



WEST AFRICAN MONETARY AGENCY

Regional Integration in West Africa: The Need to Consolidate Gains

REMARKS BY DIRECTOR GENERAL MOMODOU BAMBA SAHO ON THE OCCASION OF THE 2016 EDUCATION CONFERENCE OF THE WEST AFRICAN INSURANCE COMPANIES ASSOCIATION HELD IN FREETOWN, SIERRA LEONE ON 31 OCTOBER 2016

(As written)

PREAMBLE

Thank you, President Chief Rotimi Fashiola for your invitation to participate in WAICA's 2016 Education Conference. And my appreciation also goes to Secretary General Mr. William B. Coker, and to the WAICA membership. Congratulations on celebrating 43 years of successful operations.

We are meeting in Freetown, capital of Sierra Leone, home to a resilient people, and I hope I can now count myself as one of them, who have overcome several crises over the past few decades and still manage to look to the future with strength and optimism. I hope that the future of WAICA is also bright.

I am pleased to have the opportunity to talk to you today about our economic integration project in West Africa. Now is an opportune moment to talk about this as some of the countries in our Community confront serious challenges to their economies posed by the slowdown in global growth and the rebalancing of the Chinese economy and as the rationale for regional integration is being called to question as a consequence of the difficulties that the European project is facing and the backlash against globalization. As economic nationalism gains momentum in Europe and in the United States, it is the right time to reexamine our own project and its relevance in a rapidly changing world.

I will confine my remarks to some of the economic aspects of the integration efforts in the Economic Community of West African States (ECOWAS) with emphasis on the monetary integration aspect which the West African Monetary Agency (WAMA) is mainly concerned with. However, it should be noted that there are other regional integration arrangements in Africa, and that the African Union is supportive of these efforts with the objective of achieving unity at the continental level.

THE JOURNEY SO FAR

1. The ECOWAS economic space is fragmented, with 15 relatively small economies, with a combined GDP that is less than the GDP of a medium sized European country. The characteristics of many of the countries in the region: low per capita income levels, small populations, deficient business climates and high production costs result in small markets and lack of scale economies and do not provide strong incentive for transformational foreign direct investment. For these reasons, it is important that efforts toward integration are accelerated in order to improve the living standards of the peoples.
2. However, regional integration is not just driven by economic considerations. Political reasons can be just as important, if not more so. The European integration project largely started after the Second World War out of a need to prevent another major war by uniting the countries of Europe. The regional integration projects in Africa were also driven by the aspirations of the founding fathers of African independence for closer political and economic integration of the continent to promote African unity, foster self-reliance and enhance collaboration and eradicate colonialism.
3. The West African integration project is one of the biggest and most complex of its kind. It attempts to bring together more than 335 million people in 15 countries, with three different official languages and hundreds of local languages and cultures spread over 5.1 Million square kilometers of territory. All the different national interests have to be aligned toward a common destiny and shared objectives. This requires dedication, mutual trust and tenacity.
4. Efforts at economic integration in West Africa started as early as 1945 following the end of the Second World War when the French colonies in West Africa were brought together to create a single currency with a fixed parity to the French franc. This arrangement, which later evolved into the West African Economic and Monetary Union (WAEMU), is one of the oldest and most stable monetary unions in the world¹.
5. Attempts at wider economic cooperation in West Africa were initiated by President Tubman of Liberia, who, in 1964 broached the idea of a West African community. This led to the signing of an agreement between Cote d'Ivoire, Guinea, Liberia and Sierra Leone in February 1965. Progress was, however, limited. The project was given new life when, in 1972, the two heads of state, General Yakubu Gowon of Nigeria and General Gnassingbé Eyadéma of Togo revived the

¹An important characteristic of monetary unions is that they have a common central bank which issues a single currency and conducts a common monetary policy. There are four monetary unions: the Central African Economic and Monetary Community (CEMAC), the Eastern Caribbean Currency Union (ECCU), the Euro Area and the West African Economic and Monetary Union (WAEMU). This is different from Dollarisation which has similarities. With Dollarisation, a country adopts the currency of another country, but there is no common central bank. The adopting country accepts the monetary policy of the currency issuing country. Countries using this arrangement include East Timor, Ecuador, Turks and Caicos and Zimbabwe.

idea. They consulted with their colleagues in twelve countries during the year 1973 leading to several meetings to consider the draft treaty for the community culminating in the signing of the Treaty for the Economic Community of West African States, the Treaty of Lagos, on 28 May 1975.

6. Some of the notable events since those early beginnings are:

Table 1: ECOWAS Through the Years

1964	Liberian President William Tubman proposes the idea of a West African community.
1965	Four countries sign the agreement: Cote d'Ivoire, Guinea, Liberia and Sierra Leone. Progress is limited.
1972	Nigerian President General Yakubu Gowon and Togolese President Gnassingbé Eyadéma revive the idea of economic integration in West Africa.
1975	The Treaty establishing the Economic Community of West African States (ECOWAS) is signed. The main objective is to establish an economic union through the adoption of common policies in the economic, financial, social and cultural sectors and the creation of a monetary union.
1975	The Treaty establishing the West African Clearing House (WACH) is signed. It would provide settlement services among central banks and facilitate the monetary integration process in West Africa. It also aimed to encourage trade in ECOWAS.
1977	Cabo Verde joins ECOWAS.
1987	The ECOWAS Monetary Cooperation Programme (EMCP) is launched with the objective of creating a single monetary zone and introducing a common currency by 2000.
1993	The ECOWAS Treaty is amended to include the settlement of regional conflicts.
1996	WACH is replaced by the West African Monetary Agency (WAMA). The mandate is broadened to include responsibility for monitoring, coordinating and implementing the EMCP.
1999	The Authority of Heads of State, at their 22 nd Summit in Lomé, adopts the Two-Track, Fast-Track approach to implementation of the EMCP.
2000	Six countries sign the Accra Declaration for the creation of a Second Monetary Zone: The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. The objective is to introduce a single currency and establish a common central bank by 2003 and eventual merger with the CFA zone by 2004.
2000	The West African Monetary Zone (WAMZ) is formally launched by five countries at the

	summit of the Heads of State in Bamako. The West African Monetary Institute (WAMI) is established to implement the project. Liberia is an observer.
2000	Mauritania leaves ECOWAS.
2002	Forum of Finance Ministers of WAMZ decide to facilitate the harmonization of fiscal and monetary policies by introducing 2-sets of convergence criteria (four primary and six secondary).
2004	Postponement of the date for the establishment of single currency for WAMZ announced.
2007	The two-track approach is reviewed to determine a single track approach to speed-up the establishment of a common currency.
2009	Inter-institutional working group consisting of WAMA, WAMI ECOWAS Commission and Central Banks meet to draw-up Road Map activity for the creation of a single currency. New Road Map for the establishment of a single currency by 2020 is adopted.
2010	Liberia formally joins the WAMZ.
2014	Presidential Task Force is set-up to fast track the single track approach for the establishment of a single currency by 2020. The rationalized ECOWAS performance criteria (4-primary and 2- secondary) replaces the previous performance criteria (4-primary and 6-secondary).
2015	ECOWAS Common External Tariff comes into effect.

Sources: ECOWAS, WAMA, WAMI

During this period, ECOWAS has achieved a common ECOWAS passport, Common External Tariff and has strengthened its institutional structure with a community Parliament and a Community Court of Justice. It has worked to achieve convergence in democratic practices and achieved notable successes in peace keeping.

THE ROLE OF WAMA

7. The idea of an economic and monetary union for ECOWAS was firmed up when the ECOWAS Monetary Cooperation Programme (EMCP) was put into effect in July 1987. The objective of the EMCP was to introduce a single currency by the year 2000. A Member State's currency would be irrevocably fixed to the single currency and monetary policy would be conducted by a single, independent central bank. For the common monetary policy to work effectively without disruption, the Member States' economies had to be sufficiently prepared to be compatible with a single monetary policy framework. Thus the EMCP emphasized the importance of macroeconomic convergence with a view to ensuring macroeconomic stability prior to the launching of the single currency. The macroeconomic convergence framework focused on price

stability, low budget deficits, restrictions on central bank financing of government and maintenance of adequate levels of gross external reserves. The WAMA was given the responsibility of implementing and monitoring the EMCP. The functions of WAMA are outlined in Box 1.

8. The evaluation mechanism of convergence was revised in June 2012 and further revised in May 2015 by the Authority of Heads of State and Government. In May 2015, the total number of convergence criteria, which was eleven, was rationalized to six criteria, comprising four primary criteria and two secondary criteria, including changes in some benchmarks. The newly adopted criteria were as follows:

Primary Criteria

- I. Ratio of budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): lower than or equal to 3% of GDP²;
- II. Average annual inflation rate: lower than 10%³;
- III. Central Bank financing of Budget Deficit: lower than or equal to 10% of the previous year's tax revenue; and
- IV. Gross external reserves: higher than or equal to 3 months of imports⁴.

*Secondary Criteria*⁵

- I. Nominal exchange rate: stable (+/- 10%);
- II. Ratio of total public debt to GDP : not more than 70%;

THE STATE OF MACROECONOMIC CONVERGENCE IN ECOWAS

9. WAMA prepares bi-annual convergence reports that assess whether individual countries and the region as a whole fulfill the necessary conditions for transition to adoption of a single currency. The convergence reports are based on surveillance of the economies of Member States conducted jointly with the ECOWAS Commission and with WAMI (for the WAMZ countries). Member countries are required to achieve a high degree of sustainable convergence and harmonisation of macroeconomic and financial policies.

² The maximum target on the previous budget deficit/GDP ratio was 4% excluding grants.

³ The analysis focuses on average inflation, in line with the revision made in June 2012, but the target adopted in May 2015 is now a single digit (<10%) instead of a maximum of 5%.

⁴ Based on the May 2015 revision, the target for gross external reserves is 3 months of imports cover instead of 6 months.

⁵ The following criteria have been delisted after the rationalization exercise: non-accumulation of domestic and external arrears, tax revenue/GDP, wage bill/tax revenue, public investments/tax revenue, positive real interest rate and real exchange rate stability.

Box 1. The Role of WAMA

WAMA is an autonomous and specialised agency of ECOWAS. It was established in 1996 as a result of the transformation of the West African Clearing House (WACH). WACH was established in 1975 to serve as a multilateral payment facility to promote intra-regional trade. In addition to its functions of routing and clearing trade transactions and services, the Agency has been charged with the responsibility of monitoring, coordinating and implementing the ECOWAS Monetary Cooperation Programme (EMCP), geared towards the creation of the ECOWAS single currency.

The Agency has the objective of promoting the use of national currencies in trade and non-trade transactions within the sub-region bringing about savings in the use of member States' foreign reserves, encouraging and promoting trade and exchange liberalization among member States, enhancing monetary cooperation and consultation among member States, facilitating the harmonisation of and coordination of monetary as well as fiscal policies and structural adjustment programs; ensuring the monitoring, coordination and implementation of the EMCP, initiating and promoting policies and programmes relating to monetary integration in the sub-region and to ensure the establishment of a single monetary zone in West Africa thereby paving the way for the eventual conduct of a single monetary policy and the establishment of a single currency.

- The achievement of these objectives is dependent on the Agency's performance of the following functions:
- Defining policies and programmes to promote monetary and fiscal harmonisation and cooperation;
- Serving as a channel for clearing and settlement transactions among member Central Banks;
- Managing the ECOWAS Credit Guarantee Fund Scheme;
- Undertaking studies on issues relating to monetary and fiscal cooperation and all other international economic issues affecting member States;
- Collecting, storing and disseminating statistical information for member Central Banks

10. At end-2015, the macroeconomic convergence profile remained satisfactory, although performance deteriorated marginally. At least twelve countries met the prescribed targets on five criteria, with the exception of the criterion on budget deficit in respect of which only six countries complied. The poor performance under the budget deficit criterion was mainly due to low tax revenue, decline in global commodity prices, high recurrent and capital expenditure.

11. Comparing with performance in 2014, the macroeconomic convergence profile deteriorated marginally in 2015, both under the primary and the secondary criteria. The deterioration was

observed especially with respect to gross external reserves, central bank financing and nominal exchange rate stability.

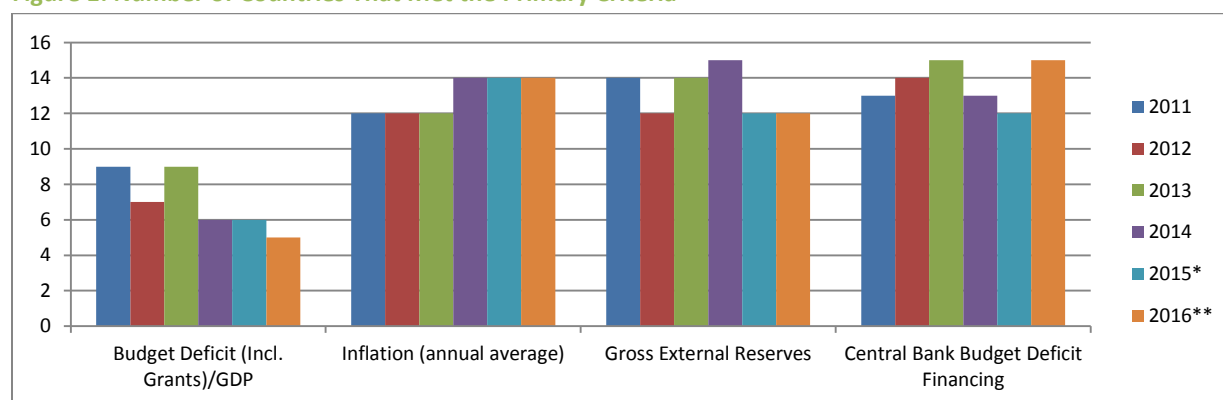
Table 2: Number of Countries that Met the Convergence Criteria in ECOWAS

	2011	2012	2013	2014	2015*	2016**
Primary Criteria						
Budget Deficit (Incl. Grants)/GDP	9	7	9	6	6	5
Inflation (annual average)	12	12	12	14	14	14
Gross External Reserves	14	12	14	15	12	12
Central Bank Budget Deficit Financing	13	14	15	13	12	15
Secondary Criteria						
Nominal Exchange Rate	13	13	13	13	12	11
Public Debt/GDP	13	14	14	13	13	15

Source: National Authorities; WAMA * Estimates **Projections

12. With regards to the primary criteria, the level of performance remained the same for the criteria on budget deficit and inflation, with six and fourteen countries meeting the required benchmarks, respectively. However, twelve countries satisfied the target on gross external reserves at end-2015 against fifteen in 2014. Similarly, one additional country exceeded the maximum benchmark relating to Central Bank financing of budget deficit, thereby reducing the number of countries complying with this criterion to twelve.

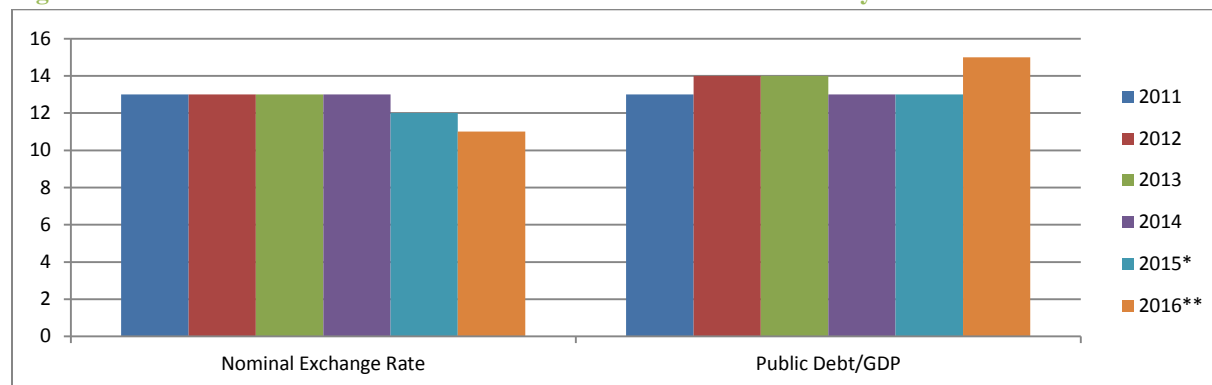
Figure 1: Number of Countries That Met the Primary Criteria



Sources: National Authorities; WAMA * Estimates ** Projections

13. Regarding the secondary criteria, the same level of performance was maintained with respect to the criterion on nominal exchange rate stability with a total of thirteen countries having met the prescribed benchmark. Conversely, twelve countries complied with the target on public debt in 2015 against thirteen in the preceding year.

Figure 2: Performance of ECOWAS Countries in Relation to the Secondary Criteria



Sources: National Authorities; WAMA * Estimates ** Projections

- During 2015, countries made some progress in addressing macroeconomic imbalances, but the picture was mixed. The region still has some way to go to comply with all the requirements that will allow for a transition to a single currency.

POLICY HARMONIZATION AND INSTITUTIONAL ARRANGEMENTS

- In addition to meeting the macroeconomic convergence criteria, institutional features related to the harmonisation of policies are also essential to support a smooth convergence process. Thus WAMA undertakes other activities assigned to it under the ECOWAS Single Currency Roadmap. Some of the current work being undertaken by WAMA include:
 - Exchange Rate Policy*: Work is ongoing to establish an exchange rate mechanism and to agree on the choice of an optimal exchange rate regime for ECOWAS.
 - Monetary Policy Frameworks*: It is essential that the monetary policies of the individual countries be harmonised in the run-up to monetary union. Thus WAMA has completed the first phase, which proposed the adoption of *inflation targeting lite* as a common monetary policy framework for the region. The Agency is currently working on identifying the practical modalities for transition, in view of peculiarities in each country or zone.

18. *Regulations Governing Current and Capital Account Transactions*: As a follow up to the implementation of this activity, WAMA conducted a study on '*Comparative Analysis of Existing Legislative Frameworks*' and proposed a draft harmonization scheme. WAMA is currently reviewing progress made within the harmonization framework with the aim of proposing an action plan to fast-track the process.
19. *Regulatory and Supervisory Frameworks of Banks and Non-Bank Financial Institutions*: WAMA completed a study on comparative analysis of all existing national or sub-regional banking and financial legislations with a view to harmonisation. The document is being reviewed to include microfinance institutions, insurance and pension funds.
20. *Balance of Payments (BOP) Statistics*: The quality and reliability of statistics are important elements of macroeconomic policymaking. The balance of payments statistics harmonization project, being implemented in collaboration with the ECOWAS Commission, has reached an advanced stage. The "*Methodological Guide on the Preparation of Balance of Payments (BOP) and International Investment Position (IIP) Statistics for ECOWAS Member States*", based on the sixth edition of the IMF BOP and IIP manual (BPM6), was adopted in June, 2014. This document, which provides a framework for harmonization in the region, has been published and distributed to Member States. Members have made significant progress in migrating to the new methodology with only a few countries left to fully comply. At the regional level, the Agency drafted a regional guide for preparation of ECOWAS BOP and IIP statistics as well as an action plan for implementation. It is expected that at the end of the project, the first set of robust external sector data for ECOWAS would be produced.

RISING TO CURRENT CHALLENGES

21. Some of the countries in the region are facing an exceptionally challenging policy environment which is going to make it even more difficult for them to fulfill the convergence criteria. Some of the factors contributing to this are:
22. *Low Growth*: Following an extended period of strong economic growth, the outlook for sub-Saharan Africa has worsened with economic growth set to slow to its lowest level in more than 20 years according to the IMF's October 2016 Regional Economic Outlook for sub-Saharan Africa. This picture is mixed, however, with commodity exporters being the hardest hit whilst non-resource intensive countries are forecast to grow faster.
23. *Prolonged fall in Commodity Prices*: The sharp and continuing decline in commodity prices has worsened the growth outlook for the commodity exporters of ECOWAS. China's rapid rise to become the second largest economy in the world and its connections to Africa helped lift trade

and economic activity in Africa. Now China's transition from an investment and export driven growth model to a more balanced domestic demand focused approach is resulting in slower growth, decline in demand for imports and lower commodity prices. Coupled with the sharp decline in the price of oil since 2014, commodity exporters in the region have been adversely impacted upon as revenues decline, inflation rises, external reserves fall and exchange rates depreciate.

24. *Euro Area Crises*: Several Euro Area countries were hit by a series of crises from 2010 to 2013. These crises were partly a consequence of policy failures in the member countries: excessive borrowing and a lack of fiscal discipline. However, inadequacies in the architecture of the monetary union were also a factor. Questions asked in the wake of the crises centered on the feasibility of a monetary union without banking and fiscal union and the adequacy of the framework to resolve systemic problems, especially in the financial sector. The vote by the United Kingdom to withdraw from the European Union also raised concerns about the architecture of the union including on issues related to loss of sovereignty and control of borders and immigration.
25. *Economic Nationalism*: Related to the concerns in the United Kingdom, there is a rise in economic nationalism and an upsurge in increasingly protectionist policy postures as seen in the current political discourse in the United States. This backlash against globalization is driven by the recognition that many people have been left out of the benefits of globalization and open trade.
26. All of these issues have implications for the economic integration project in ECOWAS. A sluggish global economy and slowing regional growth, combined with a persistent deterioration in the terms of trade for commodity exporters mean that it would now be even more difficult for these countries to meet the macroeconomic convergence criteria. Significant policy adjustment will be needed in all major areas: fiscal consolidation, external balancing, financial supervision and resolution and stronger structural reforms to diversify the economies and boost medium term growth prospects and restore macroeconomic stability. The problems in Europe and rising economic nationalism raise concerns about the rationale for integration and the design of prospective monetary unions.
27. However, there is still strong belief in the great promise of regional integration and economic openness. Integration, interconnectedness and open trade have been a sources of supporting growth around the world. In order not to fall into the trap of protectionism and competitive devaluations, countries around the world will have to work harder to use all the tools at their disposal to achieve sustainable, balanced and inclusive growth that carries along the majority of their populations. The same is true for countries in ECOWAS. The lessons from the failures in Europe are also instructive and need to be taken into account as progress is made toward achieving the objectives of the EMCP.

CONCLUSION

The economic integration project in West Africa is a large and complex one. While significant progress has been made so far, a lot still remains to be done. As concerns are raised about the viability of monetary unions, we need to work to learn lessons from the mistakes of others and determine what works for our region. We need to also continue to seek the support of the majority of our people for the concept of a united ECOWAS, by taking every opportunity to explain what is being done on their behalf and to implement policies that will work for all citizens of ECOWAS. There is still merit in the aspirations of the founding fathers for a more unified Africa. What form that will take will continue to be the subject of debate. However, without closer collaboration, we will continue to be a collection of small countries with little voice and representation in global affairs.

We are stronger when we stand together. The words of the ECOWAS Anthem capture this quite well:

EACH AND EVERY LAND

ALL WILL HAND IN HAND

EVER PROGRESS HAPPILY IN ECOWAS

I thank you for your attention.

ANNEX 1 : REASONS FOR AND STAGES OF ECONOMIC INTEGRATION

BENEFITS AND CHALLENGES OF ECONOMIC INTEGRATION

Expected Benefits

The benefits of economic integration are expected to include:

- **Greater size:** Makes ECOWAS more attractive as trading partners can access a much larger market (using one currency). This enlargement of the market also makes it possible for firms to exploit economies of scale. Cross-border trade is also increased as firms can sell to a much larger market and access a wider range of suppliers.
- **Macroeconomic Stability:** The process of economic convergence engenders macroeconomic stability because countries are required to fulfill and maintain certain minimum criteria for price and exchange rate stability as well as for sustainable budget deficits and government borrowing.
- **Robust Payment Systems:** Strengthen the regional payments system for goods and services, promoting trade.
- **Transparent and competitive markets:** Consumers can easily compare prices across borders and get the best deals. This increases competition.
- **Movement of People:** Facilitate movement of people and labour strengthening economic, cultural and political ties. Lower travel costs by eliminating costs of exchanging currencies.
- **Bargaining Power:** ECOWAS countries would have much more weight on the international stage if they speak and act with one voice compared to when they act alone. This is becoming increasingly necessary considering the increased engagement of large countries and groups of countries such as the European Union, China and India with Africa and complex global negotiations related to climate change and trade.

There are, however, possible disadvantages to economic integration:

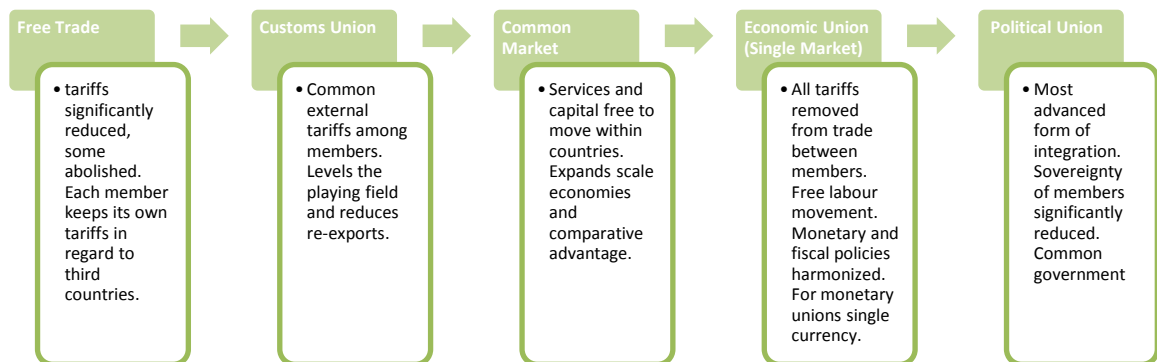
- **Loss of Sovereignty:** Perceived and real loss of sovereignty is perhaps the most important problem in integration projects. Governments will need to surrender sovereignty of some aspects of economic policymaking to a supranational authority. This loss of policy flexibility is especially acute in monetary unions where countries lose the ability to adjust individual exchange rates in response to an economic shock or loss of competitiveness.
- **Benefits do not accrue to all equally:** As evident during the Euro Area crisis, the gains and losses from the union may not be equally distributed.

- **Free Movement of People:** Free movement of people, with rights to settle, work and transfer pension rights looks good on paper but is one of the most difficult things to achieve. As a result this was one of the last major reforms to be fully implemented in Europe. Apart from language, cultural and legal barriers, experience around the world has shown that there is a limit to the tolerance of nation states to mass inward migration.

STAGES OF INTEGRATION

There are several stages to economic integration. The model of linear integration shows that countries may start in a very loose arrangement of a preferential trade area, with two or more countries agreeing to reduce or eliminate tariffs on selected goods imported from other members of the area, and progress toward complete economic and political union with common monetary, fiscal and foreign policies. Examples of political unions are rare and are found in nation states like Nigeria and the United States.

Box A1: Stages of Monetary Integration



The transition from one stage to the next requires the implementation of a complex set of tasks related to trade, industry, immigration, law, politics, economics and culture. The ECOWAS Commission is engaged with working on many of these aspects. WAMA has specific tasks related to the implementation of the ECOWAS Monetary Cooperation Programme (EMCP)