by BCEAO

[9] Controls are imposed by the Insurance Code of the Inter-African Conference on Insurance Markets

[10] The specific dates for the respective countries are presented above.

THE GAMBIA

The Gambia has generally liberalized its external capital account. There are no restrictions on capital transactions, foreign direct investments[11], real estate transactions and personal capital transactions. No controls also exist on the liquidation of direct investments. The fact that investors can move funds out of the country as and when they wish without hindrance, to some extent, motivates prospective investors to move resources into the country.

However, there are limited provisions which require commercial banks and other credit institutions to maintain a reserve requirement of 14.0 percent. In addition, the central has established open foreign exchange position limits for both resident and non-resident assets and liabilities.

GHANA

Capital transactions are largely controlled in Ghana. Dealings in capital and money market transactions are subject to a wide range of restrictions. Regarding dealing in capital market instruments, individual holdings and total holdings of all non-residents in any one security listed on the Ghana Stock Exchange (GSE) may not exceed 10% and 74%, respectively. For companies not listed on the GSE, non-resident participation requires a minimum equity injections ranging between US $10,000 - US $ 300,000 depending on the type of business and ownership structure of the company. Dealings in shares bonds and other debt instruments require prior approval by the central bank.

With respect to money market instruments, current regulations do not allow non-residents (excepting holders of domestic currency accounts) to bring in foreign exchange for the purpose of investing in local money market instruments. Regarding sale or issue of investment instruments locally by non-residents, prior approval is required from Bank of Ghana and the Ministry of Finance. The transfer or repatriation of proceeds from such sales must be reported to the Bank of Ghana. However, regarding residents who want to purchase these instruments from abroad, there are no restrictions except that for the purchase of foreign exchange to buy such securities, BOG approval has to be attained. The local market in derivatives is limited, but for the few transactions requires approval by the central bank.

Regarding Foreign Direct Investment (FDI), outflows need approval by Bank of Ghana, whilst inflows require prior approval by the Ghana Investment Promotion Centre (GIPC). Certain areas of economic activity are not open to foreigners; otherwise, investors pay minimum qualifying amounts ranging from US$ 10,000 – US$300,000 depending on established circumstances. The Ghana Investment promotion Centre Act also prohibits expropriation of the assets of foreign investors.

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[11] Under the Foreign investment Law, the taxation and promotion of investment activities by joint ventures and foreign enterprises are regulated by the current tax legislation.

Controls also exist on personal transactions, except transfers regarding gifts, endowments, inheritances and legacies to residents from non-residents and the transfer of assets into the country by immigrants. Commercial bank lending locally in foreign exchange to both residents and non-residents also require approval from the central bank. The purchase of locally issued securities denominated in foreign exchange is allowed within reasonable or acceptable limits. Foreign currency deposits are subject to 9.0 percent reserve requirement which must be held with the central bank. Assets and liabilities in foreign exchange are subject to an open exposure limit of 15.0 percent and investment in commercial banks by non-residents requires approval from the central bank. In addition, foreign-owned banks must have a minimum capital of cedi 50 billion, of which 60.0 percent must consist of convertible currencies brought into Ghana. However, there are no provisions specific to institutional investors and no controls are imposed by securities laws.

GUINEA

The investment code (Decree No 001/PRG/87 of January 1987 as amended by Act L/95/029/CTRN of June 1995) provides the framework for free movement of capital (i.e. freedom to transfer capital and the protection of acquired rights). However, capital transactions are subject to a wide range of controls. With regards to transactions on capital accounts and money market instruments, all capital transfers through the official foreign exchange market require a prior approval from the Central Bank.

There are controls on all credit and guarantee operations. Although inward direct investment has been liberalized, outward direct investment require authorization by the central bank. Personal capital transactions are regulated and the authorization of the Central bank is required for real estate transactions. Commercial and other credit institutions are subject to special provisions on borrowing abroad, maintenance of accounts abroad and lending locally in foreign exchange. There are also reserve requirements, interest rate and credit controls and investment regulations for banks and non-residents. The table below summarises the status of capital account openness in Guinea.

NIGERIA

Controls in capital account transactions in Nigeria are generally mixed. No controls exist on derivatives, direct investment and real estate transactions. In addition, there are neither specific provisions to institutional investors nor other controls imposed by securities laws. There are limited controls on capital and money market instruments. Private capital transfers are subject to satisfactory documentation and the Debt Conversion Program regulates the purchase of selected foreign debt instruments at a discount and the deposition of the naira proceeds on the conversion of such debt.

There are limited controls on credit operations. To enable companies meet temporary shortages of funds, licensed banks in Nigeria may grant loans or overdrafts to non residents for periods of up to 14 days, or may increase the amount of any advance or overdraft by the amount of loan interest or bank charges payable thereon. General permission is also given for any loan, bank overdraft, or other credit facility to be arranged to finance Nigerian imports or exports of goods. Regarding commercial credits from non-residents to residents, official agencies and public enterprises need prior approval from the Federal Ministry of Finance (FMF) for any foreign borrowing. The contracting of suppliers' credits by state-controlled corporations or agencies needs prior authorization from the Federal Ministry of Finance.

Capital proceeds arising from the liquidation of investments under the Debt Conversion Programme (DCP) may only be repatriated 10 years after the effective investment of the proceeds and is limited to 20 percent a year. There are no controls on personal capital transactions, with the exception that gifts, endowments inheritances and legacies from residents to non-residents should not exceed $500. Similarly, transfers into and out of the country are not controlled.

With the exception of money laundering and investment regulations, no specific provisions apply to commercial banks and other credit institutions. Open foreign exchange limits have also been established on the assets and liabilities of banking institutions.

SIERRA LEONE

In general, there are some restrictions on capital account transactions. Regarding controls on capital and money market instruments, Bank of Sierra Leone (BSL) approval is required before a security registered in or outside Sierra Leone may be transferred to or purchased by a non-resident. The sale of capital market instruments locally by non-residents is not permitted and residents require permission to purchase securities abroad or to transfer funds abroad for this purpose. Capital in respect of securities registered in Sierra Leone may not be transferred abroad without the expressed permission of the Central Bank. With respect to money market instruments, purchases by non-residents are not permitted and residents also not allowed to effect such purchases with domestic resources. With respect to credit operations (financial) by residents to non-residents, Bank of Sierra Leone approval is required prior to the granting of any loans, either by way of advance or bank draft, to non-resident entities. Similarly loans and advances to residents from non-residents also require approval from BSL.

Regarding controls of foreign direct investment, outward movements (outflows) are not allowed. However, there are no controls on liquidation of direct investments. Residents are prohibited from purchasing real estate abroad and non-residents may do so with funds transferred through authorized dealers with proper documentation. Commercial Banks and other credit institutions are not allowed to hold more than 25.0 % of their deposit liabilities in foreign currency and the maintenance of offshore accounts is restricted. Commercial Banks are not engaged in lending to non-residents or extend credits locally in foreign exchange. There are however no restrictions on personal capital transactions or specific provisions to institutional investors.

Situation in the Other Countries

Capital transactions are heavily controlled in Cape Verde whilst Liberia had large liberalized her external account. The situation in these countries is as follows:

Table 3.4: Status of Capital Account Openness in Others Countries

Measures	**Cape Verde**	**Liberia**
1. Controls on Capital Transactions	Yes	Limited
2. Controls on Capital & Money Mkt. instruments	Yes	No
3. Controls on derivatives and other instruments	NA	No
4.Controls on credit (financial) operations	Limited controls	No
5.Controls on direct investment (outflows)	Yes	No
6. Controls on direct investment (inflows)	Limited controls	NA
7. Controls on liquidation of direct investment	No	No
8.Controls on real estate transactions (purchase abroad by residents)	Yes	Yes
9. Controls on personal capital transactions	Yes	No
10. Open foreign exchange position limits (specific to Commercial Banks & other credit institutions)	NA	NA
11.Provisions specific to institutional investors	NA	No
12.Other controls imposed by securities law	NA	No
13. Acceptance of Article XIV	Yes	Date (NA)
14. Total number of measures liberalised (%)	**1/8 (12.5%)**	**8/10 (80.0%)**

CAPE VERDE

In Cape Verde, capital transactions are subject to a wide range of controls. Consequently, inward capital market transactions (except those for investments in securities and foreign borrowing and lending in connection with current account transactions) must be approved in advance by the Central Bank. Even though the purchase of shares and other securities of a participating nature by residents are permitted, they must be effected through the stock market or authorized dealers.

Despite the fact that foreign credit operations have been liberalized, these transactions are subject to verification by the central bank. Special authorization is also required for financial credit transactions. All inward direct investments also require a permit which must be registered with the central bank. Special authorization is also required for real estate transactions. Controls also exist on a wide range of personal capital transactions involving loans, endowments, settlement of debts abroad and transfer of assets by immigrants. Commercial Banks and lending institutions are required to abide by specific provisions concerning external borrowing and lending to non-residents. The status of liberalization of the capital account of Cape Verde is summarized as follows:

LIBERIA

The capital account in Liberia has largely been liberalized with minor pockets of restrictions. There remain no controls on capital and money market instruments and derivatives, credit operations, foreign direct investment, personal capital transactions. In addition, there are no specific provisions for commercial banks and institutional investors. No controls have been imposed by securities laws. However, there are controls on real estate transactions Therefore purchases abroad by residents and locally by non-residents are not allowed.

Recommendation

As the Capital and Financial Account Liberalization is an important goal and a major component of the ECOWAS Monetary Cooperation Programme (EMCP), member countries should facilitate the process in order to enhance trade, promote financial intermediation, provide for effective functioning of the regional financial system and afford the basis for implementation of a credible Exchange Rate Mechanism.

2.3.3 HARMONIZATION OF BANKING LAWS AND REGULATIONS

Harmonization of banking laws, policies and practices of member countries is one of the preconditions for the establishment of a viable monetary zone. It is necessary to ensure the smooth functioning of the banking system as a poorly designed and poorly implemented law could jeopardize the efficiency of the entire system (systemic risk) with serious implications for macroeconomic stability. The banking sector being an important lever in the integration process, harmonization of the regulatory principles in member States would facilitate the establishment of a common legal framework, promote intra-community trade, remove barriers and strengthen the links of cooperation between the financial institutions. Thus, the success of any economic and monetary integration zone depends to a large extent on coherence of the laws governing similar institutions within a community.

This section explores the progress made so far in respect of the harmonization of banking laws and regulations, reviews the existing peculiarities and proffers appropriate recommendations.

The review of the situation shows that whilst UEMOA countries have already achieved the objective of harmonizing their banking laws, this is not the case for the other countries within the sub-region. However, it should be indicated that a process of harmonization of banking laws is underway at the level of the West African Monetary Zone (WAMZ) bringing together The Gambia, Ghana, Guinea, Nigeria and Sierra Leone. Cape Verde and Liberia are, in the meantime, outside the process.

Harmonisation of Banking Laws and Regulations within the West African Monetary Union (UEMOA)

Within UEMOA, banking is carried out within the framework of the texts on harmonized laws and practices which form the basis of the Union's Treaty. The general provisions of this treaty are founded on the recognition by signatories of a common currency to be issued by a Common Issuing Institution (Central Bank) which provides support to national economies under the direction of Governments and well defined conditions. As a result of the harmonized legal framework, the banking system has made some remarkable progress with the return of a healthier situation and a significant improvement in profitability.

The 1973 Treaty establishing the West African Monetary Union (UEMOA) provides the fundamental text for harmonization of banking laws and practices of its various member States. Article 22 of this Treaty entrenches the commitment of member States to adopt uniform regulations determined by the Council of Ministers of the Union. In this regard, countries that are signatories are expected to comply with the relevant provisions relating to: centralisation of monetary reserves, rules governing the issuance and free movement/transfers of monetary bills within the Union.

The Union's 1990 Banking Law determines the terms and conditions, authorizations, restriction and prohibitions, accounting system and the general policy directives on currency and credit under which banking institutions operate. It also defines the functions of the Central Bank, the Banking Commission as well as sanctions applicable in case of infringement of banking regulations. Other regulatory provisions relate to external financial relations, savings mobilization and financial system decentralization.

The banking law is supported by prudential regulations determined by the Council of Ministers and is applicable to banks and financial institutions in WAMU member States. The main objective of the prudential arrangement is to protect the Union's banking system against lapses that can lead to systemic risks. The arrangements include a number of provisions that are compatible with international standards on the conditions for banking professional practice, regulation of specific operations (shareholding, fixed assets, credit to major shareholder, management and staff), and the management standards on risk coverage and sharing, liquidity and portfolio structure and safeguards on the use of resources.

Within the framework of banking supervision, the convention on the establishment of a banking commission, signed on 24 April 1990, refers to this Commission as a regulatory body for banks and financial institutions of the Union. The convention, consequently, lays emphasis on compliance with the provisions of banking regulations and the harmonized accounting system by banks and other financial institutions. The Commission is chaired by the Governor of WACB and is made up of a representative from each Member State and eight (8) members designated by the Council of Ministers.

Introduced by the Central Bank in January 1996, the Banking Accounting system aims at strengthening banking supervision. Its main objectives are to ensure reliability of data, encourage institutions to acquire modern management techniques and adopt international standards for preparation and presentation of financial information.

Credit regulation is essentially based on general policy directives on currency, credit and Central Bank intervention rules adopted by the Board of Governors of the Central Bank and the Council of Ministers of UEMOA in September 1989. These provisions facilitated the implementation of a common monetary policy at the sub-regional level.

Harmonization of Banking Laws and Regulations within the WAMZ

Within WAMZ the harmonization of the various banking laws is being carried out through the West African Monetary Institute (WAMI). In this regard, the Statutes of the West African Central Bank (WACB) have just been adopted. When established, the WACB would be responsible for the management and control of banking and monetary activities within this second ECOWAS monetary zone. Like the banking Commission within UEMOA, there would be a central body for regional supervision known as "West African Financial Supervision Authority (WAFSA)".The aim of this arrangement is to create a single financial system that will facilitate the banking supervision within the sub-region.

The key areas of harmonization already identified at the level of WAMZ are, among others:

- Prudential ratios relating to minimum capital requirements, liquidity and exchange risks;
- Monetary policy instruments such as mandatory reserves, conditions for access to central bank support;
- Rules governing the implementation of new laws against money laundering;
- Banking accounting systems and risks units;
- Conditions for granting credit, rules governing provisions for bad, contentious or compromised debts,
- Measures to be taken on banks in distress, including the institution of appropriate corrective measures; and
- Rules and procedures for recovering debts and seizure of mortgaged properties.

To achieve this major harmonization objective within WAMZ, Member States would have to renounce their prerogative of formulating monetary policies and issuing currencies, which will then fall under the authority of the WACB which will ensure the viability of the regional economy and a sound financial system.

Cape Verde Banking Law

In Cape Verde, the banking and financial system is organized around the Central Bank (BCV), two commercial banks and two off-shore banks as well as two foreign exchange bureaux, brokerage and insurance, and risk capital companies and an electronic payments management company.

Three decrees form the basis of banking legislations in Cape Verde and they deal respectively with:

- The separation of commercial and development activities which, in addition to issuing of currency notes, are the prerogatives of the Central Bank (BCV),
- The legal framework governing banking and credit activities by private institutions, and
- the regulation of the insurance sector defining the terms of private sector participation.

The banking and insurance sector was privatized in 1997 and the relevant laws provide for the determination of the:

- standards for the establishment and running of banking and para-banking institutions;
- conditions for access to governing bodies and the incompatibilities regime;
- minimum level of required capital, reserves and provisions;
- rules of conduct, prudential standards, modalities for banking supervision and the application of sanctions.

Besides, the need to diversify the financial system in Cape Verde led the Authorities to enact laws on International Financial Institutions (Off shore banks) and the capital market (Stock exchange). Finally, a law on money laundering is in force and helps in controlling the use of funds from criminal activities.

Liberia Banking Law

With regard to Liberia, it is worth noting that due to lack of information, we could not present the banking and financial system of the country as well as laws and rules governing the sector. Nevertheless, we believe that, like in the other countries, it functions with the same conventional standards and rule of organization and management.

Peculiarities of Banking Laws within ECOWAS Member States

The banking laws of the various ECOWAS member States have some common features as well as some differences in structural arrangements and objectives.
Each of the non-UEMOA countries has its own Central Bank and network of primary banks. The eight UEMOA countries have a single Central Bank (BCEAO) with harmonized monetary policies and banking practices.

From the structural point of view, the review of the various banking regulations and laws shows that the common features lies in the fact that the banking systems revolves around the Central Bank, primary banks, and financial institutions. Thus, all the Central Banks are generally responsible for the organization and management of the monetary, banking and financial system, the issuance for monetary bills and the management of the countries' external reserves. With regard to banks and financial institutions, they are charged with the collection and distribution of financial resources within the economy. All these laws ensure the smooth functioning of viable financial structures complying with prudential management standards and transparency conditions.

However, there are differences in the following areas:

- Modalities for fixing exchange rate parity of national currencies in relation to foreign currencies is determined by market forces in some laws or by a fixed parity in others;

- Banking supervision is carried out by an independent institution in WAMU countries (for that matter the Banking Commission), whilst in other countries, the laws entrust this role to the Central Bank;
- The minimum capital requirement for the opening of banks and financial institutions also varies from one country to the other based on socio-economic realities;
- In some countries, banking laws entrust the management of public debt to the Central Bank (Ghana) whilst in other countries (Guinea and UEMOA for example), the Ministry of Finance performs this role.

Recommendations on areas and strategies for the harmonisation of banking laws

Choosing from the various areas in which banking laws of ECOWAS member States could be harmonized is not an easy task, given the national and cultural peculiarities of the countries concerned. Nevertheless, the following areas, far from being exhaustive, may provide the initial framework for harmonization in the sub-region:

1) Management of external financial relations of ECOWAS member States;
2) General organization of distribution and control of credit within the zone;
3) General rules for practising the banking profession and related activities in the zone;
4) Types and modalities for the circulation of negotiable instruments and modes of payment (cheques, bank cards, bills of exchange, promissory note, etc…);
5) Controlling the circulation of counterfeit notes;
6) Fight against money laundering;

To achieve harmonization objective, the following measures will be adopted:

- An in-depth study to be entrusted to a consultant or legal experts and economists working with Central Banks and WABA, will be conducted under the supervision of WAMA in order to:
  - review and compare national banking laws;
  - identify for each country or a group of countries, obstructions that are likely to stall the harmonization process as well as gaps in the laws that need to be filled;
  - propose an appropriate methodology for the harmonization of banking laws, drawing on the experiences of certain groups like ECOWAS (harmonization of trade or customs regulations) or the European Union (in the area of banking laws);
- Consultations in form of seminars among finance, banking, and legal experts to discuss and make the necessary amendment to the study findings, will be organized;
- The study will be examined by policy and monetary authorities (Central banks, Ministry of Finance) for approval and submission in form of bills to the various parliaments for adoption;

- To ensure the effective application of the harmonized laws that will be adopted, it will also be necessary to take the following accompanying measures:
    - Establish a common institution that will be in charge of defining and ensuring the application of the monetary policy of the Union as well as controlling and supervising the financial and banking system;
    - Provide training on banking issues for legal practitioners (magistrates, lawyers) to ensure a better interpretation of texts;
    - Establish adequate banking structures in each country;
    - Draw up a public education policy to provide information to the public through seminars, workshops, and advertisements;
    - Adapt on regular basis these laws to trends in international banking and financial management standards.

ECOWAS is therefore called upon to participate in the process of harmonization of banking laws of member States in order to attain an important stage in the introduction of a single currency and better confront globalisation demands through a better integration of banking and financial institutions of the sub-region. In this regard, the West African Monetary Union could serve as a guide to speed the process and achieve the objective of harmonizing banking laws within ECOWAS.

2.3.4 THE ECOWAS TRADE LIBERALIZATION SCHEME

The Economic Community of West African States aims to promote cooperation and regional integration with the view to creating an Economic and Monetary Union to foster economic growth and development in the West African sub-region. To achieve this objective, article 3 of the Treaty provides for the creation of a common market through:

- Trade liberalisation by removing tariffs on the import and export of goods between member states as well as non-tariff barriers in order to create a free trade area in the sub-region;
- The establishment of a common external tariff and a common trade policy with regard to third countries;
- The removal of obstacles to the free movements of persons, goods, services and capital as well as the right of residency and settlement.

In addition, article 35 provides for the gradual establishment of a customs union of member states over a ten year period starting from 1st January 1990 and states the conditions for its realisation as follows:

- The gradual removal of customs duties and taxes of equivalent effects on industrial goods originating from the Community;
- The removal of quantitative or similar restrictions, quota-related prohibitions as well as administrative barriers to trade between member states;

- The establishment of a common external tariff and a common trade policy with regard to third countries.

However, since it was launched on 1st January 1990, the trade liberalisation scheme has not been effectively implemented by all member states. Only a few countries are applying community provisions on the free movement of industrial goods originating from the Community. Similarly, the CET, which should concretise the establishment of a customs union, could not be implemented on 1st January 2002 as stated in the provisions of the Treaty.

In spite of improvements made to the procedures governing the scheme some countries are yet to fully implement the scheme. It is therefore against the back drop of modest results achieved in the area of markets integration that the Conference of Heads of States adopted a fast track strategy to speed up the regional integration process through which it called on all member states to implement the ECOWAS trade liberalisation scheme without further delay. The conference also decided to establish in due course a customs union based on the UEMOA Common External Tariff to be extended to all ECOWAS member states.

The assessment shows that significant progress has been achieved under the scheme. UEMOA became a customs union in 2000 and the community achieved a free trade status in that same year. In this regard, ECOWAS intends to achieve the customs union objective by adopting the existing common external tariff structure of UEMOA.

This report will provide an update on progress made so far in the regional integration process through the establishment of the free trade area and the Customs Union.

Progress on the Regional Integration Process

The Conference of Heads of State and Government of ECOWAS held on 31st January 2003 welcomed the harmonization of the ECOWAS and UEMOA trade liberalisation schemes. However, during its 27th session held on December 19th 2003 in Accra, the Conference had to urge all member states to take concrete measures in order to create a unified regional market in West Africa by implementing fully the ECOWAS trade liberalisation scheme starting from January 2004. It also called for the acceleration of preparations towards the establishment of a common external tariff (ECOWAS –CET) and enjoined member states to remove all tariff and non-tariff barriers that impede the free movement of goods originating from ECOWAS.

In view of the political will that must underlie the implementation of the scheme, the Heads of States made a commitment to issue their respective governments with the necessary and urgent directives to give effect to the free trade area within which trade in goods originating from the community will be fully exempt of customs duties and other taxes of equivalent effect.

Free Trade Area

The harmonizations of the ECOWAS and UEMOA liberalisation schemes and the coming into force of related texts have given new impetus to the actual and gradual implementation of the free trade area. Concrete progress has been made since January 2004. In fact, countries that were not implementing the scheme have joined the others in its implementation following the directives issued by the Conference.

From 1998 to July 2004, about 2536 industrial products from 807 companies in 12 member states have been approved under the preferential regime of the scheme. An observation of the list of companies whose products are approved indicates that three countries stand out clearly, namely Nigeria which comes first with over 41%, followed by Ghana with 28% and Cote d'Ivoire with 18%. This is quite normal given that the industrial sectors of these three countries are more developed than those of other member states. However, it is worth stressing that while twelve (12) member states have companies and industrial goods approved, only eight (8) countries are actually implementing the scheme. These are Benin, Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Nigeria, Senegal and Togo.

To encourage the participation of all member states in the implementation of the scheme, the Executive Secretariat organised information and sensitisation programmes on the functioning of the free trade area. With the support of the European Union, seminars were also held for officials, economic operators, civil society and the private sector in Abuja, Lagos, Bamako, Accra, Freetown and Banjul. Others are scheduled to take place in Abidjan, Dakar, Banjul and Conakry.

Participants appreciated these seminars. These campaigns will continue in 2005 to cover all member states in the first semester of 2005. These seminars are not only meant to create awareness for the implementation of the free trade area but also to disseminate information on the new texts of the harmonised ECOWAS/UEMOA schemes to promote their immediate implementation.

Within the framework of the implementation of harmonised texts adopted in January 2003, samples of the new certificate of origin and standard request forms for admission into the scheme were printed and made available to member states to enable them print copies for distribution to economic operators in order to facilitate the free movements of originating products within the community.

The establishment of a real free trade area was one of the priorities of the Executive Secretariat's work programme for 2004. This is the reason why awareness campaigns are being pursued in collaboration with national units in charge of promoting integration in member states. All member states must gradually remove all tariffs on trade in goods originating from the community latest by the end of 2004. To this end, in pursuance of the directives issued at the 7th extraordinary meeting of the Council of Ministers held in Cotonou on 1st and 2nd September 2003, the Executive Secretariat made the following arrangements. Thus, to withdraw approvals granted to companies and industrial goods which do not meet the new criteria of origin, a letter has been addressed to member states requesting them to:

i) Inform companies affected by the provisions of article 7 of the AP1/1/03 protocol of 31st January 2003 on the definition of the concept of products originating from ECOWAS member states that their products no longer enjoy the benefits of the trade liberalisation scheme. The products concerned are products manufactured in free zones, in industrial warehouse, on temporary entry for processing and generally all goods produced with inputs imported partially or completely exempt of entry fees or for which these fees are suspended.
ii) Request institutions in charge of issuing certificates of origin to stop issuing them for product and companies affected;
iii) Submit to the Executive Secretariat the list of companies affected by the provisions of article 7, for reconciliation with the list of companies held by the Secretariat.

It is appropriate to indicate that, given the importance of this list in the smooth implementation of the scheme by all member states, the 47th meeting of the Commission on Trade and Customs, held on 8 and 9 July in Abuja, recommended to the Council of Ministers, which gave its consent, the suspension of approvals to products of member countries that have not submitted the list. The decision-making bodies also called for specific studies to be conducted and completed before mid-2005. These include:

i) a study on the establishment of a structural fund to promote a balanced development of the community's territory;
ii) a study on the harmonisation of member states laws on Value Added Tax and Excise duties in order to provide alternative sources of revenue for member states when the payment of compensation for revenue losses comes to an end;
iii) a study on the drafting of a Community Customs Code and the adoption of a customs value for ECOWAS.

It is appropriate to indicate that some member states have set up their National Approval Committees in accordance with regulation C/REG.3/4102 of April 2002 on approval procedures for products covered by the trade liberalisation scheme. The national committees of some countries such as Burkina Faso, Côte d'Ivoire, Ghana, Nigeria, Senegal and Togo have already approved companies and products within their purview. Besides, the community levy instituted by the Conference of Heads of State in order to generate the Community's own resources is in force and is being applied properly in almost all member states. It is aimed at ensuring the smooth running of the free trade area through the regular and quick payment of compensations for loss of revenue suffered by member states.

With regard to compensation for loss of revenue, it is worth noting that as at December 2003, Ghana had claimed compensation for revenue shortfalls amounting to twelve million two hundred and seventy-two thousand five hundred and forty three US dollars ($12,272,543). Thus, as at December 2003, the total expenditures recorded in respect of compensation for the period 1996 –2003 amounted to twenty two million four hundred and twenty four thousand and twenty four US dollars ($22,424,024). This amount accounts for compensation claims made by three member states, namely, Benin, Ghana and Togo. It must be added that Benin claimed an amount of CFAF 266,154,947 as compensation for revenue losses recorded in the first semester of 2004.

Common External Tariff

Concerning the implementation of the Common External Tariff (ECOWAS CET) which is an important step towards the establishment of the customs union, the Executive Secretariat and non-UEMOA members (Cape Verde, Ghana, Guinea, Nigeria and Sierra Leone) are implementing and monitoring actions stated in the guidelines that will lead to the establishment of a Customs Union.

In fact, in accordance with the decision of Heads of State and Government to extend the UEMOA CET to the entire Community subject to country impact assessment studies, national units have been set up by non-UEMOA countries to facilitate these studies and promote national ownership of the process for instituting the necessary reforms. The role of each unit is to coordinate research activities, hold consultations with stakeholders and prepare a national plan of action for the adoption of the CET.

These national plans that will form the basis for drawing up a regional programme for the adoption of the CET must indicate provisional measures, exceptions as well as supporting measures. With the exception of Liberia where the process will begin soon and Cape Verde where the process is lagging behind, the other five member states (Gambia, Ghana, Nigeria, Guinea and Sierra Leone) have set up their national committees on CET and have conducted impact studies. Seminars on these impact assessment studies have been held in member countries concerned in order to come out with a national plan for the adoption of a CET. These national plans are structured as follows:

<u>Exception to the CET</u>**:** Member states shall indicate:

i) Tariff lines for which, at the beginning of the transitional period, the rates will be different from the ECOWAS/CET, but will fall in line at the end of the transitional period,

ii) Tariff lines where the country requires a change in the CET reference rate (CET –UEMOA)

Each country must ensure that the exceptions are reduced to the minimum to facilitate the harmonization process at the regional level.

<u>CET Exemptions</u>: This heading deals with duty free or special rates provided under special regimes such as investment codes. In applying the CET there is the need to harmonize all these regimes in order to eventually abolish them with the exception of duty free regimes and import taxes stipulated in international conventions to which all member states are signatories.

<u>CET Application period</u>: Each member state shall indicate the strategy it intends deploying to achieve the uniform CET rates by January 2008.

<u>Bilateral Trade Agreements:</u> Each member state is required to indicate bilateral trade agreements signed with Countries that are not members of ECOWAS. These agreements are to be integrated into the national plans on the application

of the CET in order to harmonize, remove the inconsistencies and adopt a common position. It is worth indicating that article 84 of the ECOWAS treaty stipulates that such agreements must be brought to the notice of the Executive Secretariat.

Free Zones and Export Zones: Some Member States have established free zones or exports processing zones where producers are allowed to import inputs without paying customs duties, provided that the finished goods are re-exported. Details on these zones (location, type of manufactured products, name of companies operating in the zones and the terms of concessions) must be communicated to the Executive Secretariat as an element to be integrated into national plans on CET. In fact, within the Customs Union, the community territory is considered as a single territory and re-exports must be done outside the community because products manufactured under these regimes are not of community origin.

Impact on budgetary resources: Each member state must indicate, in its national plan on CET, the impact of the CET on budgetary resources. This will enable the Secretariat to negotiate with donors possible compensations.

Outcome of the 3rd meeting of expert on CET: Regional experts on the implementation of the CET met on 27 and 28 July 2004 in Accra to deliberate on the results of national consultation and briefing seminars as well as national CET implementation plans and to decide on a draft regional plan for the establishment of the CET. Given that all the countries did not finalise their national plans, the meeting urged the countries concerned to act quickly and communicate their CET implementation plans to the Executive Secretariat, which will call a meeting for the drawing up of a draft regional plan as well as draft decision to be submitted to the various decision making bodies of the Community for approval and adoption. The meeting made the following recommendations:

- 1st January 2002 to be maintained for the inception of the CET;
- Each member state is requested to submit the list of products for which it wants the ECOWAS CET reviewed;
- Member states which have not submitted their national reports as well as their implementation plan must do so before the end of August 2004;
- Each member state must draw up information, sensitisation and dissemination plan for the public and a budgetary strategy to make up for revenue losses;
- Member states must communicate to the Executive Secretariat bilateral trade agreements for a possible renegotiation on behalf of the Union;
- The Executive Secretariat is urged to source funding for the printing and publication of common external tariffs.
- A mechanism for monitoring the implementation of the CET at the country and Secretariat levels must be put in place.

In summary, the meeting held on 28 and 29 July 2004 proposed January 1st as the implementation date of the CET with a three-year transitional period to allow member states to make the necessary adjustments for a successful and uniform implementation by 1st January 2008. However the situation prevailing in Ghana and Nigeria calls for a review of these proposals. In fact, up till date, Ghana has not yet completed its national report in order to include specific proposals on exceptions and adjustment modalities during the transitional period. At the request of the National Committee on CET, an ECOWAS/ECOTRADE technical team were in Accra from 13 to 22 November 2004 for a working meeting with the Committee with the view to drawing up the exceptions list and an action plan for the adoption and implementation of the CET.

With regard to Nigeria, a new tariff policy has been submitted to parliament as an integral part of the Fiscal Policy for 2005. This new tariff policy provides for the harmonization of tariffs in accordance with the draft ECOWAS CET made up of four categories i.e. 0% for social goods, 5% for raw materials and equipments, 10% for semi-finished products and 20% for finished products. It is proposed that all products be harmonized starting from June 2005, with the exception of banned products which should be harmonized starting from January 2007. From June 2005, applications for exemption will not be accepted.

In conclusion, the successful implementation of the trade liberalisation scheme by all ECOWAS member states is a major challenge in the coming years. Efforts made by countries since 2002 to overcome obstacles that have impeded the implementation of the scheme are important steps for the way forward. Also, the forthcoming economic partnership agreement between the European Union and ECOWAS in itself is an additional source of pressure that will undoubtedly promote the speedy implementation of the Scheme. Besides, harmonizing the ECOWAS and UEMOA liberalisation schemes, enforcing of the community levy regime, simplifying procedures of compensation for revenue losses and their payment from community levies, implementing gradually the free trade area and the customs union will help in allaying all concerns and accelerate the move towards a common market in West Africa.

2.3.5 STATISTICAL HARMONIZATION

It is worth noting that an effective assessment of the quality of compliance with the convergence indicators requires the use of comparable and reliable economic statistics that would guarantee the credibility of the multilateral surveillance mechanism. Thus, full harmonization of the Statistical Imperatives in ECOWAS is necessary for a credible multilateral surveillance.

However, the methods of deriving statistical aggregates differ in the various countries within the sub-region, particularly, in determination, compilation and presentation of inflation and GDP. For inflation, the coverage and contents of the consumer basket differ in the various countries. Only a few countries have a consumer price index of national coverage, whilst the geographical scope is limited to the capital city or a few of the major cities in other countries. Most member countries also compile the national accounts using the SNA 68 method of presentation, instead of the more current and more modern SNA 93. In addition, the basic data for the compilation of GDP is either limited, of unequal quality, or non-existent.

To establish this surveillance exercise on a solid foundation acceptable to all stakeholders, a project for the improvement of statistics known as ECOSTAT has been initiated. This project is geared towards:

- the harmonization of a Regional Statistics Programme;
- the production of external trade statistics;
- statistical harmonization: comparable GDP;
- statistical harmonization: enhanced consumer price indices (CPI);
- creating a multilateral surveillance data base (ECOMAC); and
- improving the distribution of statistics.

For the implementation of the project, the Secretariat has assigned two components to the Sub-Saharan Economic and Statistical Observatory Group (AFRISTAT). These are the harmonization of GDP and Consumer Price Indices (CPI). The short-term strategy aims at defining and assisting countries to adopt common platforms for the presentation of national accounts and consumer price index aggregates based on the System of National Accounts (SNA 93). The statuses of implementation of these components are presented below.

Status of GDP Harmonization

The GDP harmonization exercise concerns the 7 ECOWAS Member states, which are non-members of UEMOA, since the latter had already completed this exercise. The common platform provides for the use of a common nomenclature covering the primary, secondary and tertiary sectors of an economy to ensure uniformity of relevant details and period of assessment.

Most countries have adopted the required platform leading to an improvement in scope, methods of preparation and presentation of national accounts. In particular, the programme is advancing steadily in Cape Verde, Guinea, Ghana, Nigeria and Sierra Leone. On the other hand, The Gambia and Liberia need further technical assistance. All member countries, with the exception of Liberia, have a team of local accountants trained on the preparation of comparable GDPs.

Status of CPI Harmonization

The common platform aims at presenting CPIs using the international nomenclature. In the short-run, the project aims at harmonizing the methodology of calculating and presenting CPI, with particular reference to geographic coverage and contents of the basket of goods and services.

A recent review indicated that, with the exception of Liberia, the programme has progressed significantly in some countries, particularly, in the areas of presentation and contents of the CPI. The Gambia, Guinea and Sierra Leone have improved the collection of current household survey data, but require technical assistance for processing, (increase coverage, develop the methodology for calculation, define a base year and determine new weights for their baskets). Nigeria and Ghana have adopted the relevant requirements, thus, requiring no assistance in this area. The situation in Liberia, which has an acute lack of statistical data, is very critical and requires urgent financial and technical assistance.

In conformity with the memorandum of understanding signed with the Executive Secretariat, AFRISTAT has prepared a medium-term harmonization programme of member States' CPIs. This programme will last for 3 years and will develop and implement an ECOWAS Price Project for a period of 2 years. For the specific case of Liberia, AFRISTAT intends to continue lending support for the implementation of a proxy mechanism between now and end-December 2005. Most countries need to enhance their human resource capacity to facilitate speedy implementation of this programme.

2.4 INSTITUTIONAL ARRANGEMENTS

This section reviews the effectiveness of the institutional arrangements at both national and regional levels. This includes the institutions of the multilateral surveillance mechanism and the WAMZ project.

2.4.1 THE MULTILATERAL SURVEILLANCE MECHANISM

Established by the Authority of ECOWAS Heads of State and Government in December 2001 per decision A/DEC.17/12/01, the multilateral surveillance mechanism aims at ensuring the closest coordination and convergence of the national economies. It was envisaged that the institution of the mechanism, which involves the continuous monitoring of the economic and financial policies of member States, would facilitate early convergence speedy realization of the objectives of the EMCP.

The mechanism was based on the following organs:

- the Convergence Council composed of the Ministers of Finance and Governors of Central Banks of member States is empowered to conduct the multilateral surveillance of the convergence of the macroeconomic policies and performance of member States;
- the Technical Monitoring Committee comprising the Directors of Research of the various Central Banks and representatives of the Ministries of Finance is responsible for monitoring the convergence process and ensuring the compatibility of national pluri-annual convergence programmes with stated EMCP objectives;
- The Joint Secretariat comprising the West African Monetary Agency (WAMA) and the ECOWAS Executive Secretariat with responsibility for monitoring the preparation of half-yearly reports; and
- the National Coordinating Committees (NCCs), expected to assist WAMA and the ECOWAS Executive Secretariat in the collection, processing and analysis of data at the national level.

While the Convergence Council and Technical Monitoring Committee function as the supervisory bodies, the Joint Secretariat and the NCCs are the operational organs of the surveillance mechanism. With the exception of the NCCS, all the bodies established under the mechanism are functioning effectively in accordance with the relevant provisions.

Contrary to the expectation, the NCCs have not functioned effectively at national levels. Realizing the state of affairs and the need for these organs, the Joint Secretariat initiated a programme aimed at invigorating the committees. This agenda led to the establishment of a Task Force in 2004 that sought to outline modalities for effective functioning of the NCCs. Among the strategies, a meeting of the relevant stakeholders was organized in August 2005 during which it was observed that:

- most member States have not established the NCCS as stipulated in the 2001 Decision A/DEC.17/12/01 of the Authority[12].
- contrary to the requirement, no member country has ever submitted its pluri-annual programme;
- the legislative act of the existing CNPEs of UEMOA have not been modified to enable these institutions discharge their additional responsibilities under the ECOWAS Multilateral surveillance mechanism;
- there is inadequate public information in member States about the important role of the NCCs under the mechanism.

The Joint secretariat has outlined a follow-up programme aimed at maintaining the regular contacts with the relevant institutions forming these committees at the national level so as to make them operational.

WAMA has currently assumed the basic responsibility of collecting secondary data and information required for the half-yearly convergence reports. The Agency discharges this responsibility by disseminating half-yearly questionnaires to member Central Banks and undertaking periodic missions to member countries where pertinent issues relating to macroeconomic policy and compliance with the convergence criteria are discussed with relevant officials. The Agency encounters a number of problems in the discharge of this responsibility, the notable being the lack of standardised statistical data, political commitment and weak institutional arrangements in member countries, delays in the submission of returns, the absence of a large area computerised and telecommunication networks in the sub-region and inadequate operational financing.

Efforts are however underway to automate the mechanism, which includes the installation of VSAT Telecommunication equipment at the premises of the Agency in Freetown, the development of a web-site and the establishment of a communication network to link the various ECOWAS institutions and the Central Banks. When completed, this elaborate programme would greatly facilitate accessibility to data and information, thereby, helping to improve the poor

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12 Only Benin, Ghana, Guinea, The Gambia, Sierra Leone and Togo have established their NCCs. However, some of these countries are yet to notify the ECOWAS Executive Secretariat or WAMA about their establishment with the relevant legal instruments and rules of procedure;

communication network within the sub-region. Meanwhile, in order to enhance the functionality of the surveillance mechanism, the following recommendations taken at the recent meeting of the National Coordinating Committees is being reiterated as follows:

1. member countries should notify the ECOWAS Secretariat about the formation of the NCCs, providing information on the legal instruments establishing the bodies, its composition, rules of procedures, pluri-annual programmes;
2. the countries of UEMOA should make appropriate arrangements to modify the CNPE legislative acts to enable them accommodate the operational responsibilities of the ECOWAS multilateral surveillance mechanism;
3. the Joint Secretariat should organize a capacity building programme for the NCCs, undertake sensitization missions and monitor the operations of the NCCs; and
4. the ECOWAS Executive Secretariat should make an appeal through the ECOWAS Parliament to facilitate the enactment or amendment of the relevant legislations establishing the NCCs in member States.

2.4.2 PROGRESS UNDER THE WAMZ PROJECT

The ECOWAS Monetary Cooperation Programme (EMCP) has since its inception in July 1987 experienced a chequered history. The greatest constraint has been the inability of member countries to meet the required quantitative and qualitative targets required for a credible monetary integration.

It would be recalled that the 1987 programme targeted the establishment of the single monetary zone by 2000. Unfortunately however, an evaluation of the status of implementation by end-1999 revealed that the progress made was inadequate to meet this deadline. Consequently, the Authority of Heads of State and Government decided in Lomé, Togo to extend the timeframe of the EMCP from 2000 to 2004 and took a number of decisions aimed at accelerating the integration process. Some of these decisions included the intensification of the macro-economic convergence process and the adoption of a fast-track approach.

In pursuance of the fast track initiative, the Authority of ECOWAS Heads of State and Government launched the Second Monetary Zone[13] (known as the **"West African Monetary Zone (WAMZ))** arrangement in December 2000 following which the West African Monetary Institute was established in January 2001 (in Accra, Ghana) to execute the WAMZ programme with objective of introducing a common currency for this group of countries by January 2003. Thus, the WAMZ programme was considered as an integral part of the EMCP with the expectation that this second monetary zone would eventually be merged with the first zone (UEMOA) at an appropriate time to create the single ECOWAS monetary zone.

Even though WAMI made significant progress, member countries were generally unable to meet the required convergence criteria and other exigencies during the first term of its mandate. Consequently, the WAMZ Authority rescheduled the

[13] Five countries (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone) signed the Agreement to become members of the WAMZ, while Liberia and Cape Verde decided to be observers.

launching of the second monetary union in November 2002 by an additional two-and-half years to July, 2005 to allow for sufficient progress on all aspects of the programme.

Nevertheless, the WAMZ recorded its worst period of performance in 2003 and although the level improved subsequently, member countries were again not able to satisfy the required benchmarks by mid-2005. Based on the less than satisfactory assessment, the Authority of the WAMZ Heads of State and Government agreed to re-extend the timeframe of the second monetary zone programme to December 2009.

2.5 OTHER POLICY DECISIONS:

This section looks at the other policy decisions which impact on the monetary integration process. The issues discussed here include the extent of compliance with relevant ECOWAS protocols and the phased EMCP programme of activities.

2.5.1 COMPLIANCE WITH OTHER ECOWAS PROTOCOLS

In addition to the requirements for monetary, financial and fiscal policy harmonization, member countries are also obliged to exhibit their commitment to the integration process by complying with certain protocols. Particularly, the ECOWAS Treaty provided for total elimination of all obstacles to the free movement of people, goods, capital and services and the right of entry, residence and establishment. Others related to the need for member countries to prioritize the role of the private sector and joint regional enterprises and adopt common policies in the fields of socio-economic activity, particularly agriculture, industry, transport, communication, energy and scientific research.

However, there is still considerable work to be undertaken in these areas due to the persistence of a number of constraints. The report indicated that a significant proportion of the population lives in poverty with a regional GDP per capita of about US$300. The economies of the region are not diversified and are dependent on primary export commodities (agricultural produce, mining and petroleum), thus, exposing them to external shocks. The borders are heavily guarded with numerous patrol posts and cumbersome customs procedures. The telecommunications sector is under the process of developments with para-statal monopolies controlling tariffs and rules of competition. Within the transportation sector, the road system which accounts for 90.0 percent of travels is poorly maintained with numerous constraining measures in transit, customs, insurance matters and technical specification. In the air transport sub-sector, airlines are not competitive and aeronautical navigation safety is lacking. Maritime transport is also not cost-effective.

In order to fast-track the regional integration process, the study recommended the removal of all constraints militating against smooth implementation of the integration process, particularly:

- The numerous barriers to trade and transport which constitute major impediments to market integration;

- The weak institutional capacities within ECOWAS which do not facilitate the implementation of decisions in member States;
- The low level of participation of economic operators in the national and community decision-making processes;
- The heterogeneous nature of the region from the economic and political points of view;
- The strengthening and consolidation of democracy, conflict prevention and management.

2.5.2 OUTSTANDING ASPECTS OF THE THREE-PHASED WORK PROGRAMME

It would be recalled that in May 2000 the Committee of Governors approved a three-phased programme of actions towards the proposed establishment of the ECOWAS Single Monetary Zone, the details of which have been outlined in Box 1.

It was expected that successful implementation of the above policy-measures would pave the way for the establishment of the ECOWAS Monetary Union, which was originally scheduled for December 2004. Unfortunately, the implementation of the initial policy measures are still ongoing, the outcomes of most of which are less than satisfactory. Whilst some are progressing slowly, the required actions on others have not been initiated at all. A general overview of the various aspects of the initial phase reveals the following state of affairs:

- the structural adjustment programmes have not yielded the intended results for macroeconomic stability;
- the overall performance with the macroeconomic convergence criteria is not very encouraging;
- the fiscal, monetary and financial policies have not yet been harmonized and the macroeconomic management pact has not yet been established;
- two major exchange rate regimes (fixed and floating) exist within the sub-region, with the countries practising liberal regimes being at different levels of flexibility;
- the banking laws and regulations differ in some countries;
- the money and capital markets are still under the process of liberalization in most countries;
- the labour market has not been liberalized;
- the community domestic market has not yet been established and the trade liberalization scheme which took off in 1990 is still under consideration; and
- the financial environment is still weak and under considerable stress; and
- the actions in respect of an ECOWAS Exchange Rate Mechanism and establishment of a Community Central Bank have been placed on hold pending completion of the WAMZ project.

BOX 2: PHASES OF THE PROPOSED PROGRAMME FOR ESTABLISHMENT OF THE ECOWAS SINGLE MONETARY ZONE

Phase 1: Harmonization of Rules Governing Economic and Financial Management, Revitalization Of Multilateral Clearing Mechanism And Review Of Eligible Transactions:

- harmonizing exchange rate regulations, legislations and banking surveillance;
- liberalizing the money market;
- establishing a rigorous macroeconomic management pact and strengthening structural policies at national and regional levels;
- complying with the macroeconomic convergence criteria, harmonizing economic and financial statistics and evaluating the quality of convergence;
- finalizing the establishment of the Community domestic market(including trade liberalization, removal of tariff and non-tariff barriers);
- liberalizing the labour market;
- developing an Exchange Rate mechanism and ensuring its adoption by all ECOWAS member States;
- working towards the adoption of the same rules of management and monetary policy instruments;
- evaluating the situation of the financial system;
- popularizing the use of the regional unit of account (WAUA) and revitalizing the WAMA Clearing operation , including oil transactions;
- creating a Community Monetary Institution (CMI)

Phase 2: Review of Economic Adjustments and Harmonization of Domestic Taxation System:

- evaluating and adapting policies pertaining to first phase;
- reviewing economic adjustments and, possibly, reducing fluctuation margins of the exchange rate mechanism; and
- harmonizing the domestic taxation systems, particularly, the savings tax.

Phase 3: Irrevocable Fixing Of Parities and Establishment Of The Single Central Bank:

- evaluating the second phase;
- ensuring compulsory stabilization of exchange rates and the irrevocable fixing of parities; and
- transiting from one currency to a single monetary policy managed by the single central bank.

4.0 CONCLUSION AND RECOMMENDATION

In summary, the progress made under the EMCP is inadequate to allow an immediate progression to a monetary union. The major issues relate to:

i) The persistence of macroeconomic instability and the lack of sustainable macroeconomic convergence;
ii) The insufficient degree of harmonization in the fiscal, monetary and financial policies, particularly in the areas of exchange rate arrangements, trade, money and capital account liberalization;
iii) The lack of harmonization of the key policy and regulatory principles relating to banking laws and supervision;
iv) The low level of activity of the multilateral clearing mechanism and the lack of a credible payments system;
v) The continued existence of cross border controls which limit the free flow of persons, goods and services;
vi) The weak institutional capacity at the national level regarding multilateral surveillance and other institutions that vitiates effective handling of the technical aspects of the monetary integration programme at the national level, the ineffective or non-implementation of relevant policy decisions and protocols; and
vii) The rescheduling of the agenda of the second monetary zone from July 2005 to December 2009;

The weak macroeconomic fundamentals and spate of socio-political crises in some countries suggest that the problem of macroeconomic instability is likely to persist. For this reason, it would be necessary to delay considerations relating to the choice of a definite timeframe for the programme.

Adequate time is required for the countries concerned to work towards sustainable macroeconomic convergence, further the policy harmonization processes and establish all relevant institutions. In addition, an ample time allocation would enable conclusion of the ongoing study on the EMCP, allow for re-engineering and effective implementation of the programme and permit the successful conclusion of the WAMZ programme.

Thus, in order to maintain the credibility of the EMCP, given the current state of macroeconomic conditions, status of implementation of the programme and the fact that a comprehensive study is currently underway to define an appropriate framework for effective management, it is proposed that the decision relating to the choice of a definite date for introduction of the regional single currency may be taken by end-2007, after completion of the study in question and a subsequent in-depth appraisal of the programme.

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