CENTRAL BANK OF NIGERIA

SEMINAR ON THE PROPOSED SECOND WEST AFRICAN MONETARY ZONE

(WAMZ)

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PREFACE

The emergence of integration either regional, market or monetary as a veritable economic building block in these days of globalization is quite instructive. This is because globalization has challenged individual countries with limited capacity to reposition themselves in order to survive in the emerging world economic order. Weaker economies now have new hope as they can ride on the wings of stronger economies in the integration to survive. There are great benefits and dire consequences for participating nations depending on their state of planning and preparation for the integration.

The English speaking West African countries including Guinea have risen to the challenge of this new development by coming together to establish the second monetary zone. The Heads of

States and Governments of ECOWAS in 1987 adopted the ECOWAS Monetary Cooperation Programme (EMCP) to ensure a harmonized monetary system and promote inter-regional payment systems with a view to achieving monetary stability. The participating countries are however still grappling with the convergence criteria set to achieve a meaningful integration.

There are ample examples of where such unions have sprung up in Africa such as the Rand Monetary Area in Southern Africa, the Central African Monetary Community (CEMAC), Asia (East Asia Monetary Integration), Europe (European Monetary Union), NAFTA Countries of North America etc. A monetary union is a zone where a single monetary authority prevails and inside which a common currency circulates freely.

This CBN Training Centre publication, on the Proposed 2nd West African Monetary Zone (WAMZ), (the fifth in the series) attempts to sensitize the reading public with the salient issues, problems and prospects in the quest for economic integration by the West African sub-region. It attempts to discuss the concept and practice of monetary integration and appraise the implications of the West African Monetary Zone on the Nigerian Economy, identify the envisaged impediments to the Union and proffer solutions. It also covers issues such as Structure and Survey of Economies of ECOWAS Member States; Convergence Criteria for the 2nd Monetary Union; and Cost Benefit Analysis of Monetary Union In West Africa.

This material is recommended to all knowledge seekers in the subject of West African Monetary Integration, as the presentations are very thought provoking and stimulating.

Deacon M. Okunfolami,
Director, Human Resources Department,
Central Bank Of Nigeria

// ACKNOWLEDGEMENT

The Central Bank of Nigeria Training Centre greatly appreciates all the paper presenters and facilitators for their immense contributions to the success of the seminar on the Proposed Second West African Monetary Zone (WAMZ) which is the subject of this publication. The publication is considered necessary for the creation of the required awareness among all and sundry on the commendable initiative of leaders of the West African sub-region to form a monetary union in line with the global economic trends.

Much as we cannot list all the facilitators of the seminar, we must put on record the immense contributions of Dr. G.E.Upong, Director, International Economic Relations Department, Central Bank of Nigeria, Dr. Chris Itsede, Director-General, West African Institute for Financial and Economic Management (WAIFEM), Mrs. J.A. Achinze, Deputy Director in the Central Bank of Nigeria and Dr. Olukayode Somoye of the Department of Economics, Lagos State University. Also worthy of mention is Mr. J.A. Olorunshola, Assistant Director/Vice Principal (Academics) of the Training Centre faculty for his well-researched presentation during the seminar.

It is our sincere hope that this publication would substantially bridge the information gap that might hinder the successful implementation of the monetary integration and wet the appetite of the readers for more advanced information on the subject.

B.O. Ibikunle, ACS
Principal, CBN Training Centre

THE CHALLENGES OF ESTABLISHING THE SECOND MONETARY ZONE IN WEST AFRICA

By

Dr. Chris O. Itsede*

Mr. Chairman,
Principal, CBN Training Centre,
Facilitators,
Participants,
Distinguished Ladies and Gentlemen.

INTRODUCTION

I consider it a privilege and honour to be invited to deliver the keynote address at this ceremony. Let me start by commending the organizers, Central Bank of Nigeria (CBN) Training Centre, for this great initiative. The seminar could not have been more timely, coming as it were, against the backdrop of heightened activities by member countries of WAMZ to meet the objectives they have set for themselves.

My task this morning is simple: **to deliver the keynote address**. In doing so, I do not intend to compete with the experts who have been lined up to examine in detail, the different sub-themes of this seminar. Rather, I will play John the Baptist by preparing the ground for their soft landing. Thereafter, I will take a bow. In this regard, I have chosen to speak on the "**Challenges of Establishing the Second Monetary Zone in West Africa**" this morning. I hope that at the end of your deliberations, you would come up with concrete suggestions to move the monetary integration process forward.

*** Dr. Chris O. Itsede is the Director-General, West African Institute for Financial and Economic Management (WAIFEM), Lagos.**

AFRICA IN A CHANGING WORLD

Ladies and Gentlemen, Globalization has brought in its wake, the realization that individual countries, developed or developing, could no longer unilaterally stave off the threat of marginalization in the management of their economies. In order to position themselves for the challenges of globalization, several countries from Asia to Europe, North to South America are embracing economic regionalism. Africa has not fared badly in the race, having thrown up about 20 economic groupings since the 1990s in a bid to meet the challenges of the emerging world economic order.

Despite the deluge of economic groupings in Africa, none of them has attained the status of a common market, which is usually their ultimate goal. Indeed, only two of these groupings are full monetary unions, namely, the West African Economic and Monetary Union (UEMOA) and the Central African Monetary Community (CEMAC). The Rand Monetary Area – a parallel currency arrangement - bears the closest resemblance to a monetary union in the continent. Here in West Africa, the Economic Community of West African States (ECOWAS) was established in May 1975, with the objective of creating a common market in the sub-region. Although some progress have been made towards this end, a lot of mileage remains to be covered before we breast the tape.

WHAT IS A MONETARY UNION?

A monetary union is a **zone where a single monetary authority prevails and inside which a common currency or currencies which are fully convertible at immutably fixed exchange rates circulate freely**. Why would a country abandon its currency and join a monetary union? Countries derive several opportunities and advantages from membership in a monetary arrangement. These include:

- significant reduction in transactions costs of intra-regional trade;
- enhancement of efficiency in domestic and regional resource allocation;
- enhanced seinorage gains;
- improvement in fiscal discipline;
- market enlargement;
- enhanced coordination of macroeconomic policies; and
- opportunities for harvesting economies of scale.

However, there are costs associated with monetary integration. The principal cost is the loss of autonomy for independent monetary policy and stabilization measures. Others include asymmetric shocks and possible importation of inflation from high inflation members.

THE SECOND MONETARY ZONE

Frustrated by the slow monetary cooperation programme of ECOWAS, Ghana and Nigeria launched the "**Fast Track**" approach to monetary and market integration in December 1999. The bilateral initiative soon became a multilateral arrangement which was concretized in the 'Accra Declaration' in April 2000. By December of that year, the protocols establishing WAMZ were signed by The Gambia, Ghana, Guinea, Nigeria and Sierra Leone.

The establishment of WAMZ was envisaged to quicken the process of restoration of macroeconomic stability, promote fiscal discipline through peer group pressure mechanism, sustain exchange rate and price stability and spur sustainable growth. The project was expected to have been completed by January this year with the creation of a common central bank and a single currency to be called ECO. The deadline was missed owing to implementation problems. Meanwhile, the commencement date for the common currency has been shifted to July 2005 to further give the integrating countries another chance to get their act together. The rationale for establishing WAMZ is to have the countries form a monetary union with a view to merging with the 41 year-old UEMOA as a strategy for establishing a single currency for ECOWAS.

TOWARDS A COMMON CURRENCY

The creation of a stable common currency among a group of countries must be preceded by the existence of certain economic conditions. These include the harmonization of macropolicies notably, fiscal, monetary, and exchange rate policies as well as institutional arrangements involving the financial and payment systems. Since the integrating countries would naturally be at varying stages of economic development, a set of convergence criteria which must be met by each country is usually agreed. The WAMZ parameters are identical with the ECOWAS criteria agreed in 1999 and also consistent with those of the West African Monetary Union.

The criteria were introduced to reduce, if not eliminate, the negative externalities that come hand in hoof with monetary integration and thus create the enabling economic conditions for macroeconomic stability in the Union. The primary convergence criteria oblige all WAMZ member countries to attain the following goals within a given timeline:

i) fiscal deficit/gdp of 5 percent or less;
ii) single digit rate of inflation;
iii) central bank lending to government of 10 percent or less of previous year's fiscal receipts; and
iv) foreign exchange reserves of 3 months or more of imports.

There are six (6) secondary criteria which complement the primary ones. Overall, the ten criteria seek to level the playing field for the integrating countries.

THE JOURNEY SO FAR

Mr. Chairman, Ladies and Gentlemen, since the WAMZ project was launched, member countries have not made sufficient effort to meet the macroeconomic convergence criteria. No country has been able to achieve and sustain all the primary parameters. Although some countries have met the single digit inflation rate and the external reserves criteria, no one has met the mother-of-all criteria, **the fiscal deficit rule**. Worrisomely, average performance dropped from 50 percent in 2001 to 40 percent in 2002. What is more, there was deterioration in three countries while only one registered a modest improvement.

Macroeconomic performance in WAMZ during the first half of 2003 did not indicate any improvement over the situation at end of 2002. The principal culprit held out for this unsatisfactory performance was expansionary fiscal policy pursued by virtually all the integrating countries. Handicapped by low and inefficient tax effort, buffeted by severe external shocks and confronted by a growing clamour to deliver democracy dividends, WAMZ countries have found themselves spending more than they earn! The result has been chronic fiscal dominance driven by a bias towards money creation, with the attendant macroeconomic instability.

This development has led **ecosceptics** to wonder whether the conditions set for convergence were too stringent and therefore unattainable. Indeed, they opine that the economies are actually diverging rather than converging. The **ecophiles** have countered that steady progress was being made, citing regular peer group review of performance as a powerful moral tool for integration. Full success, they assert, was a matter of when and not whether. Other commentators have also raised issues relating to the quality and timeliness of data as well as conceptual issues of definitions and measurement of the convergence parameters.

MATTERS ARISING

As it were, monetary integration prompts tectonic shifts in the economic management templates of the integrating countries. It impels countries to undertake fundamental behavioural and operational adjustments in some aspects of economic management. The WAMZ project is no exception. Let me quickly flag some areas requiring paradigmatic adjustments on the part of WAMZ countries.

i) Monetary Management

Virtually all the countries of the Zone currently practice **monetary targeting** as a technique of monetary management. Monetary management under the West African Central Bank (WACB) will be a different ball game. According to Article 7 of the Bank's statutes, the primary objective of WACB **shall be to maintain price stability**. In this regard, the Bank shall specify the annual inflation target. In other words, WACB, which shall determine a common monetary policy for the entire zone, shall practise **inflation targeting** as a technique of monetary management.

That is to say, the existing central banks shall abandon their present monetary targeting approach for inflation targeting. This could have legal/institutional implications in some countries where the central bank is not the statutory agency charged with monitoring aggregate price developments. The challenge is for countries to take a look at the approaching scenario and adopt measures to align with it.

ii) **Bank Licensing and Supervision**

Surprisingly, the statute of WACB is silent on the role of the headquarters in licensing of banks. But Article 16 (vi) empowers the National Branches of WACB with licensing, regulation, and supervision of financial and credit institutions. In the circumstance, it is not clear what shall be the jurisdiction of a bank licence issued, for instance, by The Gambian branch of WACB. Would it have a Zone-wide application or limited to the geographical confines of The Gambia? What implications does this have for unification of the banking system implied by monetary union? What about deposit insurance? Only Nigeria operates an explicit scheme in WAMZ. How will this affect competition between banks in Nigeria vis-à-vis those in other countries of WAMZ? How shall we ensure that the banking space is not segmented which is what a partial insurance scheme would imply?

iii) **Reserve Requirement**

Article 21 empowers the WACB to determine the reserve requirements of financial institutions and penalize defaulters. Strict enforcement of this provision will contain the ability of national authorities to apply regulatory forbearance to erring banks.

iv) **The Fiscal Conundrum**

Fiscal dominance, resulting from excessive deficits financed through money creation, is the bane of macroeconomic stability in West Africa. Hence, the failure of WAMZ countries to achieve the convergence criteria. Now the days of impelled fiscal discipline are around the corner! Under Article 23, the WACB is prohibited from lending to central governments, regional, local or other public authorities or undertakings of member states.

Put differently, the days of ways and means advances, under-writing and direct purchase of debt instruments, including treasury bills, and treasury certificates, will soon be a thing of the past.

This is a wake up call for the fiscal authorities to begin now to learn the wholesome art of balancing the books.

v) **Movement of Persons and Goods Across National Borders**

Monetary union is not an end in itself. Rather, it is a means to foster cross-border trade, investment and commercial relations among the members of the union. The extent to which this ultimate objective is realized depends largely on the ease of moving goods and persons within the zone. In West Africa, numerous structural, tariff, and non-tariff barriers, excessive and largely unnecessary officialdom at border posts impede the free movement of goods and persons. Land, maritime and air transportation in the sub-region is a nightmare. For instance, it is cheaper and often faster to fly to Europe from Lagos than to The Gambia or Burkina Fasso. The emergence of a common currency would not fully serve its intended purpose unless these obstacles are cleared. One way to do this is for West African countries to muster the political will to implement the Yamoussokro Accord on open-skies.

CONCLUSION

Ladies and Gentlemen, lessons from successful monetary unions elsewhere have revealed that political commitment and compliance are the foundations of successful integration. Sustained political will and commitment to the implementation of agreed decisions and policies are required to make WAMZ a reality. **Perhaps the best way for countries to demonstrate political commitment is for them to explicitly adopt the convergence criteria as the annual fiscal and monetary policy targets and pursue their achievement with vigour.**

Presently, emphasis should be placed on effective coordination of fiscal and monetary policies as well as ensuring that government expenditures are kept strictly to realize revenue. Specific policy actions should include:

- abstinence from excessive budget deficits, especially those to be financed by central banks (I would go further to suggest adoption of cash budget system);

- strengthening and empowering institutions of state governance in order to enhance economic performance;
- elimination of wastages and leakages through strengthening of the budgetary system;
- reform of tax system to minimize tax evasion and tax avoidance;
- pursuit of unremitting price stability; and
- removal of structural bottlenecks by improving the state of physical infrastructure.

Thirdly, regional economic integration cannot succeed without popular support. All segments of the civil society must be involved to secure popular acceptance and smooth implementation. That is why referendums are held in European countries to decide key integration issues. Thus, the organized business community, academia, trade unions, legislators, NGOs and the mass media in the integrating countries should be involved in the integration process to engender a sense of ownership. A credible framework to get all stakeholders aboard the integration train is imperative.

I thank you all for your attention.

CONCEPTS, OBJECTIVES AND RATIONALE FOR MONETARY INTEGRATION

By

Job Abiodun Olorunshola*

INTRODUCTION

In recent years, considerable interest has been expressed for further economic integration in Africa, both at regional and sub-regional levels. This trend is borne out of the view of the perceived benefits of integration. For instance, economic integration, generally, facilitates improved trade and capital flows as well as efficient resource allocation within integrating states. It also enhances their economic relations with the rest of the world.

Countries of West Africa had long been aware of these potential benefits of economic integration and efforts had been made to harness them. The major attempt at economic integration in West Africa has been through the Economic Community of West African States (ECOWAS). ECOWAS, which was established by a Treaty signed in Lagos in 1975, has as one of its principal objectives the achievement of greater integration of monetary and fiscal policies of its member countries.

As a first step towards regional cooperation, ECOWAS set up the West African Clearing House (WACH), which transformed, in 1995, to the West African Monetary Agency (WAMA) to enhance the payment system of the sub-region. Specifically, WAMA is to design a format for surveillance over members' macroeconomic policies, launch the ECOWAS Traveller's cheques and work out modalities for an ECOWAS exchange rate mechanism. The pace of execution of the ECOWAS project has, however, been rather too slow and tortuous, three decades after the signing of the Treaty due to a number of fundamental bottlenecks.

Monetary integration, which is an important dimension to economic integration, is now being pursued with vigour in the sub-region with a

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view to forging a larger economic environment to enhance economic growth and development. The ECOWAS Monetary Cooperation Programme (MCP), adopted in 1987, sought to introduce a single currency to replace the existing eight currencies through the creation of a single monetary zone by 2000. The date has since been revised to 2005 due to lack of appreciable progress in the implementation of the programme. A number of institutional arrangements have, however, been put in place recently to ensure that the idea of establishing a second monetary zone, with a common central bank to issue a common currency, which will ultimately merge with the CFA Franc zone becomes a reality.

This paper, which is presented in 5 sections, attempts to stimulate understanding of the basic concepts and rationale for monetary integration. Following this introduction, section II presents some concepts and definitions while objectives and rationale for monetary integration are discussed in section III. The fourth section contains highlights of existing regional groupings across the globe. The last section concludes the paper by underscoring certain critical success factors for the proposed second monetary union in West Africa.

CONCEPTS AND DEFINITIONS

Definitions and Levels of Integration:

Economic integration has been described variously in the literature. For instance, Ojo (2001) defines economic integration to be a process by which a group of countries attempts to stimulate the type of economic relations existing among different regions of a country with a view to forging a larger economic environment so as to enhance economic growth and development. Economic integration thus captures all forms of special economic arrangements among countries, which invariably involve preferential treatment in economic matters for member countries as against the treatment for non-member countries.

The purpose is to promote free economic activity and increase productive efficiency by removing restrictions on trade and on movements of labour and capital between members. Such restrictions include quotas or levies, monopoly practices, and dumping. The resultant enlarged market then provides the incentive for large-scale investment and the advantages of economies of scale.

Conceptually, many authors have cited several levels of economic integration among which are the following:

1. **Preferential Trade Arrangement** – under which member countries agree to lower trade barriers among themselves, but each member is allowed to determine its own trade and other economic policies with non-members;

2. **Free Trade Area** – in which all restrictions on the movement of goods and services among the participating countries are removed, but each member country may retain its own tariffs or other restrictions on its trade with non-participating member countries;

3. **Customs Union** – this goes beyond the free trade area in the degree of integration by establishing a common external tariff on goods entering the union from non-members. The customs revenue accruing to members is shared among them in accordance with an agreed formula;

4. **Common Market** – moves beyond the customs union in the intensity of integration by removing national restrictions on the movement of labour and capital among participating countries;

5. **Economic Union** – represents the highest form of economic integration. At that level, economic integration involves monetary and fiscal unification and the virtual transformation of separate national economies into a single economic entity.

6. **Monetary Integration** – is the all-embracing concept, which may consist of monetary union or a common currency area. Masson (1994) distinguishes between the two concepts:

    a) Monetary Union – there is a unified monetary policy in an environment free of capital controls and segmentation of financial markets. In such a union, it is not necessary to have a single circulating currency. The currencies of the member countries can all be in use in the union, provided the exchange rates among them are rigidly fixed and their currencies interchangeable;

b) Common Currency Area – on the other hand, indicates a single currency and hence there is no need for an exchange rate mechanism within the area except as a means of converting the common currency into the currencies of non-members.

Benefits of Monetary Integration

A number of benefits are associated with monetary union. Some of them are highlighted below:

1. A common currency eliminates the costs of money conversion and forward cover required under a flexible exchange system. In this regard, a common currency ensures a boost to trade by eliminating uncertainties about exchange rate fluctuations and reductions in administrative costs for business. Furthermore, a single regional currency would tend to fluctuate less against third country currencies than individual currencies, and thereby also facilitates inter-and-intra regional trade;

2. Absence of speculative capital flows and smuggling which often frustrate monetary control efforts;

3. A common currency promotes efficient allocation. Removal of all forms of capital controls and differing treatments of financial capital would lead to free movement of capital. Similarly, wages expressed in terms of a common currency should result in a better allocation of labour, as labour moves from areas of low marginal productivity to high productivity areas.

4. Under common currency, there would be savings on foreign exchange reserves as members would no longer need to keep foreign reserves for transactions with the union or to manage intra-regional exchange rates;

5. Monetary integration most likely leads to the acceleration of fiscal integration.

6. Near borderless trade and single currency will lead to promotion of trade.

Cost Of Monetary Integration

Despite its overwhelming advantages, monetary integration is not without costs. Such costs include:

1. Loss of autonomy in monetary policy; and thereby a loss of a key economic policy instrument. Furthermore, the jointly controlled monetary policy would often be designed to serve the majority interest;

2. Monetary integration may also lead to a loss of full autonomy with regards to fiscal policy as an instrument for influencing domestic employment. It could be argued though that where there is effective and full coordination of objectives and policy, there may be no need for additional individual effort on employment;

3. Also, countries are no longer free to control their own inflation rates. Common inflation rates, which monetary union entails, implies loss of different inflation preferences. Different inflation preferences may be influenced by short-run Philips curve or benefits of inflation tax. For instance, some countries may prefer relatively high inflation rate (and low unemployment) while some may prefer low inflation (and high unemployment rate).

Thus, both economic and monetary integration have costs and benefits for countries that desire to cooperate. However, for monetary integration to be sustainable, the condition is that the benefits must exceed the costs.

Theories Of Optimum Currency Areas

The theories of optimum currency areas help to identify factors that will minimize the costs of monetary integration such that the net benefits are bigger (Aigbokhan, 1993). These factors include:

- **High degree of factor mobility**. The basic idea is that it is worthwhile for a group of independent countries to adopt a common currency when factors are highly mobile among them;

- **Degree of openness**. The more open an economy, as measured by the size of its tradable to non-tradable sectors, the more beneficial it is to

join a currency union. In other words, the more important trade is for a country the more it stands to benefit from the introduction of a common currency with its trading partners. Also, the greater the share of intra-regional trade, the greater the area will benefit from the reduction in transactions costs associated with the use of a common currency;

- **Degree of policy integration**. This suggests that similarity of policy attitudes of members is relevant in making a group of countries a successful currency area. That is, similarity in attitude towards inflation, unemployment, growth will encourage policy coordination. This criterion is attractive because similarity in policy attitude is most likely to also lead to convergence in economic performance. This would eliminate differences in inflation rates, which are often a source of payments dis-equilibrium, which in turn eliminates the need for exchange rate variations to correct the imbalance.

- **Degree of product diversification**. This suggests that the more diversified a country's range of imports and exports, the more it will benefit from monetary union. A diversified economy has less variability in its exports earnings and import expenditure, and the more stable its balance of payments. Accordingly, there will be less need to resort to exchange rate changes to maintain external balance.

RATIONALE FOR MONETARY UNION AMONG DEVELOPING COUNTRIES

Based purely on the theories of optimum currency areas, as highlighted above, it is difficult to conclude that most developing countries meet the necessary conditions to run an effective monetary or economic union. Besides, political problems facing developing countries especially in Sub-Saharan Africa may completely erode in most cases, the positive economic factors that may support viable economic integration efforts. But, it may still be mutually beneficial as corroborated by Ojo (2001), for these countries to continue to be involved in integration efforts. The rationale for this standpoint include to:

- **Hasten Macroeconomic Stability**
  Formation of monetary unions in developing countries could engender or hasten the process of macroeconomic stability. In

other words, such efforts could strengthen national programmes of macroeconomic management. Many of the countries in Sub-Saharan Africa have, for instance embarked on economic reform programmes since the early 1980's, but have not really succeeded in achieving sustained macroeconomic stability. A collaborative strategy could strengthen such efforts, which would enhance monetary stability, strict budgetary discipline, exchange rate stability, stable prices and better growth performance, among others.

- **Harness Regional Resources for Global Relevance**
  Developing economies need to follow the global trend and read correctly the dynamics of the world economy by which the developed countries have become relatively stronger than, say, three decades ago. One of the strategies they have adopted is to integrate their economies, the results of which are improved economic performance, rapid technological progress and stronger bargaining power at the global level. The longer the delay in forging economic cooperation among developing countries, the wider will be the gap between their economic performance and that of the developed countries. If the developing countries can improve their economic performance through collaborative efforts as indicated earlier, they are likely to have greater impact in the resolution of international issues such as external debt overhang, reform of the international financial system, the flows of resources and secular decline in primary commodity prices.

- **Utilise Human And Financial Resources Efficiently**
  Monetary and economic unions among developing nations will encourage the mobilization and improved management of human and financial resources. Presently, domestic human resources are not efficiently utilized especially in the African region because of limited opportunities and consequently such human resources migrate to the developed nations to the detriment of poor African countries. In addition, the lopsided international trade structure is against the interests of the developing countries in Africa, a development that has contributed to their low level of industrial development. African nations could enhance their economic status through regional and sub-regional monetary and economic cooperation programmes.

HIGHLIGHTS OF MAJOR REGIONAL ECONOMIC GROUPINGS

Regional economic groupings abound worldwide, including Asia, Middle East and the Pacific, Europe and the Western Hemisphere as well as Africa. Examples of such groupings are the following:

The European Community (EC)

The European Community (EC) to date remains the most advanced attempt at monetary integration. Many have argued that the motive has been more political than economic, nonetheless, there appears to be evidence of economic benefits derivable from monetary integration in the EC.

The EC started sometimes in 1952 as a "Common Market" arrangement involving Belgium, France, Italy, Luxembourg, the Netherlands and Western Germany. These six formed European Coal and Steel Community (EC & SC), in which tariffs normally placed on these imported products between the members were eliminated.

The success of EC & SC in boosting trade led to the creation of the European Economic Commission (EEC), which was formalized by the Treaty of Rome in 1957, in which all goods were now covered. The main concern of the Treaty was trade liberalization and factor mobility, and the establishment of a common commercial policy. The EEC was enlarged in 1972 with the ascension of Denmark, Ireland and UK and again in 1980s with the ascension of Greece, Portugal and Spain.

The EEC decided in 1969 to pursue a complete union. The Warner Report (1970) advocated that within 10 years there should exist between members fixed exchange rate, and members should pursue a common monetary policy, a single currency for the community and irrevocable convertibility of member currencies with one another. In addition, there should be a complete liberation of all capital movements, and a common central banking system to be established.

With dogged political will, most of these lofty ideals have been achieved over the years with some measure of success. For instance, in 1979, the European Monetary System (EMS) was introduced. This involved the

harmonization of exchange rates through cooperative intervention by members in their foreign exchange markets to minimize exchange risks in their trade relations and allowed for national autonomy. Furthermore, owing to slow growth in the EC in the early 1980s and strong competition from the USA and Japan, there was reviewed interest in further integration. The result was the Single European Act of 1985, otherwise tagged ‘‘Europe 1992”, designed to eliminate all barriers to trade movements between members by the end of 1992.

Thereafter, a 3-stage monetary integration strategy was adopted and to be implemented by countries that were ready. Stage one aimed at a greater convergence of economic performance within the existing institutional framework through policy coordination, while stage two was designed to set up the European System of Central Banks (ESCB) and eventual common monetary policy. Stage three was construed to involve irrevocably fixed exchange rates, common regional policies, and binding macroeconomic policy rules and finally the introduction of a single common currency. This was achieved in January 1, 1999 when the “euro” was introduced.

North America Free Trade Area (NAFTA)

North America Free Trade Area (NAFTA) was established in 1992 to remove restrictions on trade among its members, which include Canada, Mexico and the United States of America.

Association Of South East Asia Nations (ASEAN)

The Association Of South East Asia Nation (ASEAN), which was established in 1967 at Bangkok, Thailand, has its objectives to accelerate economic growth, social progress and cultural development, and to promote peace, prosperity and stability among its members. Members of ASEAN are: Brunei, Indonesia, Philippines, Singapore, Malaysia and Thailand.

Latin American Integration Association (LAIA)

The Latin American Integration Association (LAIA) was established by the Montevideo Treaty of 1980 to further the progress of economic integration of the region, commenced two decades earlier with the

establishment of the Latin American Free Trade Area. Membership of LAIA includes: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Union Monetaire L'ouest Africaine (UMOA)

The monetary arrangement since 1961 among the Francophone West African countries, Union Monetaire L'ouest Africaine – UMOA is evidence that monetary integration is not totally new in the sub-region. Under UMOA, there is a common currency and a single central bank (Banque Centrale des Etas de l'Afrique de l'Ouest – BCEAO), and foreign exchange reserves are pooled and managed by a single agency.

On the other hand, the note issues are separately identifiable, and on that basis separate balance of payments accounts are drawn up and separate reserve is then used as an input into the fixing of the country-specific lending ceiling in the subsequent period. In addition, the exchange rate is pegged to the French franc, and the convertibility of the currency (the CFA franc) is guaranteed by the French Treasury by means of an 'operations account'.

CRITICAL SUCCESS FACTORS

From the experience of existing monetary integration, especially the European Union, certain critical success factors from which the integrating countries in the proposed second West African Monetary Union can take cue, have emerged. These include:

1. **Long Range Plan**
   It takes a long time to reach consensus on key issues in integration and allowance must therefore, be made for all countries involved to accept and agree on critical issues before joining the zone;

2. **Political Commitment**
   Without the political will and commitment not much can be achieved, as this is the main driving force that will dictate the pace of implementing the integration;

3. **Adequate Integrating Infrastructure**

Serious attention must be made to establish necessary infrastructures that will facilitate the integration efforts. These will among others, include functional telecommunications networks, good roads and transport system for easy movement of people, goods and services.

4. **Elimination of Language Barrier**

There is the need to promote major spoken languages among the countries in the zone so as to remove language barrier. In this regard, efforts must be stepped up urgently to popularize French language among the five English-speaking countries (the Gambia, Ghana, Liberia, Nigeria, and Sierra Leone) in the proposed monetary zone to complement the purported strive of the government of Guinea to ensure proficiency in English language among her nationals so as to take full advantage of the integration.

5. **Mass Propaganda**

All the people in the various countries must be sensitized on the benefits and costs of integration. The expected roles of everyone should therefore be spelt out and disseminated through effective mass propaganda, including radio, television jingles, conferences, seminars, training, etc. This will go a long way at reducing resistance to the integration efforts.

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STRUCTURE AND SURVEY OF ECONOMIES OF WEST AFRICAN MONETARY ZONE (WAMZ)

By

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INTRODUCTION

The main focus of this paper is on the West African Monetary Zone (WAMZ) with the following member countries: Nigeria, Ghana, Guinea, the Gambia and Sierra Leone. The focus is in consonance with the subject of the Seminar.

The paper primarily attempts to briefly outline the structure and survey, with special emphasis on the survey of the economies of WAMZ. The paper is presented in four parts. Part one is the Introduction, while Part two – General Background – Discusses and Highlights Issues on ECOWAS, UEMOA on WAMZ; including Issues on Historical Perspective, Economic Potentials of WAMZ. Part three reflects Social Conditions of WAMZ, Economic Policies in WAMZ's Countries and Implications of Other Related Institutions (WAMI and WAMA) on WAMZ. Part four, concludes the paper.

GENERAL BACKGROUND

Economic Community of West African States (ECOWAS)

The Economic Community of West African States (ECOWAS) was established on May 28, 1975 in Lagos, Nigeria. The following fifteen (15) West African Countries make up the ECOWAS: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. ECOWAS was established to promote cooperation and integration in

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order to create an economic and monetary union for promoting economic growth and development in West Africa.

During the colonial era, the countries of the West African sub-region operated some sort of monetary integration. There was the West African Currency Board in English-Speaking (Anglophone) countries and a monetary arrangement among the French Speaking (Francophone) countries. The Anglophone countries had their local currency - the pound pegged to the British Pound. The Francophone countries had their local currency - the Franc fixed to the French Franc. This arrangement was maintained with the French Treasury beyond their independence and culminated in the establishment of a monetary union UMOA in 1961 and later advanced to an economic union - Union Economique et Monetaire l'Quest Africaine - (UEMOA) in 1994. Under the arrangement, a common central bank, Banque Centrale des Etas de l'Afrique de l'Quest (BCEAO) was established to meet the challenges of the monetary union.

On the contrary, the Anglophone countries chose to abandon the currency board arrangement with the British government at independence and introduced their national currencies. However, the realization to adopt a Two Track approach to integration efforts of ECOWAS has brought the Anglophone countries with Guinea inclusive under the WAMZ.

ECOWAS has encountered many problems in the process of regionally integrating West Africa, including: political instability and lack of good governance that has plagued many member countries; the insufficient diversification of national economies; the absence of reliable infrastructure; and the multiplicity of organizations for regional integration with the same objectives.

West African Monetary Union (UEMOA)

Several ECOWAS – member countries are currently part of West African Monetary Union (UEMOA), a regional economic and Monetary Union which shares a common currency (the CFA Franc). The Francophone – countries of Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal and Togo, with Guinea-Bissau (Lusophone), comprise UEMOA. In 1994 UEMOA transformed itself into WAEMU by the above named francophone countries, except the (Lusophone) Guinea Bissau which joined in May 1997. The new WAEMU's objectives become broader

than UEMOA. WAEMU member countries share a common Central Bank, Banque Centrale des Etats de L'Afrique de l'Ouest (BCEAO) and a currency guaranteed at fixed parity to the Euro through an overdraft arrangement with the French Treasury.

The Commission located in Ouagadougou (Burkina Faso), is the executive body of WAEMU; headed by a President the highest authority, and eight commissioners representing their respective countries and with sectoral and functional responsibilities. The Commission is financed by a share of one per cent levy on all imports into WAEMU. It spearheads efforts to establish a customs union, harmonizing investment incentives, public financial management procedures, and taxation, and monitor key macroeconomic convergence criteria, including fiscal deficits, inflation, public sector wages, and government arrears. WAEMU institutions also include a court of Justice, a General Accounting Office, Regional Chamber of Commerce and eventually a parliament. Furthermore, a regional Banking Commission has been operating for several years, a Security Exchange Commission has been established and the Regional Stock Exchange opened in 1998 (in Abidjan). The BOAD (Banque Ouest Africaine de Development) is considered as an independent, specialized institution under the WAEMU treaty.

In December 1999, WAEMU Heads of States adopted the Regional Pact of Convergence, Stability, Growth and Solidarity. The pact aims at strengthening the convergence of the WAEMU economies, reinforce macro-economic stability, accelerate economic growth and enhance solidarity among the member countries. In 2000, Common External Tariffs (CET) was adopted, with the view to dismantle tariff barriers and facilitate Intra-regional trade among member states. Common industrial policy and a common agricultural policy were adopted in 1999 and 2001 respectively.

West African Monetary Zone (WAMZ)

The efforts of member countries of the West African Monetary Zone (WAMZ) to move their economies in order to facilitate monetary union has been unrelenting. Most of the countries of West Africa are endowed with mineral, agricultural and hydroelectric resources. There is crude oil in Nigeria, Gold in Ghana, Copper in Liberia and Diamond in Sierra Leone. These exclude other solid minerals found in large deposits.

However, these countries lack financial resources to exploit and mine the minerals which are in large reserves thereby creating a yawning gap between the potentials of the economies and actual growth. This development has led to high incidence of poverty within the zone, as GDP growth rate hovers around 4.0 per cent, with persistent negative real per capita growth. In addition, Sierra Leone and Liberia suffered severe decline in per capita income due to protracted wars.

All countries of the zone fall below the average indices of poverty for low income countries. Illiteracy rate is higher than 32 per cent for low income countries. Despite the structural adjustment efforts, not much progress has been made to address the poverty level. Most of the countries are currently preparing Poverty Reduction Strategy Papers (PRSP) to enable them access international assistance.

In terms of socio-cultural linkages, the WAMZ countries have established close ties with one another and the countries have dualistic production systems. The countries are exporters of primary commodities thus vulnerable to shocks in international commodity market. The six countries - The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone together as at 2001 accounted for a substantial portion (64.2 per cent GDP) of the entire ECOWAS economy.

In terms of capacity building in governance and macroeconomic management, most countries of the zone suffered under long history of military intervention. The institutions that were critical to transparency, accountability as well as the democratic process remain weak and were even not in existence in some of the countries. In this regard, economic policy implementation and administration were hindered.

Economic Potentials of the Countries of the WAMZ

The WAMZ economy is characterized by dualistic production systems whereby traditional, informal and parallel markets systems coexist with modern and formal systems. This type of dualism is common in agriculture, industry, financial sectors and external trade activities.

The agrarian structure is basically a mixed system of subsistence and modern farming. The gap between the two production systems is immense but subsistence agriculture predominates.

The industrial sector is characterized by a large number of informal and small enterprises and a few modern firms. The small scale enterprises are characterized by the production of traditional consumer goods. The sector tends to locate and concentrate its distribution activities in local markets.

The economic potentials of the WAMZ are significant and fundamental changes in the structure of financial system could take place leading to level playing field, mergers and acquisition as financial institutions reposition for union market.

Analysis of the major features of the countries of the West African Monetary Zone (WAMZ), as seen in table 1 attached, indicated that in terms of population, this group of countries accounts for about 68 per cent of the total population of ECOWAS while land area accounts for 31 per cent. The group also accounts for the bulk of the output of the sub-region. Of the total ECOWAS Gross Domestic Product (GDP) valued at US $101,605 million in 2001, countries of the WAMZ accounted for the bulk of the output valued at US $65,180 million or 65.0 per cent. Sectoral distribution shows that the economies of the Zone are largely service oriented while the labour force is largely dependent on primary commodity production.

Table 2 clearly indicates sectoral contributions to Gross Domestic Product (GDP) of WAMZ countries. For instance, in 2000, the primary sector in WAMZ contributed 31.9 per cent to GDP while secondary and tertiary sectors contributed 26.9 and 40.1 per cent respectively. For the UEMOA Countries, the primary, secondary and tertiary sectors of the economy contributed 39.1, 20.6 and 39.3 per cent respectively to GDP in the year 2000.

As seen in table 3, most countries in the WAMZ depend largely on Official Development Assistance (ODA) to finance domestic investment. The Official Development Assistance as percentage of GDP in The Gambia, Ghana, Sierra Leone and Guinea in 1999 were 7.7, 8.1, 11.3 and 6.7 per cent respectively. However, Nigeria’s official development assistance in 1999 was only 0.6 per cent of GDP.

In terms of trade flows, see table 4 in 1999, the WAMZ countries accounted for 66 per cent of the total value of ECOWAS exports which

are largely primary commodities valued at US $24,675 million, while imports of goods and services accounted for about 60 per cent of ECOWAS average. The bulk of the trade data for exports and imports reflected the dominance of Nigeria in WAMZ. While the external reserves of the Zone accounted for 77 per cent of the total value of ECOWAS foreign reserves, it has unsustainable external debt profile. Available data for 1998 showed that the zone is heavily indebted with total external debt stock accounting for 61 per cent of US $69,851 million of the total debt stock of the sub-region, due largely to Nigeria's total external debt which accounted for 73 per cent of the Zones total external debt stock. And 44 per cent of the total sub-Region (ECOWAS).

External Debt Service as a percentage of exports for WAMZ countries in 1999 was 29.5 compared to ECOWAS of 21.0. Balance of payments difficulties prevailed due to periodic adverse shifts in terms of trade; huge public debt burden; capital flight or low levels of inward investment owing to unconducive environment.

Another significant feature of the economies of the Zone is the economic transformations that are taking place since the last two decades in response to external shocks and the need to eliminate economic distortions caused by exchange controls, so as to reposition the economies for full market orientation for effective competition in the global markets.

All the countries of the WAMZ embarked on economic reform programmes from the early 1980s in response to several shocks and the need to eliminate economic distortions caused by the prolonged application of economic controls and the dominance of the State in economic activities. Ghana adopted its major economic reform programme (Economic Recovery Programme - ERP) between 1983 and 1991. This has been followed by short-term economic programmes with the multilateral institutions. Nigeria's reform programme was in the form of the Structural Adjustment Programme (SAP) of 1986 - 1988, followed by several short-term programmes with the multilateral institutions. In spite of some reversals of the policy thrust of the reform programme, Nigeria has continued with some form of economic policy reforms up to date. The Gambia's reforms were based on its Economic Reform Programme (ERP) of 1986, which involved improving foreign exchange and monetary management. Guinea has witnessed remarkable economic policy reforms since 1984. Before then, the economy was largely

centrally planned. The comprehensive reform programme transformed the economy into a market economy during 1985 - 1990. Sierra Leone's core reform programme was undertaken from 1993 with emphasis on the liberalization of the foreign exchange market and trade process, as well as improvement in monetary and fiscal management. Remarkable results were achieved from these reforms in spite of the civil disturbances which broke out in the early 1990s.

Some remarkable efforts are being made by all countries of the WAMZ to control inflation and ensure price stability. In 2000, the target of WAMZ was single-digit inflation. At the end of 2000, with the exception of Ghana and Nigeria, the performance of all the other countries was within the limits set by the convergence criteria: 2.0 per cent in The Gambia, 7.2 per cent in Guinea and 2.8 per cent in Sierra Leone. Ghana and Nigeria recorded inflation rate of 40.5 and 14.5 per cent respectively in 2000. In 2002, only two countries in the zone recorded single digit inflation. Guinea and Sierra Leone of 6.1 and –3.1 per cent respectively. Nigeria, Ghana and The Gambia recorded: 12.2, 15.2 and 13.0 per cent respectively (see table 5 below).

Table 5

INFLATION RATE FOR 2000 – 2003

Year	**The Gambia**	**Ghana**	**Guinea**	**Nigeria**	**Sierra Leone**
2000	**2.0**	**40.5**	**7.2**	**14.5**	**- 2.8**
2001	**8.1**	**21.3**	**1.1**	**16.5**	**3.4**
2002	**13.0**	**15.2**	**6.1**	**12.2**	**- 3.1**

It can be concluded from the foregoing that the economies of the WAMZ have strong potentials for growth and development because of the rich and expansive resource base. The economies have undergone remarkable transformations following the economic reform programmes adopted in the last two decades. As a result, they are all in the process of becoming full market economies, which will enhance their positions in the global economic environment. Reforms, especially in a regional setting, have to be sustained because of the persisting economic crises induced by reform fatigue, external shocks and fiscal indiscipline. Another positive score is the relatively strong position of Nigeria, which can give effective

leadership to the WAMZ project. This implies that the issue of economic stability in Nigeria has to be addressed urgently.

SOCIAL STRUCTURE OF THE COUNTRIES OF THE WAMZ

The human development index reflects the unenviable social conditions in the WAMZ Countries. According to the latest report published on this subject, the index is 0.456 on the average for West Africa, where most countries are classified among countries with low human development. Of 162 countries considered, Sierra Leone came last in the world ranking. Nigeria and Ghana occupied 59th and 46th positions respectively while The Gambia is ranked 85th position (see table 6).

The proportion of the population living below the poverty line of one dollar a day in West Africa is 48 per cent according to the index. In Nigeria, Ghana, Guinea, The Gambia and Sierra Leone, the proportion of the population living below the poverty line are: 34.1, 31.4, 40.0 64.0 and 68.0 per cent respectively. (see table 6).

The low literacy rates in most of the countries of WAMZ stem from inadequacy of infrastructure and school facilities as well as teaching staff, with the distribution always to the detriment of the rural people. The inefficiency of the school systems, which are characterized by strikes, high dropout and repetition rates, is also due to an insufficient allocation of budgetary resources, which are between 1-3 per cent of GDP. The Human Development Index indicates that Adult illiteracy rate in Nigeria, Ghana, and The Gambia are: 37.4, 29.7 and 64.3 respectively. In the field of education, generally, West Africa remains one of the regions where the school enrolment ratio is among the lowest in the world.

The population of the WAMZ not using improved water resources according to the Human Development Index stands as follows: Nigeria (43 percent), Ghana (36 percent), Guinea (52 percent) and Sierra Leone (72 percent) (see table 6).

Economic Policies in WAMZ's Countries:

Nigeria

Nigeria has had generally weak economic performance resulting from economic mismanagement, fiscal indiscipline, unproductive public spending, persistent exchange rate overvaluation, and over regulation. Structural reforms during 1986-90 resulted in substantial growth, but policy weakenings and reversals afterward brought about stagflation. Nigerians became convinced that structural adjustment was responsible for all their country's economic ills, including the depreciating naira, high and variable inflation, and the collapse of domestic industry (Moser and others, 1997). In 1994 the government re-imposed interest rate controls and eliminated the free market for foreign exchange, pegging the currency at an overvalued rate. Partial deregulation began again in 1995, with the liberalization of exchange rate controls, restoration of foreign exchange bureaus, and introduction of a dual exchange rate regime, with an administratively determined official rate and a flexible auction rate. Relatively prudent fiscal and monetary policies during 1996-97 together with high oil price helped reduce inflation from a peak of 77 per cent in 1994 to 10 per cent in 1997, and increased average real GDP growth to 4 per cent. Economic growth, however, continued to be hampered by fuel, power, and fertilizer shortages, and political uncertainties.

By early 1998, Nigeria had a multiple exchange rate system: an artificially overvalued official rate for government and oil transactions, an "autonomous foreign exchange market" (AFEM) with a rate administratively determined in a managed float (with reference to the interbank and parallel rate, and supported by net infusions of foreign exchange from oil exports), plus foreign exchange bureaus and an active parallel market. Access to foreign exchange for current account transactions was quite liberal, although some restrictions remained.

The Abubakar administration abolished the official exchange rate in 1998. Some initial progress in controlling government spending was made in the face of sharp drops in petroleum revenues, but the budget deficit increase to over 8 per cent in the first half of 1999, financed by central bank credit. Real change began in June 1999, as democratically elected President Olusegun Obasanjo took office, taking immediate actions to combat corruption and build public confidence. Inflation fell and the exchange

rate stabilized. There have been no signs of a sustained revival in real GDP growth, however. The abolition of the AFEM and the enhancement of the interbank (or IFEM) market has led to a more flexible, market-determined exchange rate for the naira. In the program for 2000/01 supported by an IMF Stand-By-Arrangement, the Nigerian authorities have made a commitment to sustained macroeconomic stability and exchange rate flexibility.

Ghana

By 1983, triple-digit inflation and parallel market premiums, sharply negative growth, and a good portion of economic activity occurring outside legal channels brought Ghana's economy to the brink of collapse. The Economic Recovery Program (ERP) of 1983-91 began with an effective 800 per cent devaluation of the nominal exchange rate and very gradually liberalized the exchange and trade system by introducing foreign exchange auctions and the licensing of foreign exchange bureaus. The real exchange rate depreciated throughout the period, correcting overvaluation and responding appropriately to declines in the terms of trade. Substantial progress was made in controlling fiscal and monetary policies, although inflation remained quite variable. Although stabilization successes were impressive, real economic growth recovered to an average of only 2 per cent during this period, related to the weak private investment response to the reforms. Loss of fiscal control began again in 1992, as large civil service wage increases associated with the elections rekindled inflationary expectations. Inflation reached 70 per cent in 1995 (1996 was another election year), but it decelerated to 14 per cent by end-1999. However, rapid cedi depreciation in late 1999 and 2000 brought inflationary pressures back to the 30 percent level.

The real exchange rate has been appreciating since 1995, eroding Ghana's competitiveness relative to Cote d'Ivoire, its CFA neighbor and fellow cocoa exporter. By 1999, there was a concern that the increasing appreciation would negatively affect the strong growth in nontraditional exports. The real depreciation during 2000, however, has returned the currency to the most competitive level over the last decade.

The process of broadening access and improving the efficiency of the exchange market continued under the Economic Recovery Program, taking another step forward in 1992 with the replacement of the foreign exchange auction with an interbank market. Currently, however, the

market is still experiencing operating problems, as it is actually a market between the central bank and the commercial banks, rather than a true interbank market.

Following some improvement in fiscal control in 1998, Ghana suffered major terms of trade shock in 1999, as world prices for its main exports (cocoa and gold) plummeted and oil prices doubled. Neither fiscal nor monetary policies responded appropriate, however. The government maintained too high a cocoa price for farmers that severely compromised revenue from cocoa taxes and borrowed from the banking system to fill the resulting higher deficit. Fearing that rapid depreciation would further stoke inflation, the Bank of Ghana (central bank) intervened in the foreign exchange market to slow nominal depreciation. This strategy was finally forced to end by November 1999, when reserves were run down to dangerously low levels.

The Gambia

Economic activity in The Gambia began declining in the late 1970s. The exchange rate, pegged to the pound sterling, became increasingly overvalued. Oil price shocks, low world market prices for groundnuts, and a long drought in the Sahel contributed to the economic decline as did excessive domestic borrowing and money creation to finance the fiscal deficit. The overvalued currency discouraged the surrender to export proceeds to the official banking system, inducing a growing external indebtedness and depletion of gross official reserves. In addition, external payment arrears and a large parallel market emerged.

The centerpiece of the Economic Recovery Program (ERP) beginning in 1986 was the flotation of the Gambian currency (dalasi), resulting in a nominal depreciation of approximately 78 per cent and the removal of restrictions on foreign exchange transactions, Government policy reforms in other areas supported the exchange market reforms: liberalization of controls on prices and interest rates, and large reductions in the budget deficit. A large inflow of foreign aid is also credited as having helped stabilize the exchange rate. The reform has been judged as an example of quite rapid stabilization due to combination of good policies, luck (end of drought), and aid (Radelet, 1993; McPherson and Radelet, 1991). Following the large real depreciation in 1986, there was some appreciation of the real exchange rate until 1990.

The 1994 coup led to a sharp drop in aid, and a reduction in tourism receipts and problems for the re-export trade – both increasingly important sectors of the economy. The Gambia's loss of competitiveness with Senegal after the 1994 CFA devaluation (and the imposition of border controls by Senegal until 1996) also hurt re-export trade. Output declined by 3.4 per cent in 1994-95. After picking up in 1995-96, economic performance deteriorated again in 1996-97, a period of transition from military to civilian rule, as the government made inappropriate policy responses to adverse shocks – primarily through an overly expansionary fiscal stance. The economy began to improve in 1998, although substantial governance problems occurred in 1999 as the government seized the Gambia Groundnut Corporation, incurred excessive debt, and engaged in suspicious extra budgetary spending. Still, the budget deficit was brought down from 12 per cent in 1995-96 to 4.8 per cent in 1998-99, and inflation remained relatively low.

The market-based flexible exchange rate is viewed as having served the economy well. There has been no major deterioration in competitiveness since 1990 based on the real exchange rate, although the 1994 CFA devaluation improved Senegal and Mali's relative competitiveness. Government intervention in the foreign exchange market has been limited to smoothing exchange rate fluctuations and minimizing reserve losses. However, the existence of a 10 per cent spread between the parallel and interbank market reveals limited competition in the interbank market and the need for its further development.

Guinea

Until 1984, Guinea had a centrally planned, command economy system, with nearly the entire formal sector controlled by a large, inefficient public sector sustained by royalties of foreign-owned bauxite companies. A comprehensive reform program, including liberalization of the foreign exchange system, made progress in transitioning to a market economy during 1985-95. GDP growth increased to an annual average of 4 per cent. The fiscal position improved impressively given the cumulative decline in bauxite and alumina prices, which were the major source of government revenue.

From 1986-94, a managed float through an auction market determined the exchange rate. It has been judged as a successful exchange rate based

stabilization (Azam and Diakite, 1999). The central bank adopted a relatively low rate of crawl, independent of the parallel rate, and inflation declined from 65 percent in 1986 to 4 per cent in 1994.

The credibility of the anti-inflation policy has been substantially credited to the strong personality of the governor of the central bank, Kerfalla Yansane. Together with a relatively tight domestic credit policy, this enabled the accumulation of foreign exchange reserves, used for exchange rate based stabilization, even against the background of deteriorating terms of trade.

The economy deteriorated somewhat in 1996, due to problems associated with a failed mutiny by the army. Broad macroeconomic equilibrium was maintained, however, and the overall budget deficit (including grants) was less than 3 per cent. External developments created difficulties beginning in the second half of 1998 when the Asian crisis triggered a sharp fall in prices of bauxite and alumina; deteriorating security in neighbouring countries Sierra Leone, Guinea-Bissau, and Liberia required the government to spend substantial amounts on peace-keeping troop; and uncertainty about stability surrounded the December 1998 elections. The government financed the deteriorating fiscal balance in 1999 by borrowing from the Central Bank.

From 1994-99, the exchange rate was determined in an interbank market, although in recent years the government has intervened excessively to keep the rate artificially high. Before September 1999, the foreign exchange market was highly segmented. State enterprises and donors, operating through two large banks, and large importers dominated an official market. Remaining transactions took place in a so-called parallel market of foreign exchange bureaus, which actually have official status. The spread between the two rates ranged from 4-6 per cent until mid-1998, when the spread began widening and market segmentation became more pronounced, with "shortages" in the parallel market while those with access to official rates earned substantial rents. The central bank introduced a weekly auction for foreign exchange, which helped to reduce the spread significantly, and since end-1999 it has fluctuated between plus or minus 3 per cent. The introduction of a foreign exchange auction also led to a depreciation of 26 per cent in the last four months of 1999, but since then the official rate has appreciated.

Sierra Leone

Sierra Leone's economic situation spiraled downward in the 1980s in the context of pervasive government control and intervention. Budget deficits (financed by money creation) averaged more than 12 per cent, causing inflation to spiral and peak at 167 per cent in 1986-87. The parallel market premium also reached triple digits, so that potential revenue from the mining sector was lost through smuggling and tax evasion, while the overvalued exchange rate and import subsidies led to smuggling of imports to neighbouring countries. An attempt at an adjustment program in 1986-87 – which included an exchange rate float – failed.

A full-scale reform program began in 1989-90, with significant liberalisation of the exchange and trade system, beginning in 1990, as the program's centerpiece. The parallel and official exchange rates were effectively unified through a float in an interbank market, with a large initial nominal depreciation. The real exchange rate, which exhibited massive fluctuations in the 1980s, depreciated with the liberalisation of 1990 and since that point the size of changes has been substantially smaller. Overall results of the reform process were initially mixed as weak fiscal discipline contributed to monetary instability. By 1992, however, the successful exchange liberalisation began to attract foreign assistance and the fiscal situation improved, leading to a build up of reserves and a fall in inflation. It was still very difficult to register any improvements to growth during this period, however, as the economic infrastructure in mining and agricultural exports had nearly collapsed after year of neglect and rebel-related disruptions.

Rebel conflicts and civil war, during which rebels seized the rutile and bauxite mines that generated most export earnings and sizable parts of government revenues, caused the economic situation to deteriorate from 1992. Some gains in stabilization and economic recovery were achieved following the peace agreement and elections of 1996, but the country has subsequently been re-engulfed by civil war.

Additional Structures of the Final Union

The West African Monetary Institute (WAMI) has been established by five countries – Nigeria, Ghana, Guinea, Sierra Leone and the Gambia as

an embryo central bank for a second monetary union, just as the EMI in Europe was the forerunner of the ECB. Statistics are to be harmonized to cover the West African monetary Zone (WAMZ). Such aggregation requires harmonization of country data and common minimum statistics and metadata. The standards for the supply of data are to include frequency, timeliness, quality and availability. In order to facilitate and enhance the effectiveness of the multilateral surveillance mechanism, WAMI has been focusing on strategies to accelerate efforts to improve data quality in the sub region. This recognizes the need to enhance comparability of data across countries for convergence and the implementation of the common monetary and financial policy of the envisaged monetary union.

A study conducted by WAMI has revealed that member countries have all got structures in place for the production of the required statistics. They are all members of the IMF and have had or are currently implementing IMF supported adjustment programmes. The quality of the statistics however differs widely across countries. There are also wide disparities in the timeliness and coverage of key macroeconomic variables. The need for human and technical capacity building in the national statistical agencies was also evident. Scarcity of budgetary resources from the fiscal authorities highlights the need for increased donor involvement to support countries' own efforts.

WAMA is established with the primary function of coordinating the efforts of both WAEMU and WAMZ towards complete integration of the two bodies in forming a single Monetary Union, paving room for creating or forming single sub-regional Central Bank, Single Market, Single Customs Union, etc, etc.

CONCLUSION

The paper outlined the structure and survey of economies of WAMZ, pointing out major economic features such as the population of WAMZ, the Gross Domestic Product (GDP), GDP Growth Rates, Per Capital GDP, Inflation Rates, External Trade, Foreign resources, External Debt Stock, and Human and Income Poverty Levels.

The paper indicates that, balance of payments difficulties prevail in the WAMZ Countries due to periodic adverse shifts in terms of trade, huge

public debt burden, capital flights or low levels of inward investment owing to unconducive environment. Human Development Index indicates that there is high level of poverty, low level of literacy and lack of sufficient good drinking water among others in the WAMZ countries. Analysis of socio-macroeconomic performances of the zone indicated that, member countries should improve on their current socio-economic policy reforms and intensify their political commitments in meeting-up the requirements of convergence criteria, in order to facilitate the overall integration programme.

TABLE 1: GROWTH OF GDP

Country	GDP						Population (in thousands)		GDP Per Capita ($ US)	
	Value in millions of US $ in 1990 prices			Growth Rate						
	1999	2000	2001	1999	2000	2001	2000	2001	2000	2001
Benin	2771	2910	3070	5	5	5,5	6097	6260	477	588
Burkina Faso	3768	3851	4094	5,8	2,2	6,3	11937	12200	328	407
Cote d'Ivoire	12170	11890	12009	1,5	-2,3	1	14786	15900	806	811
G/Bissau	371	399	429	7,6	7,5	7,5	1213	1300	330	429
Mali	3315	3458	3413	6,7	4,3	-1,3	11234	11500	297	327
Niger	2935	3020	3135	0,9	2,9	3,8	10730	11100	295	292
Senegal	7588	8005	8462	5,1	5,5	5,7	9481	9580	836	991
Togo	1761	1754	1815	2,7	-0,4	3,5	4629	4710	393	430
Total UEMOA	**34679**	**35286**	**36425**	**3,4**	**1,75**	**3,23**	**64010**	**72550**	**560**	**559**
Cape Verde	505	520	536	3	3	3	428	440	1222	1296
Gambia	383	408	434	6,5	6,5	6,5	1305	1310	313	349
Ghana	9916	10392	10912	4,3	4,8	5	20212	20800	496	603
Guinea	4049	4223	4413	4,3	4,3	4,5	7430	7800	569	642
Liberia	1684	1729	1826	2,7	2,7	5,5	3154	3198	564	584
Nigeria	44236	44900	46471	1,5	1,5	3,5	111506	114200	408	479
Sierra Leone	573	579	588	1	1	1,6	4854	5000	136	142
Total WAMZ	**61346**	**62751**	**65180**	**2,7**	**2,29**	**3,87**	**148886**	**152748**	**426**	**492**
Total ECOWAS	**96025**	**98037**	**101605**	**3,3**	**2,10**	**3,64**	**219011**	**225298**	**453**	**514**

Source: ECA-SRDC-WA, UEMOA, COUNTRIES, GDP at constant prices of 1990.

TABLE 2: SECTORAL CONTRIBUTION TO GDP (2000 – 2002)

Country	Primary			Secondary			Tertiary		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Benin	37.9	37.4	36.9	17.3	17.5	17.8	44.9	45.3	45.7
Burkina Faso	36.1	35.5	35.0	23.6	24.7	25.9	40.4	39.8	39.1
Cote d'Ivoire	31.4	32.5	33.7	24.1	24.1	24.2	44.6	43.4	42.4
Guinea Bissau	62.4	62.5	62.6	114	11.2	11.1	26.1	26.1	26.1
Mali	55.7	55.4	55.1	15.7	16.1	16.5	28.7	28.7	28.7
Niger	44.6	44.6	44.6	15.5	15.4	15.2	39.9	40.1	40.3
Senegal	21.2	21.2	21.2	32.2	32.4	32.7	46.7	46.4	46.2
Togo	28.0	27.9	27.7	26.7	26.9	27.1	45.0	44.7	44.3
UEMOA	391.	35.0	39.0	20.6	17	21.1	39.3	45.1	38.9
Cape Verde	20.6	20.6	20.6	31.1	31.1	31.6	48.3	48.1	47.9
Gambia	23.8	23.7	23.6	13.3	13.1	12.9	62.9	63.3	63.6
Ghana	52.2	52.5	52.9	17.9	18.3	18.6	30.0	29.5	29.0
Guinea	21.8	20.9	20.1	35.8	36.8	37.9	43.2	43.8	44.5
Liberia	24.5	25.1	25.7	31.3	31.2	31.0	44.3	43.9	43.6
Nigeria	33.4	34.3	35.2	38.3	38.1	38.0	28.6	28.1	27.7
Sierra Leone	51.2	52.4	53.7	22.5	22.6	22.8	26.9	26.1	25.3
WAMZ	31.9	32.2	32.4	26.9	27.0	27.2	40.1	40.8	39.7
ECOWAS	35.4	35.1	35.7	23.7	22	24.1	39.7	43	39.3

Source: UEMOA, Report on Multilateral Surveillance, July, 2001

TABLE 4
EXTERNAL TRADE, RESERVES AND DEBT STOCKS (1999)
(US$ MILLION)

	EXPORTS	IMPORTS	GROSS EXTERNAL RESERVES	EXTERNAL DEBT STOCK (1)
Benin	522	841	400	1647
Burkina Faso	315	783	295	1399
Cote d'Ivoire	5026	4095	632	14852
Guinea-Bissau	NA	NA	NA	NA
Mali	618	899	350	3202
Niger	298	479	39	1659
Senegal	1294	1627	404	3861
Togo	344	823	122	1243
UEMOA	8417	9547	2242	27863

	EXPORTS	IMPORTS	GROSS EXTERNAL RESERVES	EXTERNAL DEBT STOCK (1)
Cape Verde	NA	NA	NA	NA
Gambia	102	162	107	NA
Ghana	2117	3228	454	6884
Guinea	940	1134	122	3546
Liberia	NA	NA	NA	NA
Nigeria	12924	9375	6485	30315
Sierra Leone	175	161	39	1243
WAMZ	16258	14060	7207	41988

	EXPORTS	IMPORTS	GROSS EXTERNAL RESERVES	EXTERNAL DEBT STOCK (1)
ECOWAS	24675	23607	9449	69851

1998; NA = Not Available
Source: World Development Report, 2000/2001

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CONVERGENCE CRITERIA OF THE WEST AFRICAN MONETARY ZONE (WAMZ)

By

Mrs. J. O. Ashinze*

INTRODUCTION

The Economic Community of West African States (ECOWAS) comprising of fifteen states[1] was established in 1975 to integrate and accelerate economic development of the sub-region. To facilitate trade and investment, it is necessary to have in place, some form of monetary cooperation which would facilitate unhindered flow of goods and capital. Monetary cooperation progresses to monetary union when all member countries of the union adopt or evolve a common currency under a unified exchange rate arrangement and apply a common monetary policy under a common authority. Hence, one of the major objectives of ECOWAS was to evolve monetary integration which would lead to the introduction of a single currency zone in the sub-region. To this end, the Heads of State and Government of ECOWAS adopted an ECOWAS Monetary Cooperation programme in 1987.

The primary objectives of the paper are to highlight the need for convergence criteria, analyse the current country position in meeting the convergence criteria and discuss the inherent problems in meeting the criteria. The paper is organised into five sections. Section I reviews the ECOWAS Monetary Cooperation Programme (EMCP); while Section II discusses the need for setting the Macroeconomic Convergence Criteria. Section III analysis the current country position in meeting the criteria. Section IV focuses on the problems each country is facing in meeting the criteria while Section V concludes the paper.

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[1]Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra - Leone (Non-CFA countries); and Benin, Burkina Faso, Cote d'voire, Guinea Bissau, Mali, Niger, Senegal and Togo (CFA countries).

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ECOWAS MONETARY COOPERATION PROGRAMME (EMCP)

As stated earlier, one of the major objectives of ECOWAS was to ensure monetary integration which would lead to introduction of a single monetary zone and a single currency in the sub-region. This is in line with the trend in integration and globalisation. In 1987, the Authority of Heads of State and Government of ECOWAS adopted the ECOWAS Monetary Cooperation Programme (EMCP) to ensure a harmonised monetary system and bolster intra-regional payments systems as well as achieve monetary stability, through the observance of a set of macroeconomic convergence criteria. Convergence criteria are a set of macroeconomic indicators that countries entering into common economic and monetary arrangements are expected to satisfy in order to ensure the comparability of macroeconomic performance of member states of the union. The performance of the countries under the convergence criteria would result in the strengthening of the economies of the states for eventual establishment of a single monetary zone. The overall objective of the EMCP was to be attained in three phases.

i) **The short-term objective** - was to improve and strengthen the sub-regional payments mechanism under the West African Clearing House (WACH), now transformed into West African Monetary Agency (WAMA).

ii) **The intermediate goal** - was to introduce a system of limited currency convertibility in the sub-region; while,

iii) **The long term objective** - was the establishment of a single monetary zone, introduction of a common currency and the creation of a common central bank among other elements of a monetary union.

By 1999 it was observed that the pace of the implementation process, especially, the establishment of the single monetary zone, had not matched the expectations of the founding fathers. The major obstacles to the integration programme were seen as, lack of commitment, political will and strong leadership to implement the policies and actions required to move the programme forward. Another factor was lack of policy coordination and harmonisation between the UEMOA and non-UEMOA countries.

It was this realisation that inspired the Authority of Heads of State and Government of ECOWAS, in December 1999 at its 22nd Summit held in Lome, Togo, to adopt a strategy of a Two-Track (Fast-Track) approach initiated by Nigeria and Ghana to implement the EMCP with a view to reviving and accelerating the integration process in the sub-region.

The Second Monetary Zone

Following the initiative of Nigeria and Ghana, consultations were held with the Governments of The Gambia, Guinea, Liberia, and Sierra Leone, and at a Mini-Summit of the Heads of State of the six countries, held in Accra, Ghana, on 20th April, 2000, the Accra Declaration on the creation of the **Second Monetary Zone** was signed. The Authorities of these countries committed themselves to the introduction of a single currency and the establishment of a common central bank by the year 2003 for eventual merger with the UEMOA zone by the year 2004 under the aegis of the ECOWAS integration programme. This pre-supposes the observance of the ECOWAS convergence criteria and a stricter performance by 2002.

At the Second Summit meeting of the Heads of State and Government of the Second Monetary Zone in Bamako, Mali in December, 2000, the Authorities approved a set of convergence criteria to be attained by member states before the commencement of the single currency in the zone. The Authorities, also with the exception of Liberia, formally launched, signed and established the Second Monetary Zone as the **West African Monetary Zone (WAMZ)**. The West African Monetary Institute (WAMI) was also established effective 1st January, 2001 to undertake all the preparatory works for the introduction of the single currency, and a common central bank in the WAMZ.

THE NEED FOR THE CONVERGENCE CRITERIA

The need to intensify coordination of policies that will prepare the economies of countries willing to form a common monetary union has resulted in the adoption of certain basic macroeconomic and other related economic policy harmonisation mechanism in order to minimise over a period of time, the degree of divergences in economic performances of these countries. For instance, at the first stage of the implementation of the European Union, members countries were enjoined to eliminate all

forms of capital controls. Under the Maastricht Treaty, countries were required to comply with five convergence criteria before acceding to the monetary union. The criteria were in the areas of fiscal balance, fiscal debt, inflation, interest rates and exchange rate stability. However, in that arrangement, only the requirement relating to the fiscal sector was binding prior to the inception of the monetary union.

The convergence criteria for the West African Monetary Zone focus on price stability, sustainability of fiscal deficit, limiting of deficit financing by the central bank and maintaining sufficient levels of gross official foreign exchange reserves. In that regard, the Agreement establishing the zone stipulates convergence criteria to be achieved and sustained over a given time frame.

Different Types of Convergence Criteria

Primary Criteria

a) **Ratio of Budget Deficit (Excluding Grants)/GDP (Commitment Basis of Less than or Equal to 4 Per cent by the Year 2002**

The framework for achieving or attaining this criterion could be approached from two angles. The first is the expenditure side. The countries should maximise the return on every money spent by putting in place policies that improve productivity of labour which is a crucial variable in the national product equation. In this direction, the countries should both improve on the capacity of the labour force, through training and adoption of the best practices as well as the use of appropriate technology. Expenditures that are not so essential should be discontinued. Wastages and leakages through mismanagement should also be eliminated through the adoption of stiffer penalties and appropriate sanctions. On the revenue side, efforts should be made to reform the tax structure to make it more efficient. Several studies have shown that in most developing countries, including Nigeria, the level of tax evasion and revenue loss due to inefficient tax administration is very high.

The government should monitor extensively the expenditure profile of government functionaries at all levels. Accountability

and transparency should be enthroned as the guiding principles of governance, hence the adoption of “due process” of public administration by the Federal Government is highly welcomed.

Since the countries involved are basically primary commodity producers, whose prices are more or less exogenously determined at the international commodities markets, there is need to diversify the productive base of the economies by encouraging the private sector (within and without) to invest in core industrial projects that will create necessary linkages within the domestic economy and at the same time, minimise external shocks. This could be accomplished through the adoption of investment friendly policies and incentives that are competitive to what is obtainable in other parts of the world. Another way of accomplishing this objective is to liberalise the economy substantially. In this direction, there is need to sequentially eliminate all forms of current account controls, while liberalization of capital account should be phased in order to avoid economic and financial crisis, similar to the East Asian countries experience in 1997. The countries should play meaningful role in the various cartels of their primary products in order to influence the decision making process and pricing mechanisms of such organisations.

(b) **Single Digit Inflation Rate by 2000 and 5 per cent by the Year 2003**

The causes of inflation has been well documented in the literature. Prominent among the variables are: budget deficit, money supply, structural rigidities, especially infrastructure malfunctioning etc. Given the above, the countries involved should make every effort to avoid deficit financing, especially deficit financing by the central banks. The growth rate of money supply should be well targeted as much as possible and to be in line with the growth rate of the economy. With regards to structural rigidities, the government in collaboration with the private sector should improve on both the quantity and quality of the infrastructure, especially social infrastructure including roads, rails, electricity, telecommunication and water supply. This will substantially reduce the production cost and consequently, the cost of the final output in the countries.

In summary, a consistent combination of measures is required to deal with inflation. These would include, boosting output through the removal of supply bottlenecks, overhauling and rehabilitating the nation's infrastructural facilities such as roads, water and telecommunication with a view to reducing costs of production and distribution, and harmonising monetary and fiscal policies. In addition, exchange and interest rate policies should be rationalised so as to achieve price stability.

(c) **Central Bank Financing of Budget Deficit to be Limited to 10 Per cent of the Previous Year's Tax Revenue**

This criterion basically requires the legal backing of the relevant countries. The existing laws specified different per centage of central banks financing. Thus, the need for the government to streamline its expenses in line with revenue can hardly be over-emphasised.

(d) **Gross Reserves to be Greater Than or Equal to 3 Months of Imports by 2000 and 6 Months of Imports by the Year 2003**

The attainment of this target basically hinges on several factors, including the fortunes of both different countries' commodities at the international markets and the ability of the central banks to effectively manage the external reserves in such a way that will guarantee maximum yield while at the same time, taking account of security of such reserves. The temptation of drawing down reserves at the slightest opportunity for financing domestic consumption by the government should be resisted. The government should, as a matter of policy, pursue reserves build up in order to strengthen the external value of the currency while streamlining the domestic expenditure in line with revenue.

Secondary Criteria

a) **Prohibition of New Domestic Arrears and Liquidation of Existing Arrears**

This could be attained by pursuing sound macroeconomic policies. In particular, the fiscal and monetary policies should be such that,

would ensure the absence of inflationary pressures. The basic issue here is that consumption and investment should not exceed available income. Extra-budgetary expenditure should be eliminated. However, where fiscal policy is expansionary and deficits become inevitable, the deficit should be funded through non-bank sources.

With respect to monetary policy, financial institutions need to be sound and viable for the policy to be effective. Recent experiences reveal that the financial sector will only be efficient in a competitive market environment with an effective regulatory and incentive framework. Distress in the financial sector must be dealt with in a comprehensive manner by the monetary authorities. In addition, the clearing system in the financial sector must be improved through the application of modern technologies and telecommunication facilities.

(b) **Tax Revenue/GDP Ratio to be equal to or more than 20 Per cent**

The framework for achieving this requirement is basically the reform of the tax system and administration. The government should institute a separate study on tax reform to understand the problem. However, in the mean time, it would be necessary for the authorities to apply more of the indirect tax mechanism to increase the tax yield. For goods that fall into conspicuous consumption, the rate of VAT should be varied, with these goods attracting greater percentage. The need to liberalise the external sector so as to make it competitive cannot be over-emphasised here.

c) **Wage Bill/Tax Revenue to be Equal to or Less than 35 Per cent**

Given the level of inflation and the continuous agitation by labour for increased wages, the government might consider the strategy of either increasing revenue generation or reduction in the number of people employed. The later option seems undesirable given the existing level of unemployment. However, the employment of best practices should be encouraged while the surplus labour that technological innovation might displace should be assisted to

acquire production skills of their choice through a functional entrepreneur development programme. In this direction, preference should be given to the agricultural sector in order to attain the twin objective of self-sufficiency in food production and export of excess raw materials.

d) **Public Investment/Tax Revenue Ratio to be Equal to or Less than 20 Per cent**

The shortest and the most effective way of achieving this requirement is for the government to pursue the privatisation and commercialisation programmes with renewed vigour in the most transparent and accountable manner so as to earn the confidence of both the internal and international investors. Again, this will ensure that funds are attracted to the productive sectors for investment purposes. In areas where the private sector is not yet ready to take a leading role in the economy, there is the need to rationalise expenditure so that only the essentials are provided for, while cooperation would be required to run on purely commercial basis.

e) **Real Exchange Rate Stability**

In order to achieve this requirement, there is need for further liberalisation of the economies. This should improve the efficiency of local industries faced by stiffer competition. The tariff regime should be fine-tuned such that tariffs are reduced over-time. Export bans should be eliminated while the export incentive regime should be further reformed.

Procedures for processing exports and imports should be reviewed periodically to ensure that they do not constrain international trade. Clearing at the ports, pre-shipment inspection of imports and port charges are some of the factors that could constrain trade if not carefully monitored. In this direction, exporters should be guided to the world markets through publicising regulations governing quality standards in foreign markets, improving production processes to attain world standards and generally providing useful information.

Regarding the external debt overhang that also impact on the real exchange rate stability, the countries should strife to reach agreement with the creditors, including the multilateral institutions in order to facilitate agreement on a workable economic programme that would guarantee the resolution of the debt problems. The countries should also strive to get the Paris Club to recognise them among the low-income, highly indebted poor countries that deserve concessional debt restructuring packages. This will certainly help to achieve the stability of the exchange rate, especially if they are pursued amidst a policy mix of sound monetary and fiscal policies referred to earlier.

f) **Maintenance of Real Positive Interest Rates**

The prevalence of high interest rates in Nigeria and Ghana today are caused by forces outside strict monetary policy management. Studies have identified variables such as high inflation rates, inadequate infrastructure and inefficiency of public utilities among the serious causes of negative real interest rates. Thus, to achieve real positive interest rates, these factors must be studied on case by case basis and solutions proffered.

CURRENT COUNTRY POSITION IN MEETING CONVERGENCE CRITERIA

Status of Macroeconomic Convergence: 1999 to 2001

a) **Primary Criteria**
Analysis of the status of compliance with the primary convergence criteria from 1999 to 2001 is presented in Table 1 below.

TABLE 1: MACROECONOMIC CONVERGENCE INDICATORS: 1999 – 2001

Criteria/ Target	The Gambia	Ghana	Guinea	Nigeria	Sierra Leone
Inflation (Single Digit)					
1999	1.7	13.8	6.2	0.2	36.7
2000	0.2	40.5	7.2	14.5	-2.8
2001	8.1	21.3	1.1	16.5	3.4
Fiscal Deficit/GDP 5% or Less					
1999	4.4	9.8	5.83	8.6	17.1
2000	3.6	10.1	5.42	3.2	17.3
2001	11.1	7.3	7.5	4.4	16.7
Central Bank Financing 10% or Less					
1999	0.0	0.0	16.5	0.0	148.4
2000	0.0	57.9	17.2	0.0	0.0
2001	0.0	0.0	0.0	0.0	8.9
Foreign Reserves/Imports (3 months or more)					
1999	7.3	1.4	2.7	7.6	2.0
2000	7.5	1.0	2.2	12.9	2.8
2001	4.9	1.5	2.8	8.5	2.3

Source: Computed from the Study Reports of the West African Monetary Institute (WAMI).

The year 2001 marked the second year of the observance of the convergence targets. Assessment of macroeconomic performances under

the primary criteria indicated that no country achieved all the four convergence criteria in 2001 contrary to the year 2000 when one country, The Gambia, attained all the four criteria.

i) **Inflation (Single Digit)**
Only three countries, The Gambia, Guinea and Sierra Leone met this target in 2000 and 2001.

ii) **Fiscal Deficit/GDP ratio (5% or less)**
In 2001, only Nigeria satisfied this criterion whereas two countries, The Gambia and Nigeria met this criterion in 2000.

iii) **Central Bank Financing (10% or less)**
In 2001, four countries, The Gambia, Ghana, Guinea and Nigeria satisfied the limit on central bank financing of government deficit as against only three countries, The Gambia, Nigeria and Sierra Leone in 2000.

iv) **Foreign Reserves/Imports (3 months or more)**
Only two countries, Nigeria and the Gambia met the criterion on foreign exchange reserves of 3 months of imports in 2000 and 2001.

TABLE 2
SECONDARY CONVERGENCE INDICATORS: 1999 – 2001

Criteria	The Gambia	Ghana	Guinea	Nigeria	Sierra Leone
Tax Revenue/GDP Ratio					
1999	22.0	14.8	10.2	19.6	6.8
2000	23.3	16.3	10.6	17.2	10.8
2001	19.2	17.2	10.8	4.7	13.4
Wage Bill/Tax Revenue					
1999	31.7	49.7	40.2	20.4	96.1
2000	30.6	44.3	36.6	27.8	62.0
2001	39.1	46.4	35.3	35.7	55.0
Investment/Tax Revenue Ratio					
1999	4.2	27.8	9.8	47.5	1.9
2000	4.2	28.1	7.7	39.7	4.4
2001	6.6	18.7	5.5	55.0	6.6
Real Interest Rates					
1999	8.6	-0.9	0.9	-2.3	-29.3
2000	8.8	-22.5	0.7	-1.9	9.3
2001	2.9	-6.8	2.8	-12.6	1.4
Nominal Exchange Rates (% change)					
1999	5.0	33.0	12.5	8.8	16.3
2000	28.9	49.2	14.6	5.8	15.4
2001	10.8	5.4	2.8	8.1	23.2
Domestic Arrears in Local Currency					
1999	39.9	N/a	-18.4	0.0	N/a
2000	-19.0	N/a	-48.8	0.0	N/a
2001	-25.0	N/a	17.8	0.0	N/a

Source: Computed from the Study Reports of the West African Monetary Institute (WAMI).

b) **Secondary Criteria**

As regards the status of achievement of the Secondary Criteria, the data for the year 2001 (see Table 2) showed that with the exception of The Gambia, all WAMZ countries have not been able to raise the level of tax revenues as a percentage of GDP to 20 per cent. Furthermore, the wage bill/tax revenue ratio were not complied with in Ghana, Guinea and Sierra Leone where more than 35 per cent of tax revenues have been allocated to wage expenditure.

On the other hand, public investment/tax revenue was kept above 20 per cent in Nigeria. Real interest raes in the Zone have generally been positive except in Nigeria and Ghana while insufficient data in some countries make it difficult to assess the problems of domestic arrears. There are indications that domestic arrears remain major problems in The Gambia, Ghana, and Sierra Leone.

PROBLEMS IN MEETING THE CRITERIA

No doubt, the renewed political commitment which led to the adoption of a fast-track approach to the integration process in ECOWAS has energised the programme of establishing a single currency in the WAMZ. The speed and incisiveness being attached to the technical issues of the process have attracted comments and commendations of the international community. The successful introduction of the EURO, the common currency of the European Union, has also helped to demonstrate that monetary integration can be planned to be workable. However, there are a number of problems that would need to be resolved to move the project in the desired direction. These include:

i. Compliance with macroeconomic convergence criteria:
 As stated earlier, the achievement of economic convergence is critical for the integration process in WAMZ. Economic convergence is necessary to ensure internal and external balance, a prerequisite for the take-off of the single monetary zone. Despite concerted efforts to achieve sustained macroeconomic stability, economic performance of member countries of the zone at end 2001 was not encouraging. Performances have been constrained by external shocks as a result of the sharp declines in the prices of some of the major primary commodity exports of the zone. This has led to the deterioration in the revenue inflow to the countries.

 Following these developments, fiscal consolidation weakened leading to slippages in the criteria of budget deficit/GDP ratio and central bank financing of government budget deficit, while the inflation rate exceeded the targets in some countries. The criterion on foreign reserve was also not met by some countries. The analysis indicated that the probability of all member countries not meeting the convergence criteria during the stipulated take-off date of the single monetary zone was high;

ii. Prevalence of civil disturbances in some countries of the zone - this has tended to divert resources meant for fiscal consolidation to war prosecution;

iii. Complementary programmes of ECOWAS to be stepped up - the development of transport and communication facilities must be stepped up in the zone so as to enhance the level of intra-regional trade and the efficiency of the common currency. Other issues to be addressed include: the speedy implementation of ECOWAS programmes on the Trade Liberalization Scheme (TLS) and the Protocol on the free movement of persons, goods and services.

iv. Political factors - the integration efforts of the WAMZ have been mainly spearheaded at the executive level by Heads of State and Government, some Ministers (Finance, Planning and Integration, Trade/Commerce, and Foreign Affairs), Central Bank Governors and senior government officials. However, national legislatures and parliaments as well as the general public in member countries have not been fully brought into the picture.

CONCLUDING REMARKS

It is worth noting the efforts of the countries in the West African Monetary Zone to improve on the macroeconomic convergence criteria over the past few years. This is very critical to the stability of the currency union when it takes off. Macroeconomic stability is expected to be attained and sustained in the union so that the anticipated benefits of the project can be realized. It is clear that to meet the stated criteria would require strong commitment by governments in the application of integrated economic policy reform measures. However, one fact stands out clearly, the variables are interrelated. To that extent, attainment of some of them will certainly impact on others, thus, the need for constant studies to evaluate and articulate the policy direction and fine-tuning for optimal results.

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IMPLICATIONS OF THE PROPOSED SECOND MONETARY UNION FOR MONETARY MANAGEMENT IN NIGERIA

By

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INTRODUCTION

The phenomenon of regional economic integration arrangements cuts across most regions of the world regardless of the geographical or income brackets of the integrating nations. From Asia to Europe, North to South America, the formation of regional economic blocs almost took on a life of its own. Not to be left in the lurch, Africa set up a number of sub-regional and continental initiatives aimed at unifying its economic space.

Coming closer home, the Economic Community of West African States (ECOWAS) was established with fanfare in May 1975. The ultimate objective of ECOWAS was to create a common market in the sub-region. Underpinning the drive to a common market was a sub-programme to establish a common currency among the sixteen integrating states. Despite the fact that the sub-programme of monetary integration was accorded special status and attention by the Authority of Heads of State and Government, no appreciable progress has been made toward realizing the lofty objective. The reasons adduced by commentators for the slow pace of progress of the ECOWAS monetary cooperation have been eloquently articulated elsewhere to warrant detailed examination in this limited space.

In a move to redynamise the monetary cooperation programme, six countries, namely The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone decided in 2000 to establish a second monetary union with the ultimate aim of uniting with the West African Economic and Monetary Union (UEMOA) which groups most of the French speaking countries in the region.

I have been asked to speak on "**Implications of the Proposed Second Monetary Union for Monetary Management in Nigeria**". To this end, I will briefly review the theories on monetary integration in Part II, and discuss the potential benefits and costs

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of monetary union in Part III. Part IV, examines Implications of monetary integration for monetary management in Nigeria while the final part contains the concluding remarks.

THEORY OF MONETARY INTEGRATION

Monetary integration is the monetary unification of participating member countries in an economic union and involves the adoption of a common currency, coordinated exchange rate policies, and harmonization of fiscal and monetary policies (Nana-Sink-am, 1978). It is a process that can only be envisaged during the final stages of the five-stage process of economic integration. Corden (1972) emphasizes that the concept of monetary integration essentially involves the following:

i) An exchange rate union, i.e. an area within which exchange rates bear a permanently fixed relationship to each other even though the rates may, in unison, vary relative to non-union currencies; and

ii) Convertibility – the permanent absence of all exchange controls, whether for current or capital transactions, within the area.

The adoption of fixed exchange rate margins among the currencies of member states, or the adoption of a common currency, the pooling of foreign exchange resources, a common central bank, factor mobility and harmonization of monetary and fiscal policies are the defining features of a durable monetary union.

Models of Monetary Integration

Monetary integration may be defined as the **existence of a single monetary zone with a high degree of monetary stability in furtherance of economic integration.** Monetary integration may be viewed as a continuum of arrangements ranging from what economists have dubbed **optimum currency area**, to a full blown **monetary union**. It could take the form of a limited convertibility arrangement whereby the currencies in the zone, through some exchange mechanism, are fully convertible into one or the other at immutably fixed exchange rates. However, such convertibility is restricted to the region. For ease of exposition, I shall limit a survey of monetary integration concepts to the last two since the integration project in West Africa is of the full monetary union variant.

Concept of Optimum Currency Area

Mason and Taylor (1993), defined an optimum currency area as a geographical area in which a single currency circulates as the principal medium of exchange. Here, the advantages for internal trade of further expanding the area of fixed exchange rates equal the costs of giving up the freedom to devalue or revalue. For instance, the South African currency, the rand, circulates freely in Swaziland and Mozambique side by side with the national currencies of the two countries. In other words, even without a formal monetary integration treaty, economic, social, geographical or historic fundamentals can enthrone one currency as the pre-eminent medium of exchange and store of value in a region.

A priori, the wider the optimum currency area, the greater the gains from the use of a single currency in the integrating zone. But certain factors related to macroeconomic shocks limit the size of the area (Mundell, 1961). For instance, unless labour and capital can freely move between two integrating countries, a fall in demand in one country could eventuate unemployment in the other in the absence of a flexible nominal exchange rate. Assume that wages and prices are sticky downwards. The only way to effect real exchange rate depreciation would be through an adjustment in the nominal exchange rate. But in real life, labour mobility is impeded by such factors as immigration restrictions, language and cultural barriers, foreign exchange and fiscal barriers. In other words, the internalization and sustainability of the net benefits in an optimum currency area are driven largely by the degree of diversification of the economies of the integrating countries. In this context, it was not surprising that the ascendancy of the naira on the West African coast in the late 70s and early 80s collapsed with the first waves of severe shocks to the Nigerian economy, given the similarity of the production profiles of West African economies.

Concept of Monetary Union

A monetary union may be viewed as **an area within which exchange rates bear an immutable relationship to each other**. If there are several currencies in the integrating zone, these currencies must be fully convertible one into the other at permanently fixed exchange rates, thereby effectively creating a single currency. This could be effected through an exchange rate mechanism such as the effective European Exchange Rate Mechanism or the ineffectual ECOWAS Exchange Rate Mechanism.

A full blown monetary union is usually characterized by a common currency, common monetary and fiscal policies, a common pool of foreign exchange reserves, a harmonized credit policy and a common monetary authority or central bank.

The case for monetary union is based on the grounds that the standard function of money as a medium of exchange and store of value is more effectively performed as the cost of conversion and forward cover are eliminated and hence, realizing real saving. Thus, there would be zero transactions costs related to exchange rates variabilities arising from the use of different national currencies for intra-regional trade and investment. Cooper (1990) advocates a single global currency area to minimize transactions costs on international trade. Concerning intra-regional trade flows within the currency zone, McKinnon (1963), postulates that the higher the level of intra-regional trade within a common currency area, the greater the cost saving from the currency union as a result of reduction in transactions costs.

Proponents of monetary union have also based their argument on the degree of openness of the integrating economies. It is contended that open economies (like WAMZ economies) are suitable candidates for fixed exchange rates vis-à-vis their trading partners. Assume a fall in demand for the country's exports. Further assume that the economy is at full employment. In order to maintain external equilibrium, resources must be shifted from the production of non-traded goods to the production of traded commodities.

Another important issue relevant to the discussion of monetary unions is the conduct of fiscal policy by the integrating countries. In a monetary union, national fiscal actions or inactions could impact tremendously on other union members. Infact, this possibility is one of the nightmares of integrationists. It carries with it the risk of low inflation countries importing inflation from countries with high rates. This could make the low inflation countries to demur on decisions to advance the cause of regional integration (Itsede, 2001). Hence, the need for policy coordination to minimize these externalities.

BENEFITS AND COSTS OF MONETARY UNION

Monetary union confers enormous benefits on the integrating countries:

Monetary Policy Management

A monetary union entails the establishment of a supranational central bank managed by nationals of the integrating countries. This means that the integrating countries would lose their cherished sovereignty over the determination of monetary policy. Consequently, interest rates, exchange rate and credit policies would be determined at the regional level and implemented at the national levels. Centralization of monetary policy management insulates it from the influences of populist national politics. In this context, it is important that the regional monetary authority enjoys autonomy in the performance of its functions and still remain accountable to the polity through an appropriate structure.

Trade Effects

A major attraction of monetary integration is its trade-creating potential within and beyond the constituent states by removing some of the payments obstacles to trade. These include the union's regime of a stable exchange rate of the common currency. In such a fixed exchange regime, costs of money conversion and forward cover required in a flexible exchange system are eliminated. The common currency thus constitutes a reliable anchor for businessmen in their trade contracts and position – taking on trade issues generally. It is thus not surprising that a great many economists and policy makers themselves have at one time or another blamed the low level of intra-ECOWAS trade on payments difficulties owing to the existence of inconvertible sub-regional currencies, widely fluctuating exchange rates, and competitive regional production profiles, amongst others.
Although the Treaty of Lagos provides for the elimination of tariff and non-tariff barriers between member countries of ECOWAS, the activities of corrupt border security officials, poor inter-modal transportation networks and paucity of market information have militated against intra-ECOWAS trade expansion. As a result, the share of intra-ECOWAS trade in the total trade of the community has stagnated in the 10 percent region over the years.

Reduction in Fiscal Deficits

It is common knowledge that the bane of macroeconomic stability in West Africa is huge and persistent deficits. One advantage of WAMZ is that the regional central bank would be precluded from lending to governments. This development should make it easier to reduce fiscal deficits and promote growth through improved resource allocation by the public sector which is the drive of the economy.

Capital Market Gains

Monetary union involving a common currency is tantamount to the unification of the national capital markets of the integrating countries. This promotes market deepening, greater competition and more investment opportunities for institutional and individual investors. Banks, brokerage firms, issuing houses and other capital market operators can expand their operations rapidly for investible funds held by savers in cross-border accounts. Private firms and public entities issuing debt instruments would have a larger pool to tap into. For instance, adoption of a common currency by members of the West African Monetary Zone (WAMZ) implies that the nationals of the Zone could freely trade on the Nigeria Stock Exchange and Ghana Stock Exchange without exchange rate or currency risks. Firms would not bother themselves sourcing foreign exchange to remit dividends to community investors. ***But would the stock exchanges, brokers, issuing houses and other capital market operators require a single or multiple licences to do business across national borders in the Zone? In order to ensure a safe, level and viable playing turf, a unified capital market should have a common regulatory framework with common rules, standards and ethics that would guide cross-border investments within the integrating zone.***

Seignorage Gains

There are huge seignorage gains (and losses) from the issuance of a common currency, especially if monetary integration results in significant expansion in intra-union trade. The large amount involved in the printing of a union currency would entail a relatively lower unit cost of printing compared to printing national currencies. All things considered, opportunities for seignorage, profit from the issue of interest-free currency, abound more in a monetary union than in a national economy.

Saving on Foreign Exchange Reserves

Monetary union implies saving on foreign exchange reserves by union members. The importance of this benefit is not very clear in the early stages of a currency union when the members may not be so sure of the future course of events. However, it will become increasingly significant with greater cooperation among the member countries of the currency union. Ultimately, the members would be completely liberated from

having external reserves for transactions internal to the union, just like states within a country. How much reserve saving can be realized in the early stages of currency unification depends on the degree of substitution of union tradables for those of third parties, and the level of intra-union capital flows.

COSTS OF MONETARY UNION

Loss of Sovereignty over Monetary Policy

One of the most noticeable consequences of monetary union is the renunciation of sovereignty over monetary policy determination by the integrating countries. For a country that has been used to monetary targeting as a strategy of monetary policy, this would amount to a fundamental shift in monetary management. The change could be severe especially if the regional central bank adopts a different policy strategy such as inflation or exchange rate targeting. A national currency is one of the visible symbols of sovereignty which many a country give up. All these are factors that enter into Britain's calculus of whether to join the Euro or not.

Membership in a monetary union implies that the country concerned has abandoned the use of monetary policy as a tool to regulate employment. Germany discovered this reality to her chagrin – during the run up to the Euro currency. Swarmed by growing unemployment against a background of high interest rates, the country argued a case for reduction of interest rate by the European Central Bank (ECB) to stimulate employment. The ECB was unpersuaded by the German argument and refused to lower interest rate, despite German pre-eminence in the EU and the fact that the ECB is located in Frankfurt!

Seignorage Losses

Monetary union has also been criticized on the grounds that unionizing countries lose revenue from seignorage. Many countries earn up to 0.5 percent of gross domestic product (GDP) from seignorage per annum. Regionalisation of currency printing obliterates this certain source of revenue. This is a real cost which a country must weight against the potential gains from joining the union. It is important that an acceptable modality for apportioning seignorage gains is agreed at the initial stage. Not even the advanced economies of Europe failed to negotiate this corner with due caution. The EU compromise was to phase in an agreed formula for distributing seinorage gains. **So, how will seignorage be distributed by the West African Central Bank? Would the formula be related to capital subscription to the Bank or based on some other criterion?**

Constraint on Stabilization Measures

When the economy is overheated from a bout of inflationary pressures, the government adopts a set of deflationary measures to douse inflation with its counter-growth consequences. It could decide to jack up interest rates and reduce the fiscal deficit through a combination of measures. On the other hand, during periods of deflation when the economy's resources are under-utilised, government takes a number of actions to stimulate employment, income and growth. This could take the form of reduction in interest rates and pumping prime the economy through fiscal operations. The set of policy responses which a country deploys to manage inflation or deflation are known as stabilization measures. Membership in a monetary union constrains a country's ability to use stabilization measures to fine-tune the economy.

Macroeconomic Costs

Another aspect of monetary union that needs to be discussed is the question of **asymmetric shocks**, that is to say, shocks which have varying degrees of hurt on union countries (Mordi 2002). This could be due to factors such as different levels of economic development and differences in institutional settings. Thus, the larger and more asymmetric the shocks, the greater the cost to the country affected by the use or non-use of a particular policy response. Monetary union carries with it the possibility of low inflation countries **importing inflation** from countries with high inflation. This is the reason why union countries push toward convergence of key macroeconomic variables (including inflation) in the process of monetary integration. Another potential cost that could be associated with monetary union is **loss of industrial location** to more economically viable regions in the zone, made possible by the unification of the national markets into one. Given an integration process that involves adoption of cooperant sectoral policies (such as liberalizing labour laws), monetary integration could trigger spatial changes in **population distribution** as labour migrates to "**action spots**".

IMPLICATIONS FOR MONETARY MANAGEMENT IN NIGERIA

Macropolicy Management

As it were, participation in a regional monetary union will have far-reaching implications for macroeconomic and notably, monetary management in Nigeria. For starters, Nigeria would need to adopt and implement tough macroeconomic policy measures to meet the convergence criteria without which no meaningful progress would be made toward the formation of the monetary union. At the last count, Nigeria met only two of the critical primary convergence criteria. The point here is that the national economic policy framework would have to be increasingly realigned with the regional agenda.

Monetary Policy Management

An important fall out of Nigeria's membership of the regional monetary union would be the loss of independent monetary policy management at the national level. With this goes the use of exchange rate and interest rate policies as tools of economic fine-tuning. The CBN or the national branch of the regional central bank would no longer unilaterally determine the quantity of money in circulation. Rather, these far-reaching decisions would be made collectively at the regional level and passed down for implementation.

Foreign Exchange Management

A monetary union involves the pooling of foreign exchange reserves of participating member countries. The management of the pooled reserves resides in the central monetary authority or common central bank. The synergy gained from pooled reserves affords the regional central bank a wider range of options to diversify and rationalize its investment portfolio with a view to maximizing earnings from the investment of reserves. However, it is important to agree on what should be pooled at the outset. ***Should member countries surrender all their foreign reserves holding or part of it on Day Zero? If it is partial surrender, what is the optimal fraction? If reserves (assets) must be pooled, what about external debt and contingent liabilities on the cut-off date?***

Finally, monetary union will entail a reduction in commission earned from sale of ECOWAS travelers cheques that would become superfluous in the union states.

Enhanced Financial Deepening

Immense opportunities (and threats) to financial institutions abound in monetary union. Although somewhat similar, the financial systems of the integrating countries in West Africa are at varying stages of development and sophistication. For instance, only the Nigerian financial system currently embraces the full Universal Banking (UB) concept. The integration of the market would throw up opportunities for them to use their present UB experience to a competitive advantage. Conversely, Nigerian banks would have to brace up to the challenges that would be posed by Ghanaian banks and bureaux de change which use relatively advanced techniques in the interbank foreign exchange market.

Mergers and Acquisitions

Mergers and acquisitions are common features of the financial system as financial institutions reposition for the union market. With the enhanced scale of operations, the salutary effects of mergers spreading overhead costs of transactions more widely are enormous. The resultant low cost profile could induce a downward pressure on long run lending rates, prices of products and services, thus enhancing competitiveness of the financial sector and its employment generating capacity.

Payments Systems

A single currency requires a single integrated money market which in turn requires an efficient payment system. The international quality standard for payments systems is **Real Time Gross Settlement** (RTGS). Ghana is the only country in the WAMZ zone that currently operates RTGS. **There is an urgent need to upgrade the payment systems of member states to RTGS level so as to provide the necessary infrastructure for the smooth functioning of an integrated money market.**

Banking Supervision

A basic issue which arises with the introduction of a common currency is whether banking supervision should be conducted at the community level or continue to be conducted at the national level, but subject to the directives of the common central bank or a supranational supervisory authority. In the European Union, arguments for centralized supervisory framework were not very strong. The Bundesbank believed in principle that supervision should not be the responsibility of a central bank, arguing that occasional bank failures were inevitable or even desirable. Under the framework of WAMZ, a West African Financial Services Authority (WAFSA) will be established to perform this function in the long-run. This model should be relatively easy to integrate with a similar one operated by the Francophone countries in the region. Whatever happens, one thing is sure: monetary **union would entail the need to put in place a common legal and regulatory framework for prudential regulation of the banking system**.

Deposit Insurance and Bank Licence

Another key issue is the question of deposit insurance. **As of now, only Nigeria operates a deposit insurance scheme in West Africa. It is important therefore, that this matter is given due attention in the lead up to monetary union[1]. Then there is the issue of bank licensing. Would a licence issued by WACB or other competent authority suffice for region-wide operation by the licensee?**

Challenges of Monetary Integration

An important issue that must be addressed effectively is popularization of the monetary union project. In order to dispel distrust, suspicion, ignorance and confusion, a comprehensive and sustained programme of enlightenment is imperative. The campaign should cut across all strata of the polity to enable all stakeholders buy into the programme. It is essential that the public is carried along. Buffeted by political turmoil, fractured by civil wars, West Africa has become a caricature of Sub-Saharan African instability. Against this background, the risk of a dramatic change in government in a member country resulting in its reneging on the integration agenda should not be totally discounted.

More importantly, for any regional integration scheme to succeed, the process must be driven by committed leadership whose every pronouncement and action must be in synch with the regional agenda. This would imbue the scheme with the confidence and credibility required to sustain the interest of members in it. In Europe, Germany and France co-navigated the European Monetary Union ship successfully to the shore. In WAMZ, Nigeria and Ghana have the natural credentials to play this role. The world watches and waits with bated breath.

Concerning credibility of the scheme, this could be undermined with persistent and widespread failure to meet the convergence criteria and other targets. Frequent postponement of deadlines could result in diminution of interest and emergence of integration fatigue. All these could culminate in the breeding of a core of **ecoskeptics** whose ranks could swell over time. This would surely not augur well for the economic integration efforts of the region.

CONCLUDING REMARKS

A country which participates in a monetary union renounces a very important instrument of economic policy. With this abandonment of monetary and exchange rate

[1] See Itsede C. O., (forthcoming) for a detailed discussion of the "Implications of Monetary Union for Deposit Insurance".

policy would go a host of other domestic economic management policy options. These are significant costs that could discourage a country from unionizing. Yet, given the political will to implement decisions, commitment and sincerity of purpose, the gains and opportunities that await integrating countries outweigh the perceived costs.

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COST-BENEFIT ANALYSIS OF MONETARY UNION IN WEST AFRICA

By

Olukayode Somoye, Ph.D.*

INTRODUCTION

Our theme today is the Cost-benefit analysis of West Africa Monetary Union. In other words, what are the economic costs and benefits derivable from the monetary integration in West Africa? We are all aware that some European nations finally integrated monetarily on 1st January, 2002 after decades of planning. It may however be difficult to evaluate the result thus far. But we can say that the European economy has become stronger in spite of seeming depression.

We should also note from the on-set that it is hard for now to evaluate *a priori* the benefits and cost of monetary integration in West Africa in the light of constraints imposed by so many factors which will be highlighted in this paper.

From the definition point of view, cost-benefit analysis has two dimensions. First, the financial cost-benefit analysis which relates to the financial returns on investment. Second, the economic cost-benefit analysis which relates to the economic desirability on proposed monetary integration. This paper is concerned with the latter which will form the basis for the take-off of monetary integration; and the former will only be relevant when the framework for a desirable monetary integration have been finally agreed upon.

The objective and justification of economic cost-benefits are two folds. From the monetary and non-monetary points of view. Commercial project evaluation only considers input from and output to the investor but does not regard the contribution of a project to the economy of the country as a whole.

Projects commercially viable need not necessarily be economically viable in the national economic sense, and vice-versa. But, as capital is a scarce resource, especially in less-managed nations, the economic impact is of utmost importance.

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The objectives of economic impact analysis are to reflect more accurately the true economic contribution of the proposal and to facilitate optimal investment decisions from the regional point of view.

The main differences between financial and economic evaluation, are the following:

1. In economic evaluation, projects are assessed under different aspects than in commercial evaluation. Whereas in commercial evaluation only the costs and benefits of the investor *per se* are concerned. Economic project evaluation takes into account the costs and benefits of the whole society.

2. In commercial project evaluation, input and output are priced at their market prices. Yet, owing to market distortions, market prices do not reflect true economic costs and benefits. Therefore, they are replaced by shadow price in economic analysis.

3. The definition of costs and benefits is wider in economic analysis. In addition to direct monetary flows, indirect linkage effects and external economies and diseconomies are taken into account.

REVIEW OF WORLD ECONOMIC PROSPECTS FOR MONETARY INTEGRATION

The objective for monetary integration is borne out the desire for economic growth and development in any region. In West Africa there is abundant poverty and instability; and the need for monetary integration is greater. The World Bank Development outlook report (2002) gave a vivid description of the global economic picture as follows:

- **East Asia and Pacific** – In the last 40 years the region grew faster than any other developing region. Led by China, the region achieved GDP per capita growth of 5.3% a year. But interrupted by a sharp drop in 1997 following the financial crisis that began in 1997. Up till now, it has not fully recovered

- **Europe and Central Asia** – For the transformation economies of Europe and central Asia, since 1988, the region has experienced a sharp drop in growth except Russia with an average growth rate of 8.9% in 2000 due mainly to the higher oil prices. Poland maintained average GDP per capita growth of 4.5% in the 1990's the highest among transforming economies.

- **Latin America and Caribbean** – The GDP per capita increased by about 1.6 per cent a year over the period since 1960. Although, the region has the highest GDP per capita in the developing world, it also includes some of the poorest countries: Guyana, Haiti, and Nicaragua. Latin America and Caribbean have experienced greater volatility in growth than other regions and regional growth rates have declined since the 1980's. Some of the largest and wealthiest economies – Argentina, Brazil and Mexico experienced growth-interrupting financial crisis. However, Chile is Latin America's notable exception having achieved economic stability and steady growth of 5.2% over the past decade.

- **Middle East and North Africa** – They have been able to achieve sustained growth. Saudi Arabia, the largest economy in the region has grown about 0.8% a year since 1960's. Egypt has grown an average of 3.2% a year for the past 40 years. However, 26 years after the first oil boom the regional economic fortunes are still driven by international oil prices.

- **South Asia** – has experienced erratic growth especially early years, averaging 2.2% a year over the past 40 years. More recently, strong growth in India, which opened its economy and encouraged foreign investment in the past decade, has helped to raise regional growth rates. India averages 4.1% annual growth during the 1990's. Pakistan, the second largest economy in the region grew 1.2% percent a year and Bangladesh 3.0 percent.

- **Sub-Sahara Africa** – This region (inclusive of West Africa) has been nearly stagnant with less than 0.2 percent annual growth over a long period and declining growth rates. Fourteen major African countries had negative growth. Ever such resource – rich economies as Ghana, Nigeria and Zambia, classified as lowest-middle-economics in the 1960's have become considerably poorer, in some cases because of political instability.

- **South Africa -** A middle-income economy output has barely kept pace with population growth. But Botswana, another resource rich economy, and Mauritius have done well improving their status from low-income economies in the 1960's to upper-middle-income economies today. Both doubled their economies in the past decade. Mozambique, a post-conflict country has grown steadily at an average of about 5.4% a year since 1992. What made the difference could be found in consistent, sound economic policy, general political stability and openness for capital inflows.

Given the above global economic picture, any cost-benefit analysis of monetary integration will involve some crystal ball gazing. At the same time, recent research in international macroeconomics offers several important insights that can help inform our discussion. A comparative analysis of the economies of some European and West African regions is worth reviewing.

Figure 1: Graph Of Population In West Africa & European Union Countries

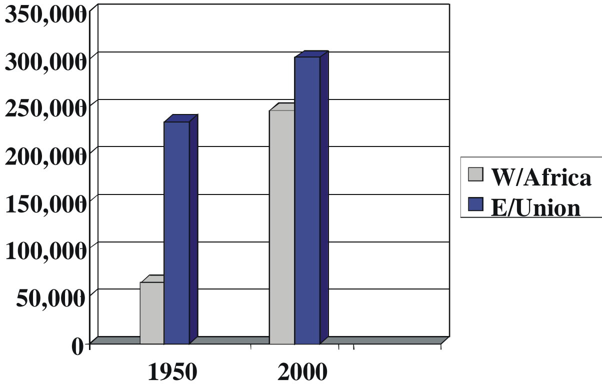
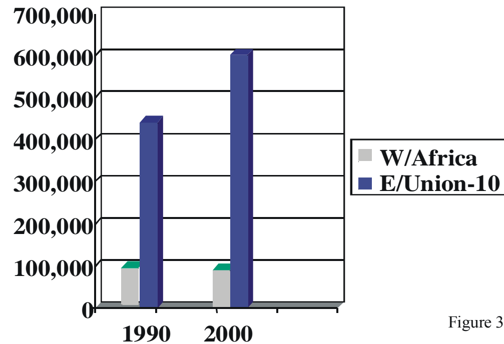


Figure 2: Graph of GDP in West Africa & European Union



It may not be interesting to compare the economics of European countries and that of West-Africa nations. First, because of their level of economic development; and second, because of little diversities in the concept of integration. Nevertheless, the purpose is to give us an insight into the significance of monetary union despite the level of economic development. From figure 1, we notice that, though the population of the European countries is far more than that of West-Africa, the rate of growth between 1996 – 2000 is 73 per cent for West Africa as against 22 per cent in Europe. With the low level of production and attendant scarce resources, it may now be necessary to reduce our population The Gross Domestic Product shows average of 2.6 per cent growth in Europe as against 0.45 per cent per annum (Figure 2). The same could be said of the real exchange rate (Fig 3), the official exchange rate (Fig 4) and Interest rates (Figures 5 & 6). What we intend to establish graphically is not to determine the good and bad economies, but to show that if the European countries with economic base could integrate monetarily, the West African countries with weak economic base have no alternative. See Appendix I and II

Figure 3: Real Exchange Rate In West Africa & European Union Countries

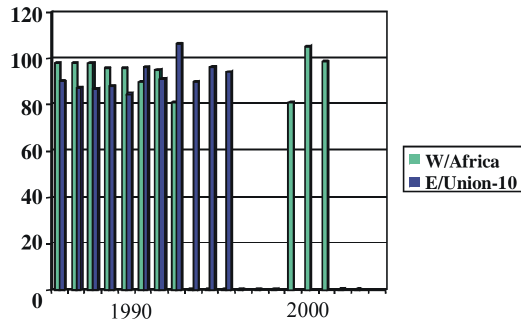


Figure 4: Interest Rate In West Africa & European Union Countries

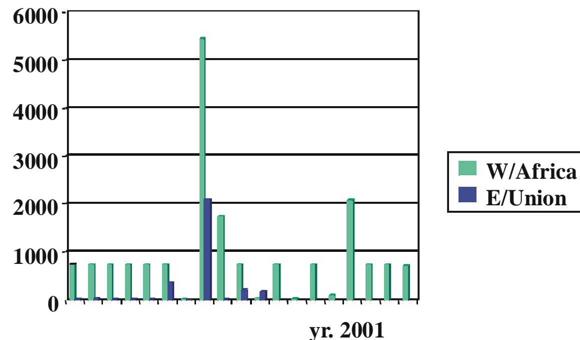


Figure 5: W/AFRICA INTEREST RATE

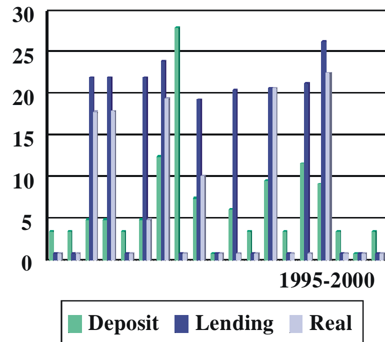
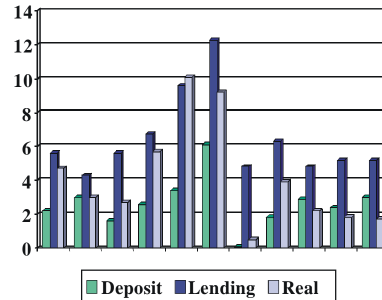


Figure 6: European Union Interest Rate %



Monetary Integration Diversities

There are diversities that are very important in the context of monetary integration in West Africa. They are Economic, Political and exchange rate stabilization or volatility.

West Africa region is a small open-economy as described by Richard (2001). It consists of imperfect competition, price rigidities and unstable political environment. Galf and Monacell (2000), Maurice Obstfield and Keneth Rogoff (2000), Lars Svenson (2000), states that apart from the nominal price rigidities, which is in form of staggered price-setting, we allow for a friction in the labor market in order to introduce a short-run trade-off between inflation and output. Only consumption goods are produced and traded. The regional Household consumes a domestic and a foreign good that are imperfect substitutes. The domestic good is a composite of a continuum of differentiated goods, each produced by an associated monopolistically competitive firm at home. The home economy is small in the sense that it does not influence foreign output, the foreign price level or the foreign interest rate. However, the equilibrium terms of trade still depend on both home and foreign disturbances.

Loss of Monetary Sovereignty

Each of the nations within the region will loose its sovereign rights to determine its monetary policy in the area of exchange and interest rates. The exchange rate will be subject to the assessment of the modern floating-rate of gradual adjustment in response to differentials in relative regional price levels. There will be a single Central Bank.

Loss of Currency Sovereignty

Currency has greater sentiments, and particularly in its function as a unit of account, is a natural monopoly. There are several reasons why it may not be desirable to maintain single currency. Many nations within the union are both intrinsically linked to domestic and foreign currencies, i.e. the Franco-phone countries. However, though, a number of channels, global currency competition provides a check on inflation (as illustrated, for example, in Rogoff [1985]. A related concern comes from the natural regulatory functions that a single central bank would have to assume. In an era of ongoing financial innovation, in which paper currency may well become defunct, there are ample reasons to be concerned that a single central bank might constrain innovation, either out of the desire to maintain a strong monopoly or simply due to misjudgment. These are already problems in the current system, but they would only be exacerbated by having a single currency.

Disparity in the Level of income

The level of income is low in the region. The domestic prices of goods and services move very sluggishly, at least at the consumer level. This will effect the exchange rate from fluctuating like a typical major stock price index. The "purchasing-power-parity diversity" is but one manifestation of a broader range of diversity which Obstfeld and Rogoff (2000b) call "the exchange-rate disconnect puzzle." Simply put, while the exchange rate seems to gyrate wildly, it does not appear to feed back into the real economy with nearly the force and speed that one would expect for such an important relative price.

Disparity in the Level of movement and prices of goods

Monetary Integration eliminates a substantial bulk of the costs that limit goods and capital-market integration. The efficacy of the common currency would be self-fulfilling. However, I am skeptical that this would be the case, notwithstanding the interesting evidence Andrew Rose (2000) provides in the currency arrangements of small region like West Africa. It is true that the common currency may ultimately coincide with much higher trade with the rest of the world, but attributing the expected rise singularly to the adoption of a common currency would seem naïve. In fact, at the same time countries in Europe have been pursuing a common currency arrangement, they have taken numerous other steps toward economic integration, ranging from coordination of electric-plug sizes to standardization of supervision and regulation of banks and financial intermediaries. There is a good analogy in the old fable of nail soup: A beggar, trying to talk his way in out of the cold, claims that he can make a

most delicious soup with only a nail. The farmer lets him in, and the beggar stirs the soup, saying how good it will taste, but how it would be even better if he could add a steak. After similarly convincing his host to contribute a chicken and all sorts of other good things, the beggar pulls out the magic nail, and indeed, the soup is delicious. The ECO is the nail.

Absence of a Single Government for Intervention in Monetary Crisis

Absent a single government to act in a situation of crises is a matter of concern. It would be difficult to establish adequate checks and balances on a single central bank. The U.S. Federal Reserve is technically independent, but it is also fundamentally a creature of Congress, one that could in principle be dissolved at short notice. Although the nascent government institutions of the European Community are still fairly weak, they nevertheless provide some forum for supervision of the European Central Bank.

Disparity in Manpower

More generally, political problems could make it difficult to choose top-notch central bankers and, equally importantly, conservative central bankers who place a strong weight on inflation. In principle, one can design mechanical rules (such as inflation targets) which reduce the importance of the individuals governing the central bank. In many less-managed countries, this second-best approach may indeed be far preferable to a random draw from the political process, but I am very skeptical of claims that any simple mechanical rule can come close to what can be achieved by a grandmaster of monetary policy such as Alan Greenspan. This is indeed a common finding in the artificial-intelligence literature; that is, computers can equal "expert" level in many fields but not "master" level.

FRAMEWORK FOR MONETARY MODELS

West Africa exchange system revolves around four (4) major international currencies: Dollar, French Francs, Yen, Pound sterling and now Euro. Although each of these countries within the region have individual currencies but converge on 4 major currencies which are dominant in the trading routes of West Africa. Given the antecedents of dismal performances of the exchange rate systems in the region, what type of exchange rate method is desirable among various options?

As Fisher (2001) stated, fixed or pegged exchange rates have been a factor in every major emerging market financial crisis – Mexico (1994) Thailand, Indonesia, and Korea (1997); Russia and Brazil in 1998; Argentina and Turkey in 2000; and Turkey

again in 2001. Emerging market countries without pegged rates – including South Africa, Israel, Mexico and Turkey in 1998 – have been able to avoid such crisis. On this basis, for a single economy proposing for monetary integration, open to capital flow one or combination of the following formulation may be appropriate for exchange rate framework

- Peg Rates (Not sustainable unless they are very hard
- Adjustable Rates
- Market dominated or floating exchange rates
- A wide variety of flexible rate.

The most contention point about the monetary integration is the abandonment of the various currencies of the member union. This objective comes in two ways. First, in response to an unfavorable disturbance, a flexible exchange rate offers an easier way for adjusting relative to price levels and hence competitiveness than general definition. Second, a fixed rate sets up a one-way option that is bound to be a target for speculative attack. The more substantial issue is to review the response to disturbances in a context of inter-temporal optimization, including an explicit role for capital market. In an economy where there are international capital markets, cyclical disturbances at home or abroad or temporary terms-of-trade fluctuation do not require offsetting movements in relative prices so as to maintain balance current account. On the contrary, from a perspective of inter-temporal optimization, partial adjustment of consumption or investment and current-account financing should be most of the buffer. This leaves a bit of an exchange-rate issue, but it also puts it in a cost-benefit perspective. In terms of models used in new classical economic, the exchange rate can be used as a "fooling device" to create unexpected changes in real factor rewards, but these will last only for a while. Expectations for monetary integration may be difficult for now when one considers the propensities to instabilities beyond the confirms of economic equations. Nevertheless, a framework has to be set until the central bank of West-Africa or West-Africa Monetary Institute, as the case may be formulates a "responsive" foreign exchange model.

Having recognized unfavorable disturbances as the major factor that may affect whatever exchange rate model in place, we shall develop four models which could be adjusted or merged or allow to converge at equilibrium level. My postulations are products based (Somoye – 2002). That is, the major resources (Oil and Agriculture) available in the region are the best determinants of the approximate model, subject to disturbances at home and abroad.

Let us have an inter-temporal model for monetary system. We denote Z^* and Y^* as the price index of the two major products: i.e. Oil & Agricultural respectively. We also

denote the coefficients of the major products as α and λ representing major disturbances of the model and the sum of their probabilities is one(1). We now have

$$M^* = (1 - \alpha)Z^* + Y^*(1 - \lambda) + u.$$
$$\text{for } 0 \leq \alpha < 1 \text{ and } 0 \leq \lambda < 1$$

M^* = The real exchange model, Z^* = Oil, Y^* = Agriculture, α = disturbance co-efficient for Z^* and λ disturbance co-efficient for Y^*

From the above, we observe that four scenarios emerged, thus:

(1) $1 - \alpha < 0$ (2) $1 - \alpha > 0$

(3) $1 - \lambda < 0$ and (4) $1 - \lambda > 0$

That being the case, we have the following models.

$$M_1 = +(1 - \alpha_1)Z_1^* + Y_1^*(1 - \lambda_1) + u_1 \quad (1)$$
$$\text{for } 1 - \alpha_1 > 0 \;\; 1 - \lambda_1 > 0$$
$$M_2 = -(1 - \alpha_2)Z_2^* + Y_2^*(1 - \lambda_2) + u_2 \quad (2)$$
$$\text{for } 1 - \alpha_2 < 0 \;\; 1 - \lambda_2 > 0$$
$$M_3 = +(1 - \alpha_3)Z_3^* + Y_3^*(1 - \lambda_3) + u_3 \quad (3)$$
$$\text{for } 1 - \alpha_3 < 0 \;\; 1 - \lambda_3 < 0$$
$$M_4 = -(1 - \alpha_4)Z_4^* + Y_4^*(1 - \lambda_4) + u_4 \quad (4)$$
$$\text{for } 1 - \alpha_4 < 0 \;\; 1 - \lambda_4 < 0$$

From the above, there are two questions. First, can we attain an appropriate equilibrium exchange rate within the context of models (1) – (4) ? Second, can any of the models work in isolation of the other under any situation? The answer is that each of the models is independent and mutually exclusive of the other. Nevertheless, the models are still subject to modification and fine-tuning which is beyond this paper.

SOME BENEFITS OF MONETARY INTEGRATION

Given the dismal picture of the West African economies, the question now is: are there any benefit for integrating monetarily in an economy not transparent, low production and consumption and import dominated?

Rudi Dornbuch (2001) recalled that a century ago, being a civilized country meant being on the gold standard. And gradually monetary systems were denominated either in Gold or Sterling or Dollar or Deutschmark. All these fell apart in the great depression with capitalist controls, competitive devaluation, and discretionary central banking. However, the great inflation of the 1970's and extreme monetary experiences in many less-managed nations, the past 20 years have brought a fundamental transformation to monetary integration. Independent central banks with transparency and some inflation target, more or less explicit, are now standard, and emerging

economies are moving in the direction of monetary integration. In Europe, this has become a fact with the take-off of monetary union on 1st January, 2002. We may not be able to justify the cost-benefit of the recently monetary integration in Europe in terms of aggregate importance, but they are discernible benefits in the union. Some of the benefits expected from the monetary union in West Africa are as follows:

1. The gains from a single monetary union come in the financial area and derive from a far enhanced credibility in exchange-rate and hence inflation performance.

2. There would be dramatic decline in interest rates with all attendant benefits. That gain is more important the more debilitated a country is financially (see Francesco Giavazzi and Macro Pagano [1988]. For example, for Greece or Italy becoming part of EMU the gains are tremendous. Even in countries that are not outright gargle there are still valuable gains from a reduced cost of capital.
3. The transformation of the financial sector with tremendous financing opportunities is evident. With low inflation and stable prices, and a stable currency, economic horizons lengthen. The lengthening of horizons, in turn, will be conducive to investment and risk-taking. This will translate into growth and closes a virtuous circle. Moreover, once an economy stabilizes, distortions and inefficiencies become far more apparent and can become the target of public policy. Inflation hurts growth, and high and unstable inflation does so with a vengeance. Hence, a monetary regime that delivers and maintains low inflation, *ceteris paribus*, will help growth.

4. Monetary Integration eliminates a substantial bulk of the costs that limit goods and services and capital-market integration. Free capital movement and increase in the level of income are some of striking features of the union. The efficacy of the common currency would be self-fulfilling.

SUMMARY

I have so far looked into the benefits and attendant opportunities of monetary integration. I have equally elucidated on the fear inherent in the proposal. What I have done is to analyse the cost-benefit and dis-benefits of monetary integration in West Africa.

We have been able to see that the benefits are tremendous, but there are many bridges to cross to attain those benefits. If it takes the advanced nations of Europe over a

decade to get this far, we may need that twice. However, once the political will is there, we are on road to economic paradise.

While the cost cannot be monetarily quantified for now, the benefits accruable will stimulate the total economy of the region for sustainable economic growth. It will also create openness and transparency, which will in turn attract foreign direct investment.

Thank you

BRIEFS ON THE GUEST LECTURER

Dr. Olukayode Somoye holds B.Sc.(Mathematics), M.Sc. (Economics), PGD (Computer Science), Advanced Diploma (Investment Banking), and Ph.D (Economics). He was with the Nigerian Industrial Development Bank Ltd (now Bank of Industry) for 14 years and rose to the level of Controller grade in banking and Head of Management Information System. He has been in the capital market for over 23 years and handles both African Development Bank and World Bank projects. He is the Director-General of Rocsom Business School, Lagos and Lectures at the Lagos State University, Department of Economics and teaches economic theory, mathematical economics, and finance at both undergraduate and post-graduate levels.

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APPENDIX I

ECONOMIC INDICATORS BETWEEN EUROPEAN AND WEST AFRICA

TABLE A: SELECTED ECONOMIC INDICATORS IN WEST AFRICA & SOME EUROPEAN UNION COUNTRIES

NAME	CURR-ENCY	POPULATION IN THOUSAND		GDP $ MILLION		GDP GROWTH RATE	MAJOR % OF CROP
WEST AFRICA		1950	2000	1990	2000	1990-2001	2000
1. Benin	FF/CFA	2,046	6,097	1,845	2,168	1.4	Agriculture
2. Burkina Faso	FF/CFA	3,654	11,937	2,765	2,192	-2.4	Agriculture
3. Cameroon	FF/CFA	4,466	15,085	11,152	8,879	-2.4	Agriculture
4. Chad	FF/CFA	2,658	7,651	1,739	1,407	-2.2	Agriculture
5. Cote d'Ivoire	FF/CFA	2,776	14,786	10,796	9,370	-1.4	Agriculture
6. Gabon	FF/CFA	496	1,226	5,952	4,932	-1.9	Agriculture
7. Gambia, The	IF	294	1,305	317	422	2.3	Agriculture
8. Ghana	IF	4,900	20,212	5,886	5,190	-1.2	Gold
9. Guinea	IF	2,550	7,430	2,818	3,012	0.6	Agriculture
10. Guinea Bissau	FF/CFA	505	1,213	244	215	-1.3	Agriculture
11. Liberia	IF	824	3,154	NA	NA	-	Iron ore
12. Mali	FF/CFA	3,520	11,234	2,421	2,298	-0.5	Agriculture
13. Mauritius	IF	825	2670	1,020	935	-0.8	Agriculture
14. Niger	FF/CFA	2,400	10,730	2,481	1,826	-3.3	Agriculture
15. Nigeria	MF	30,703	111,506	28,472	41,085	2.8	Petroleum
16. Sierra-Leone	IF	1,944	4,854	897	636	-3.7	Gold
17. Togo	FF/CFA	1,329	4,626	1,628	1,219	-3.1	Agriculture
18. Equatorial Guinea	-	226	453	NA	NA	-	-
19. Senegal	-	2,500	9,481	5,698	4,371	-2.7	Coffee
		64,271	**245,650**	**86,131**	**90,157**		

EUROPEAN UNION

1. Austria	Euro	6,395	8,211	161,692	189,029
2. Belgium	Euro	8,639	10,161	197,349	226,648
3. Finland	Euro	4,009	5,176	136,794	121,466
4. France	Euro	41,829	59,080	1,215,892	1,294,246
5. Germany	Euro	68,376	82,220	1,688,568	1,872,992
6. Greece	Euro	7,566	10,645	84,975	112,646
7. Ireland	Euro	2,969	3,370	47,301	93,865
8. Italy	Euro	47,104	57,298	1,102,437	1,073,960
9. Netherlands	Euro	10,114	15,786	295,378	364,766
10. Portugal	Euro	8,405	9,875	70,863	105,054
11. Spain	Euro	28,009	39,630	513,522	558,558
		233415	**301,452**	**4,420,468**	**6,013,230**

SOURCE: 2002 World Development Indicators

TABLE 3: TREND OF OFFICIAL DEVELOPMENT ASSISTANCE IN WEST AFRICA

	1997			1998			1999		
COUNTRY	**ODA (in**	**Bilate ral**	**ODA (I%)**	**ODA (in Millions**	**Bilateral Assist-**	**ODA (%) of**	**ODA (in Millions**	**Bilateral Assist-**	**ODA (% of**

	Millions of Dollars)	**Assist-ance (%)**	**of GDP**	**of Dollars)**	**ance (%)**	**GDP**	**of Dollars)**	**ance (%)**	**GDP)**
Benin	221	67	105	210	68	9.2	221	57	8.9
Burkina Faso	368	59	15.5	398	57	15.5	398	58	15.1
Cape Verde	111	61	22.2	130	66	24.4	136	65	23.7
Cote d'Ivoire	446	52	4.6	799	61	7.6	447	82	4.3
Gambia*	38	46	9.3	38	36	9.2	33	40	7.7
Ghana*	489	60	7.2	701	53	9.6	608	59	8.1
Guinea-Bissau	124	47	48.9	96	69	50.2	52	61	25.3
Guinea*	389	33	10.1	359	41	9.8	238	47	6.7
Liberia*	75	41		73	43		94	47	
Mali	429	60	17.7	346	68	13.4	354	67	13.2
Niger	333	56	18.2	291	50	14.4	187	64	9.2
Nigeria*	201	26	0.6	204	17	0.5	152	35	0.6
Senegal	422	69	9.8	500	58	10.8	534	78	11.2
Sierra Leone*	119	35	14.2	108	50	16.2	74	81	11.3
Togo	125	61	8.5	128	51	8.6	71	66	4.8
Total	3890	51.5	14.1	4381	52.5	14.2	3589	60.5	10.7

Source: World Bank-OECD
*Countries of WAMZ

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TABLE 6: HUMAN AND INCOME POVERTY: DEVELOPING COUNTRIES

HDI Rank	Human Poverty Index (HPI-1) 1998		Probability at birth of not surviving to age 40 (% population born between 1995 and 2000) a	Adult illiteracy rate (%) of aged 15 and above 1999	Population not using	Under-weight children under age five (%) 1995-2000 b	Population below income Poverty line (%)	
	Rank	Value (%)			Improved water resources		$1 a day (1993 PPP US$) 1983- 99[b]	National Poverty Line 1984-99[b]
CAPE VERDE	36	20,9	10,4	26,4	26	14 d	..	..
GHANA	46	29,1	27,0	29,7	36	25	38,8	31,4
TOGO	63	38,3	34,1	43,7	46	25	..	32,3
NIGERIA	59	36,1	33,7	37,4	43	31	70,2	34,1
COTE D'IVOIRE	72	42,9	40,2	54,3	23	24 d	12,3	..
SENEGAL	80	45,9	28,5	63,6	22	22	26,3	..
BENIN	79	45,8	29,7	61,0	37	29	..	33,0
GUINEA	..	..	38,3	..	52	..	..	40,0
GAMBIA	85	..	40,5	64,3	38	26	53,7	64,0
MALI	83	49,6	38,5	60,2	35	40	71,8	..
GUINEA-BISSAU	86	47,6	42,2	62,3	51	23 d	..	..
BURKINA FASO	..	..	43,6	77,0	..	37 d	..	36,2
NIGER	90	63,6	41,4	84,7	41	50	61,4	63,0
SIERRA LEONE	..	..	51,6	..	72	29 d	57,0	68,0

Source: PNUD-Report on Human Development, 2001

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APPENDIX II

TABLE B: SELECTED ECONOMIC INDICATORS IN WEST AFRICA & SOME EUROPE UNION COUNTRIES

Name	O.E.R	R.E.E.R	Interest Rate %			M.I.P annual % growth of		Balance of Payments Current Account ($million)				T.E.D.
WEST AFRICA	to $	1995-	Deposit	Lending	Real	M2-Money & Quasi money		Imports	N.I	C. A. B.	G. I. T	$ million
	2001	2000				1990	2000	2000	2000			2000
1. Benin	744.3	98	3.5	NA	NA	28.6	26	782	-19	-168	458	1598
2. Burkina Faso	744.3	98	3.5	NA	NA	-0.5	6.2	635	-39	-49	38	1,332
3. Cameroon	744.3	98	5	22	18	-1.7	19.1	2,376	-593	-153	212	9,241
4. Chad	744.3	96	5	22	18	-2.4	18.5	478	-10	-158	111	1,116
5. Cote d'voire	744.3	96	3.5	NA	NA	-2.6	-1.9	3,391	-370	-13	668	12,138
6. Gabon	744.3	89.7	5	22	5	3.3	18.3	1868	-71	385	190	3,995
7. Gambia	12.80	95	12.5	24	20	8.4	34.8	321	15	-48	109	471
8. Ghana	5,455.10	81.1	28	NA	NA	13.3	38.4	3,339	-108	-413	309	6,857
9. Guinea	1,749.90	NA	7.5	19.4	10	-17.4	514.1	919	-79	-165	148	3,388
10. Guinea Bissau	744.3	NA	NA	NA	NA	574.6	60.8	106	-13	NA	67	942
11. Liberia	41	NA	6.2	20.5	NA	19.6	18.3	NA	NA	NA	0	2,032
12. Mali	744.3	NA	3.5			-4.9	12.2	1060	-28		381	2956
13. Mauritius	26.2	NA	9.6	20.8	21	11.5	16.1	428	-19	165	228	2500
14. Niger	744.3	NA	3.5			-4.1	12.4	424	-15	-168	80	1,638
15. Nigeria	104.7	81	11.7	21.3	NA	32.7	48.1	14,124	3,287	6,983	6,485	34,134
16. Sierra-Leone	2,092.10	105.3	9.2	26.3	23	74	12.1	240	-24		51	1,273
17. Togo	744.3	98.8	3.5	NA	NA	9.5	15.2	847	-25	-106	152	1,435
18. Equatorial Gun.	744											
19. Senegal	712		3.5			-4.8	10.7	1,732	-113	-310	384	3372

Name	O.E.R to $	R.E.E.R 1995-	Interest Rate %			M.I.P annual % growth of		Balance of Payments Current Account ($million)				T.E.D.
European Union			Deposit	Lending	Real	M2-Money & Quasi money		Imports	N.I	C. A. B.	G. I. T	$ million
1. Austria	14.9	90.3	2.2	5.6	4.7	NA	NA	96,597	-2,205	-5,205	17,649	NA
2. Belgium	43.8	87.3	3	4.3	3	NA	NA	202,898	8,219	11,844	53,620	NA
3. Finland	6.5	87.1	1.6	5.6	2.7	NA	NA	40,366	-1,913	8,854	8,897	NA
4. France	7.1	88.4	2.6	6.7	5.7	NA	NA	357,030	-13,526	20,428	63,728	NA
5. Germany	2.1	84.6	3.4	9.6	10	NA	NA	625,892	-988	-18,707	87,497	NA
6. Greece	365.4	96.3	6.1	12.3	9.2	NA	NA	41,727	-885	-9,820	14,594	NA
7. Ireland	0.90	91.2	0.1	4.8	0.5	NA	NA	76,762	-15,002	-593	5,408	NA
8. Italy	2,101.60	106.4	1.8	6.3	3.9	NA	NA	284,191	-12,003	-5,670	47,201	NA
9. Netherlands	2.4	89.9	2.9	4.8	2.2	NA	NA	240,624	6,193	13,764	17,688	NA
10. Portugal	217.6	96.4	2.4	5.2	1.8	NA	NA	45,544	12,041	11,012	14,262	NA
11. Spain	180.6	94.2	3	5.2	1.7	NA	NA	178,987	-8,311	-17,257	35,607	NA

SOURCE: 2002 World Development Indicators

Abbreviations made in the Table above, and their meaning.

O.E.R. - Official Exchange Rate
R.E.E.R - Real Effective Exchange Rate
M.I.P - Monetary Indications & Prices ($ million)
C.A.B - Current Account Balance
G.I.T - Gross International Transfer
NA - Not Available
T.E.D - Total External Debt